The Next Generation of Ambulatory Surgery

Growth Opportunities for ASC’s

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Objectives

We hope you walk away knowing...

Best surgical sub-specialties to focus on transitioning to an ambulatory basis

Opportunities for future growth

Key strategies for making your ASC successful in this dynamic landscape

“We can’t solve the problems of healthcare with incremental add-on solutions; we have to change the very structure of how we deliver and think about healthcare”

Michael Porter PhD
AGENDA

Current State & Trends

Growth Opportunities

Ambulatory Reimbursement

Case Study: HIFU

What’s needed for success
Current State: Ambulatory surgery volume is growing

- **65%** of all surgeries are performed on an ambulatory basis
- Advancements in technology
- Payer pressures
- Improved pain control
The range of ambulatory procedures is expanding

- Ear, Nose, & Throat
- Eye
- Excision of lesion/Tissue
- Gastrointestinal
- Musculoskeletal
- Nerve Treatments
- Plastics
Successful ambulatory surgery centers (ASC) have specific characteristics

✓ Depth of Specialty
✓ Diagnostic Capabilities
✓ Access to capacity
✓ Value Based Focus
ASC growth is expected to continue through 2022*

- Inpatient discharges are expected to decrease by 2%
- Outpatient volume grows 15%
- Outpatient surgery is expected to see an 11% increase 2018-2022

### Areas of Growth

1. Ortho
2. Spine
3. G.I

Growth can come from broadening of procedures, specialties, technology, or enhancing value

- Orthopedics/Spine
- Energizing Technology
- Specialty Focus
  - Diagnosis
  - Treatment
  - Rehabilitation
- Value Based Care
  - Clinical Outcome
  - Patient Satisfaction
  - Cost
Surgeon owned ASCs are prime acquisition targets for hospitals

• Original investor practices maturing with limited opportunity to cash out
• Younger surgeons not as interested in investments
• Center’s future success depends increasingly on investment in high cost technology such as MRI equipment
There are three obvious areas for hospitals to focus on to drive outpatient volume.

- Best Positioned to Move to an ASC
- Spine
- JOINTS
- UROLOGY
Different ambulatory procedures offer different financial opportunity

<table>
<thead>
<tr>
<th>Practice Area</th>
<th>Procedure</th>
<th>Demand</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ophthalmology</td>
<td>Vitrectomy</td>
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<tr>
<td></td>
<td>Corneal Transplant</td>
<td></td>
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<tr>
<td>Gynecology</td>
<td>Laparoscopic Hysterectomy</td>
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<tr>
<td>General Surgery</td>
<td>Hernia Repair</td>
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<tr>
<td></td>
<td>Laparoscopic Cholecystectomy</td>
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<tr>
<td>Vascular</td>
<td>Access</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orthopedic</td>
<td>Total Joint Replacement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Neurosurgery</td>
<td>Mini Laminectomies</td>
<td></td>
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<tr>
<td></td>
<td>Herniated Disc Excision</td>
<td></td>
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<tr>
<td></td>
<td>One Level Anterior Cervical Discectomy &amp; Fusion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENT</td>
<td>Simple Thyroidectomy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urology</td>
<td>Prostatectomy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>High Intensity Focused Ultrasound</td>
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</tbody>
</table>

**KEY**

- HIGH
- MEDIUM HIGH
- MEDIUM LOW
- LOW
Ambulatory surgery volume growth saves CMS money because of the difference in HOPD and freestanding reimbursement...

Illustrative Reimbursement Rates:

<table>
<thead>
<tr>
<th></th>
<th>Impatient</th>
<th>Outpatient</th>
<th>Saving</th>
<th>% Saved</th>
</tr>
</thead>
<tbody>
<tr>
<td>TKA</td>
<td>$12,384</td>
<td>$10,122</td>
<td>$2,262</td>
<td>18.2%</td>
</tr>
</tbody>
</table>

... However, Reimbursement impacts the decision for hospitals to consider a Joint Venture:

HOPD reimbursement 45% more than free standing ASC!
Success with government and private payors depends on proving value

- Patients and payers shift focus to **value**
- Decreased cost **cannot result** in a decrease in outcomes

ASC success depends on positioning and preparation for bundled payments!
Commercial payers encourage bundled payment reimbursement for an increasing number of procedures

- Surgical Bundles include reimbursement for all services required for a **single, pre-defined episode of care**. For example:
  - Facility (ASC)
  - Anesthesia
  - Surgeon
  - Post-Op Care for 90 Days (e.g., SNF, home nurse, physical therapy)
Bundled payments cover the entire episode of care
Bundled payment models require standardization

<table>
<thead>
<tr>
<th>Total Knee Replacement</th>
<th>Benchmark</th>
<th>Provider A</th>
<th>Provider B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>21,966</td>
<td>516</td>
<td>236</td>
</tr>
<tr>
<td>Mortality</td>
<td>0.10%</td>
<td>0.00%</td>
<td>0.42%</td>
</tr>
<tr>
<td>30 Day Readmissions</td>
<td>3.65%</td>
<td>3.11%</td>
<td>9.79%</td>
</tr>
<tr>
<td>Complications</td>
<td>10.69%</td>
<td>7.36%</td>
<td>15.25%</td>
</tr>
<tr>
<td>Direct Cost per Case</td>
<td>$12,041</td>
<td>$11,899</td>
<td>$14,038</td>
</tr>
<tr>
<td>Patient Satisfaction</td>
<td>Top Decile</td>
<td>92%</td>
<td>86%</td>
</tr>
</tbody>
</table>

Variation precludes organizations from:

- Being prepared to offer competitive pricing for bundled payment
- Taking on financial risk of managing the health outcome of a community
Case Study...

**SITUATION**
- Hospital in the Southeast wants to capture more volume from an independent group of 100 surgeons.

**BACKGROUND**
- Prostate cancer is the third leading cause of cancer death in American men.*
- Historic Options:
  - Diligent Observation
  - Radical Prostatectomy
  - Radiation

*A new FDA-approved alternative opens the door to an ambulatory offering: High Intensity Focused Ultrasound (HIFU)*
HIFU is a Medicare-reimbursed procedure

**Significant reduction in complications** relative to Prostatectomy because prostate lesion is treated with high frequency ultrasound

Procedure information:
- **Time:** 90-120 minutes
- **Anesthesia:** General
- **Post-op → discharge:** 2 hours
Case Study ... (cont.)

• The majority of patients pay $25,000 for the surgery, anesthesiologist, and facility fee.

• The ASC assists with billing Medicare and any third party payer.

**HIFU, per procedure**

<table>
<thead>
<tr>
<th></th>
<th>Commercial</th>
<th>Medicare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fee</td>
<td>$15,000</td>
<td>$7,500</td>
</tr>
<tr>
<td>Facility Cost</td>
<td>$2,800</td>
<td>$2,800</td>
</tr>
<tr>
<td>Fee for Device and Disposables</td>
<td>$5,500</td>
<td>$5,500</td>
</tr>
<tr>
<td>Total Direct Cost</td>
<td>$8,300</td>
<td>$8,300</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>$6,700</td>
<td>$(800)</td>
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</tbody>
</table>
Case Study ... (cont.)

<table>
<thead>
<tr>
<th>HIFU Procedures in August 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 Commercial patients @ $15k each</td>
</tr>
<tr>
<td>12 Medicare patients @ $7500 each</td>
</tr>
<tr>
<td>Facility Costs</td>
</tr>
<tr>
<td>Device and Disposable Costs</td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
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</tbody>
</table>
HIFU reflects current trends in Ambulatory Surgery

• Alternative to invasive impatient procedure
• Emerging technology
• Integration of surgery & diagnostic imaging
Success managing ambulatory surgery volumes depends on several factors

**GOVERNANCE**
- Physician Leadership
- Commitment of Resources
- Data Dissemination

**CLINICAL REDESIGN**
- Pre-Surgical Optimization
- Daily Huddle
- Enhanced Recovery After Surgery

**PATIENT ENGAGEMENT**
- Communication of Expectations
- Technology Tools
- Pre-Procedure Education
Successful ASC’s are passionate about ensuring value and that they are optimized

- Clinical
  - Unanticipated admission to hospital
  - Pain
  - PONU
  - Functional Status
- Patient Satisfaction
  - Communication
  - Check In
  - Explanation of anesthesia process
  - Discharge instructions
  - Patient Advocacy (OASCAHPS)
Strong ASC governance is essential

- **Physician Leadership:** Form a Multidisciplinary Committee
- **Commitment of Resources:** Invest in Staff, Equipment
- **Data Dissemination:** Share Data with Surgeons in a Transparent Way

<table>
<thead>
<tr>
<th>Provider</th>
<th>FY'13</th>
<th>Nov'15-Oct'16</th>
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<tbody>
<tr>
<td></td>
<td>Volume</td>
<td></td>
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<td></td>
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<td>FY'13</td>
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<td>Nov'15-Oct'16</td>
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<tr>
<td>Nov'15-Oct'16</td>
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*Benchmark based on Premier Top Performing Hips/Knees Centers*
CLINICAL REDESIGN

• **Pre-Surgical Optimization**: Coordinate Care Continuum
• **Daily Huddle**: Prepare to Care for the Patient
• **Enhanced Recovery After Surgery**: Implement Best Practice
Coordination of care is the heart of clinical redesign to shift surgical volume.
Pre-Surgical optimization is a key element in clinical redesign.
Patient engagement is critically important

- **Communication of expectations:** Messaging should be consistent
- **Technology tools:** Utilize technology to remind & monitor patients
- **Pre-procedure education:** Provide education multiple ways, multiple times
What’s next: Critical questions to answer

1. What services will give our facility a competitive advantage?
2. What cluster of procedures will offer a specialty focus?
3. What volume of procedures by surgeon can we expect?
4. Which payers will approve an ASC setting?
5. How should we manage patient responsibilities (e.g., pre-surgical payments, at-home preparation, post-op rehabilitation)?
6. Are clinical providers motivated to manage their more complicated procedures and patients?
7. What capital, people, and clinical processes need to be changed?
8. Is the financial return worth the capital risk?
Thank You!

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