



National Medical

Billing Services

The Business of Total Joints in Surgery Centers

NADER SAMII
CHIEF EXECUTIVE OFFICER
JULY 31, 2019



National Medical
Billing Services

Nader Samii

- As CEO (since 2010), Nader has guided National Medical into its position as the largest and most reputable revenue cycle management company in the ASC market
- Nader leads the strategic direction with a strong emphasis on exceptional client services, lean and efficient processes, cutting edge technologies and insightful analytics
- Co-Founder and President, Ajuba International, a leading healthcare revenue cycle management company that grew to + 2,500 employees in six years before successfully exiting
- Investment Banker, UBS (NY) and Merrill Lynch (San Francisco)
- Corporate finance attorney, Dykema Gossett PLLC
- Served on the board of MedPlans Partners before its sale to FirstSource Solutions and also served on the board of ResourcePro before its sale to the private equity firm of DFW Capital Partners
- Currently a member of the Public Affairs Committee for the Ambulatory Surgery Center Association as well as an active member of the Healthcare Financial Management Association
- Named the #14 best CEO in the nation by Glassdoor
- University of Notre Dame, BA/BBA in Finance; University of Wisconsin-Madison, JD/MBA



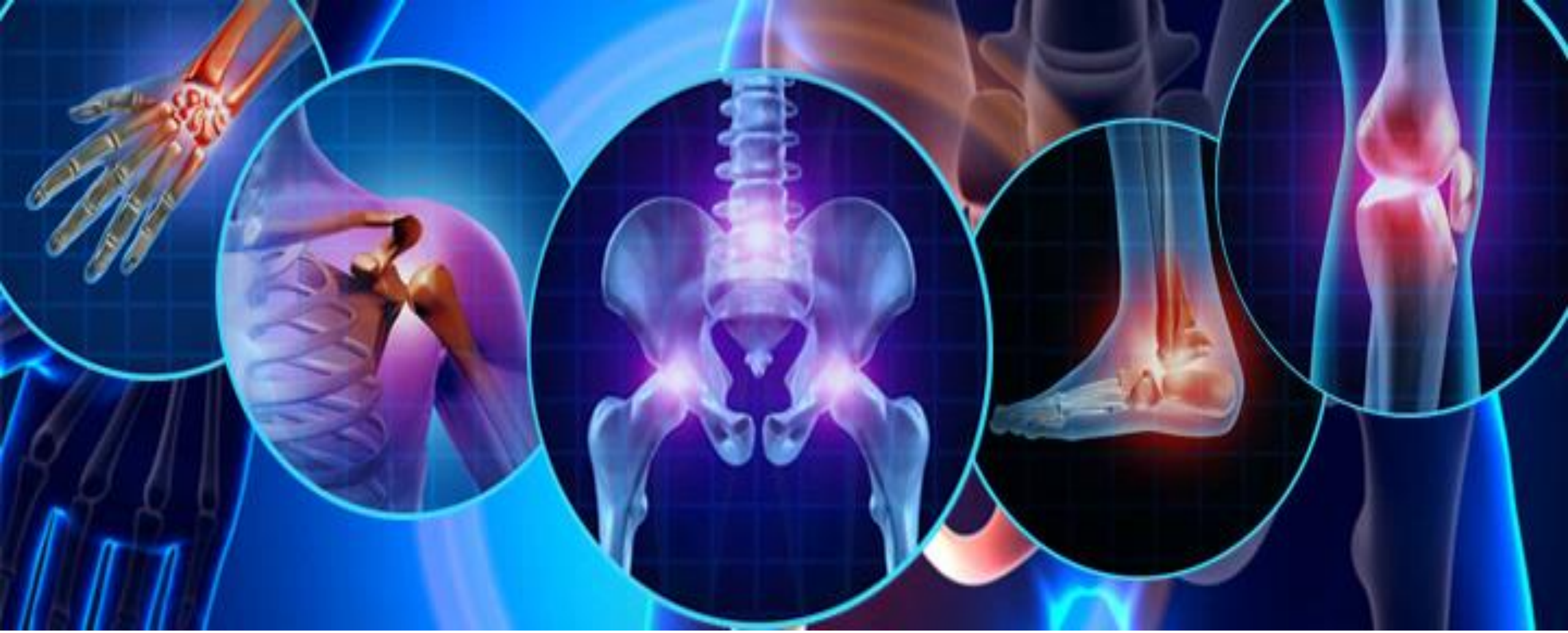


National Medical
Billing Services

Agenda

- Evolution of Total Joints in the Outpatient Setting
- Reimbursement Trends for Total Joints in ASCs
- Medicare's Stance on Total Joints in an ASC
- Bundled Payments for Total Joints in ASCs
- Reimbursement Pitfalls
 - Contracting
 - Front Desk
 - Coding
 - Claims, Payment Posting and A/R
- Financial Impact of Moving Total Joints to your ASC
- Orthopedics – The New Darling of Private Equity





Evolution of Total Joints in the Outpatient Setting



National Medical
Billing Services

Trends Impacting Total Joints (TJs) Moving to ASCs

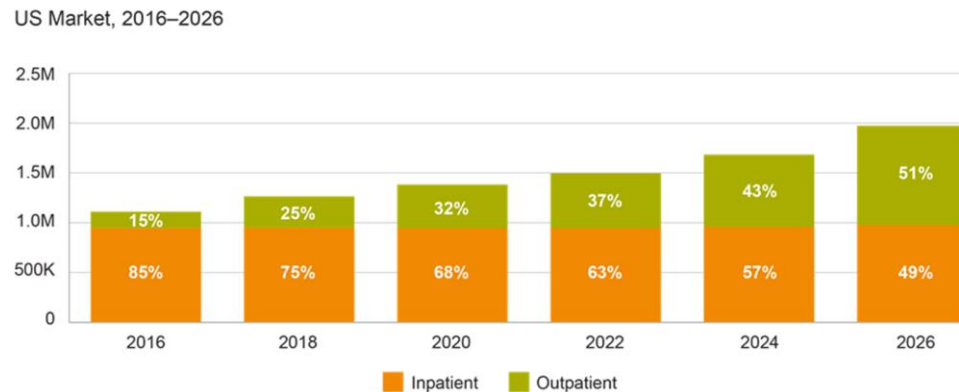
- Economics and convenience
 - Patient
 - Surgeon
 - Payers
 - Bundled payments/lower cost setting
- Aging patient population
- Technological advancements
- Safety and outcomes
 - Decreasing length of post-operative stay
- CMS proposal ruling



Projected Growth

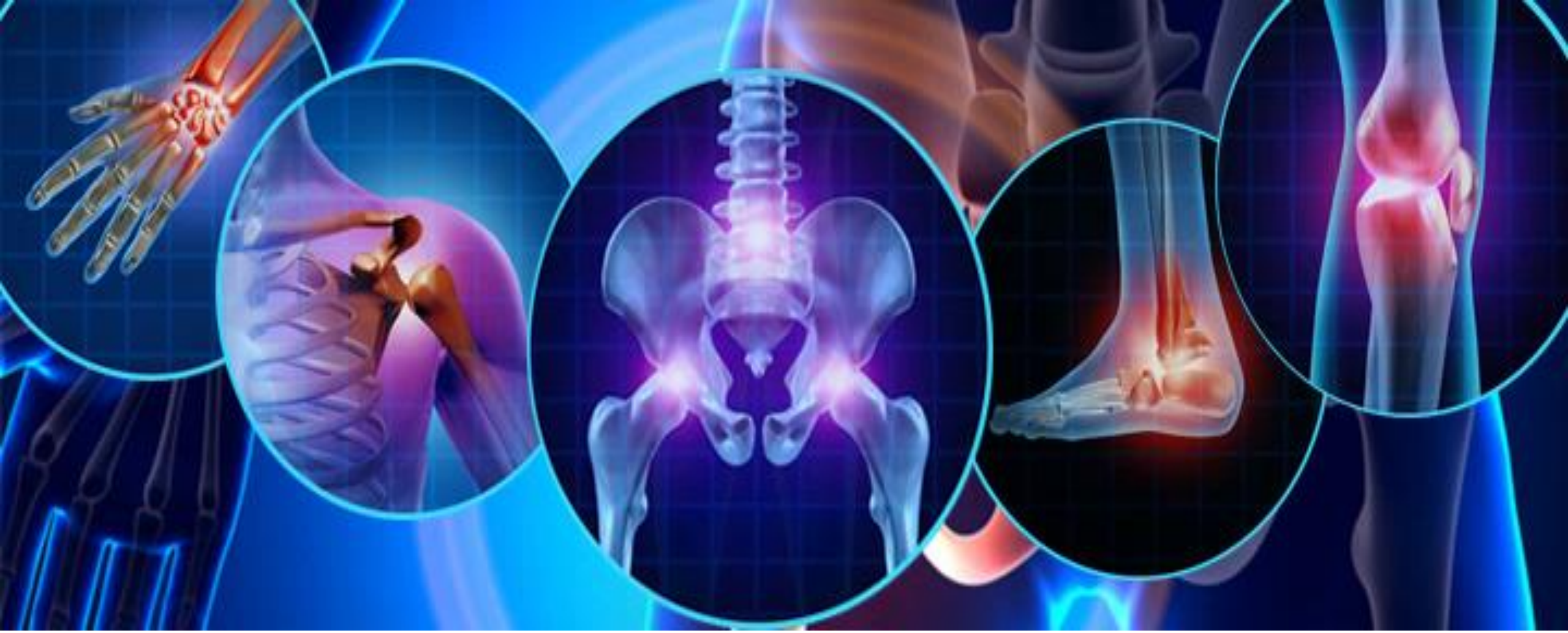
- Estimated growth in hip and knee joint replacements to increase from approximately 900,000 today to 1.8+ million by 2026
- SG2 Research projects by 2026, approximately 50% of primary hip and knee joint replacements will be performed in an outpatient setting, up from approximately 15% today
 - Outpatient cases will increase from 200,000 today to 900,000 in 2026
 - ASCs offering outpatient total joint replacements has jumped from 25 in 2014 to more than 200 in 2017
- ASCA study indicates movement to ASCs equal \$38 billion in commercial payer savings and \$2.5 billion in Medicare savings

Figure 1. Primary hip and knee replacement growth across settings



Note: Analysis excludes 0–17 age group. Inpatient forecast indicates discharges; outpatient forecast indicates volumes. Discharges and volumes are for osteoarthritis only and include partial knee replacements. Sources: Impact of Change® v16.0; HCUP National Inpatient Sample (NIS). Healthcare Cost and Utilization Project (HCUP), 2013. Agency for Healthcare Research and Quality, Rockville, MD; OptumInsight, 2014; The following 2014 CMS Limited Data Sets (LDS): Carrier, Denominator, Home Health Agency, Hospice, Outpatient, Skilled Nursing Facility; The Nielsen Company, LLC, 2016; Sg2 Analysis, 2016.





Reimbursement Trends for Total Joints in ASCs

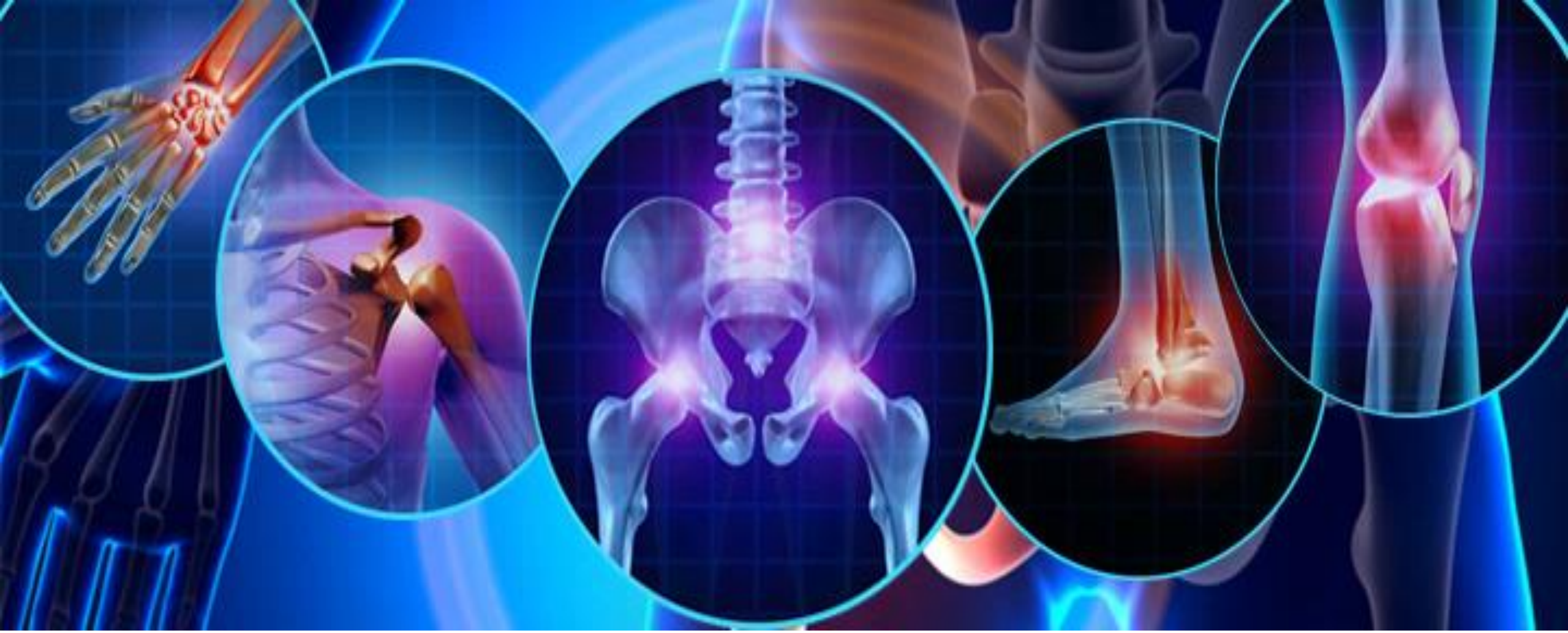


National Medical
Billing Services

Reimbursement Trends

	Payer A (Separate Implant Reimb. At Cost)	Payer B (Implants Included in Surgery Reimb.)	Payer C (Separate Implant Reimb. At Cost)	Payer D (Implants Included in Surgery Reimb.)	Payer E (Bundled Agreement)	Payer F (Bundled Agreement)
Total Hip	\$8,000	\$27,000	\$11,500	\$20,000	\$17,500	\$23,000
Total Knee	\$7,300	\$26,000	\$11,500	\$22,000	\$16,500	\$21,500
Total Shoulder	\$8,000	\$26,000	\$11,500	\$20,000	\$16,500	\$21,500
Total Ankle	\$9,500	\$27,000	\$1,250	\$16,500	\$20,000	\$26,000





Medicare's Stance on Total Joints in an ASC



National Medical
Billing Services

Medicare and Total Joints

- CMS removed total knee and shoulder procedures from the inpatient only list in 2018
 - However, the CPT codes were not added to the ASC approved list
- CMS has now proposed to move total knee replacements to the ASC payable list, and to move total hip replacements off the inpatient only list in 2020
 - Fear that CMS could set price too low, which would cause most total joints to stay in an HOPD setting
 - Also concern that commercial payers will use the CMS rate as a baseline and reduce its reimbursement significantly from today
- On the other hand, volume of total joints in ASCs would spike
 - 48% of Medicare's total knees occurred without complications on patients 80 or younger

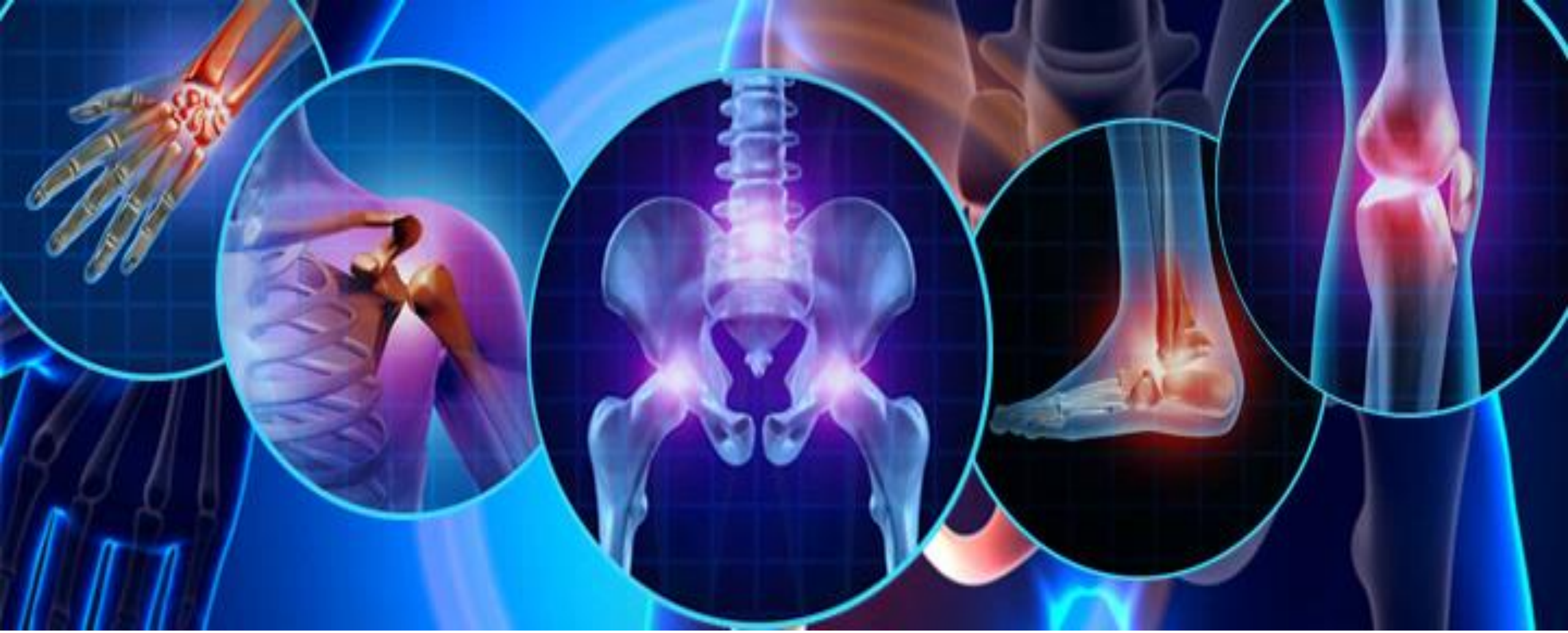


Will TKA be Financially Viable in the ASC?

	DRG	HOPD 2019	ASC 2019
Total Wrist	\$14,877	\$15,371 ¹	\$12,501 ¹ (19%↓)
Total Elbow	\$14,877	\$15,371 ¹	\$11,852 ¹ (23%↓)
UKA (27446)	\$12,680	\$10,123 ¹	\$7,374 ¹ (27%↓)
TKA (27447)	\$12,680	\$10,123 ¹	???
THA (27130)	\$12,680	XXXXX	XXXXX



¹medicare.gov, facility fees, 2019



Bundled Payments for Total Joints in ASCs



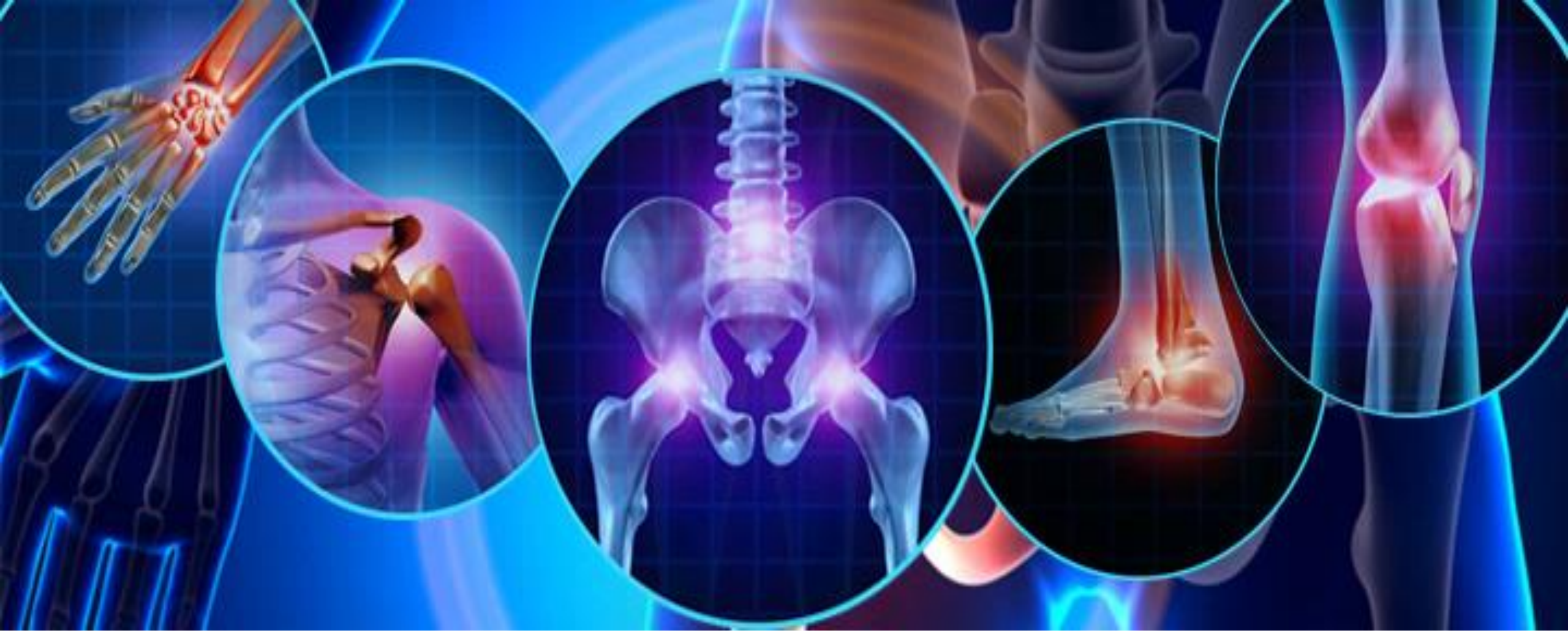
National Medical
Billing Services

Trends in 2019: Bundled Payments

- Fastest growing payment type (“value-based care”)
- Estimated to be 17% of all medical payment types by 2022.¹
- Who is ready for bundled payments (2016)?
 - 50% of payers¹
 - 40% of providers¹
- Will become increasingly important for viability of ASCs
- Quadruple aim (quality, cost, patient and provider satisfaction)



¹The State of Value Based Reimbursement in 2016, ORC Int'l



Reimbursement Pitfalls



National Medical
Billing Services

Contracting and Front Desk

It is critical to establish an efficient and effective total joint business program to maximize reimbursement.

MANAGED CARE CONTRACTING

- Negotiate contracts to include healthy reimbursement for total joints
 - Understand inpatient costs in the local market
 - Understand detailed costs to build and operate a total joint program at your ASC
 - Use this data, along with background track record of your orthopedic surgeon, to negotiate strong rates
 - Ensure clinical policy is in line with payer requirements
 - Focus on implant reimbursement methodology, global period language, and ancillary service requirements

FRONT DESK PROCESS

- Ensure patient meets pre-surgery requirements
 - Safety, prior conservative treatment, medical necessity
- Obtain prior authorization (including a range of codes)
- Identify correct insurance product and/or employer
- Understand payer's medical policies
- Have a comprehensive registration packet (including AOB)
- Have financial counselors





National Medical
Billing Services

Coding

- Select the proper CPT codes
- Set the correct chargemaster
- Have specific invoices for each implant
- Understand implant coding/billing methodology per payer
 - Payer products
 - Shipping included? Tax included?
 - Required revenue codes (274, 276, 278, 279)
- Third-party implant vendors



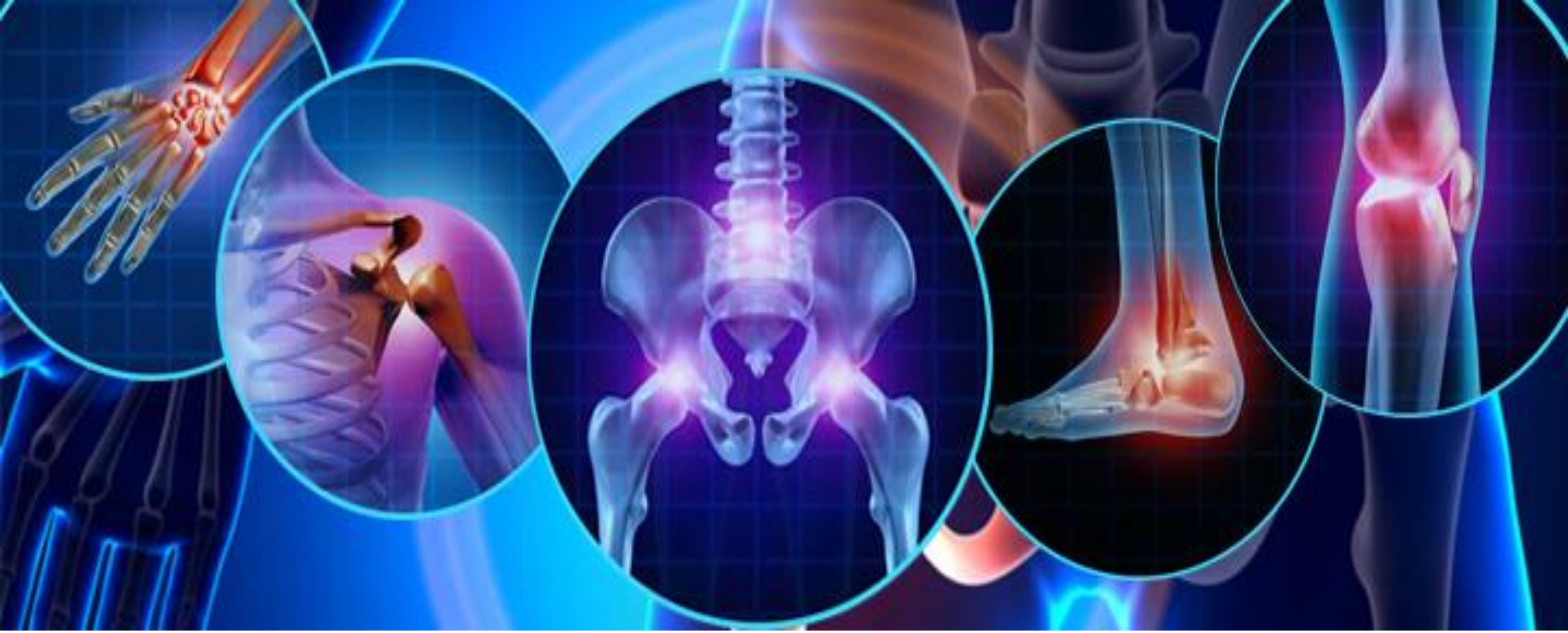


National Medical
Billing Services

Claims, Payments and Follow-up

- If the payer requires a copy of the invoice
 - Upload the invoice through the payer portal
 - Submit the whole claim electronically and submit the invoice on the back-end
 - Drop the whole claim to paper
- Flag underpayments by understanding specific payer reimbursement
- Payer's "lump" payments into one line on the EOB – must post by line item
- Establish a denial management process
 - Zero-paid implant reports
 - Total joint procedure reports
 - Manually audit accounts: charges and payments





Financial Impact of Moving Total Joints to an ASC



National Medical Billing Services

Financial Impact

Multi Specialty ASC

Total Monthly Cases	300
Avg. Cash/Case	\$2,000
Total Monthly Collections	\$600,000
Total Monthly EBITDA (20%)	\$120,000
Annualized Revenue	\$7,200,000
Annualized EBITDA	\$1,440,000
Equity Value @8x	\$11,520,000
Add 15 TJ/Month	15
Cash/Case of TJs	\$18,000
Additional Monthly Revenue	\$270,000
Additional Monthly EBITDA (at 50% margin)	\$135,000
Increased Annual Cash Flow	\$1,620,000
Increased Equity Value @8x	\$12,960,000
Total Equity Value	\$24,480,000

Total joints, with average reimbursement being approximately \$18,000, and being highly profitable (35-60% margins), will significantly increase the top line, bottom line, and equity value of a surgery center.





Case Cost of Total Joint Procedures: Example Surgery Center

	<u>Cost</u>	<u>Comments</u>
Device / Implant Costs Per Case	\$5,000	Market Range is typically \$4,000-\$6,000
Drug Costs Per Case	\$455	Includes Exparel
Basic Supply Costs Per Case	\$900	Excludes Capital Equipment
Staffing	\$427	Assumes 12 hrs of nurse/tech staff
Total Case Cost**	\$6,782	

**Includes revenue for implant with contracts where payers reimburse implant separately

- This example does not include home health or potential financing costs for equipment
- Facility may also incur additional costs related to patient safety and monitoring programs
- Typically, the implant and overall case costs for a hip or knee procedure are similar
- We have seen some physicians willing to use generic implants, with pricing below \$4,000





Total Joint Case Reimbursement

Total Hip Rev per case**	\$14,700 - \$20,600
Total Knee Rev per case**	\$14,838 - \$22,600

**Includes revenue for implant with contracts where payers reimburse implant separately

- Rates for total joints in an ASC are heavily dependent on local hospital rates
 - Rates can be well above and well below this range
- CMS listed total knees (CPT 27447) on the 2019 OPPS fee schedule with National allowed amount of \$10,714
 - This rate is set to be 10-20% lower once it's added to ASC fee schedule
 - In addition, rates would be further adjusted by the local wage index

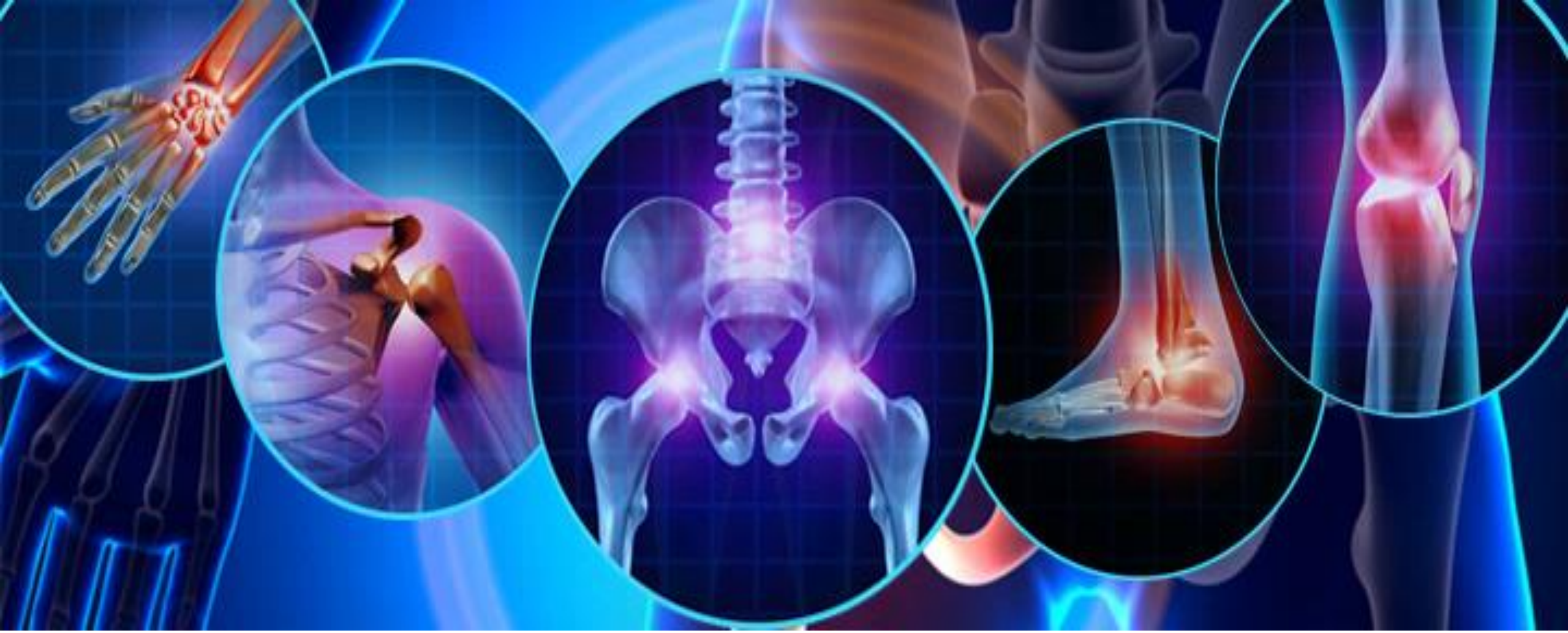




Total Joint Program Revenues and Gross Profit

Hips (CPT 27130)	43
Knees (CPT 27447)	<u>80</u>
Total Cases	123
Total Revenues	\$2,326,280
Total expenses (before facility's fixed costs)	\$834,186
Contribution Margin	\$1,492,094
<u>Per case Metrics:</u>	
Revenue per case	\$18,913
Total Cost per case	\$6,782
Contribution Margin per case (before facility's fixed costs)	\$12,131





Orthopedics – The New Darling of Private Equity



National Medical
Billing Services

Private Equity

- Historically, private equity has focused on investing in specialties such as pain management, ophthalmology, dermatology and hospital-based specialties
 - Orthopedic groups have preferred independence and have had the cash flow to do it
 - Interest in orthopedic groups is on the rise
- Drivers of private equity interest
 - Aging population: increase in orthopedic procedures such as knee and hip implants, shoulder, back and neck surgeries – significantly increasing revenue and profitability
 - Alternative payment initiatives such as bundled payments
 - Movement of orthopedic cases to ASCs means reimbursement shifting from hospital to physician owned ASC
 - Leverage, and cash flow, created through ancillary services such as ASCs, imaging, PT and DME



National Medical
Billing Services

Private Equity cont.

- Orthopedic surgeons now open to investment due to high EBITDA multiples, capital for rapid expansion, and “second bite at the apple” after taking some chips off the table
 - Scale provides leverage with payers
- A flurry of PE investment into private equity in the next five (5) years
 - Strategy to consolidate local or regional markets by acquiring practices





National Medical
Billing Services

Private Equity cont.

- Benefits of taking private equity investment
 - Opportunity for older physicians to cash out at very high multiple, or for active surgeons to take some chips off the table today, with additional equity upside
 - Capital for rapid expansion, which is helpful for total joints
 - Capital for acquisition to increase footprint and leverage with Payers
 - Gain significant business and financial expertise
 - PE typically is hands off regarding the practice of medicine
- Downside to taking private equity investment
 - Potential loss of control of business side
 - Giving up of ownership
 - Dilution to shareholders – costly if deal doesn't help increase growth and profitability





National Medical
Billing Services

Private Equity cont.

- Recent Relevant Transactions
 - **Rothman Orthopaedic Institute, NueHealth and Muve Health JV**
 - **Frazier Healthcare Partners and Princeton Ventures** invested in **CORE Institute**, a group of 67 musculoskeletal and neurological physicians in Arizona and Michigan
 - **Varsity Healthcare Partners** invested in **The Orthopedic Institute**, an integrated orthopedic surgical care and ancillary patient treatment provider in Florida
 - **Candescent Partners** acquired the majority of **Southeastern Spine Institute**, a practice of 16 physicians and 31 total providers
 - **Lorient Capital** acquired **Atlantic NeuroSurgical Specialists**, located in New Jersey
 - **Atlantic Street Capital** invested in **OrthoBethesda**, based in Washington DC





Discussion



National Medical
Billing Services

Our ASC Expertise. Your Advantage.