My Background

- Comprehensive ophthalmologist for 28 years
- President, Concord Eye Care, PC for 17 years
- President, Concord Eye Center since Sept. 1
- Principal Founder and past Medical Director, Concord Eye Surgery, LLC
- MBA
- Founder, InSight Healthcare Solutions, LLC

Changes in Last 30 Years

- Fee for service; Medicare non-assignment
- Medicare Maximum Allowable Charges
- Medicare cuts
- Physician Practice Management Companies (PPMCs)
- Physician-Hospital Organizations (PHOs)
- Capitation

New Era of Medicine

- Obamacare and ACO’s
- Hospitals buying medical practices
- Change in reimbursement strategies
  - Pay for performance
  - Change in reimbursement rates
- More oversight by government agencies
- Need for more high-tech (expensive) equipment
- EHR and meaningful use requirements

Future of Healthcare in U.S.

- Need for more high-tech (expensive) equipment
- EHR and meaningful use requirements

Peter Wasserman, MD, MBA
InSight Healthcare Solutions, LLC
The Future?
- ACOs?
- All hospital owned practices?
- Capitation?
- Corporate medicine?
- Single payer?
- Something new and unexpected?

New Era
Lower Reimbursement and Increased Costs

Increased Costs of Doing Business
- Payroll
- Rents
- Postage
- Telephones
- Computers
- High tech equipment

Live for today
Plan for tomorrow

New Era
- Lower your costs
- Increase your efficiency
- Increase revenues where possible
- Increase your market share

What is your strategy?
Strategies

• Low-Hanging Fruit
• Improve Optical
• ASC – Start, join, improve
• Add Non-Insured Services
• Grow Internally
• Satellite Offices
• Become Part of Larger Entity - Merge

Low-Hanging Fruit

1. Eliminate Waste
   • Supplies – Look for lower cost items
   • Accounts payable review
   • Improve or eliminate non-performing services
   • DON’T cut back on growth

Low-Hanging Fruit

2. Increase Volume
   • Increase hours
   • Be more efficient
     • Teach techs to do more
     • Scribes
     • Reorganize schedule
       – Start patients and techs prior to your arrival
       – Organize template
     • Call patients prior to remind them of appointment

Low-Hanging Fruit

3. Coding and Billing
   • Use coding consultant
     • Don’t over-code
     • Don’t under-code
   • Understand insurance mix and coding rates by insurer
   • Watch your A/R
     • By insurer
     • Days in A/R

Low-Hanging Fruit

4. Benchmarking
   • External - AAO benchmarking
   • Internal
     • Revenues
     • Expenses (itemized)
     • Write-offs
     • Productivity

Low-Hanging Fruit

5. Market higher reimbursed medical entities
   • Analyze reimbursement by diagnostic code and doctor time
   • Express in $/minute of doctor time
$/Minute Example

Cataract

Avg. Cataract Revenue per Case

• Numerator:
  • Cataract collections past year +
  • A-Scan collection past year +
  • Pre-op visit collections
    • (avg. exam fee x # cataract cases/1.5)
• Denominator:
  • # of cataract cases past year

Avg. Minutes per Cataract Case

• Surgical time
• Turnover time
• Pre-op visits
• Post-op visits
  ❖ Doctor time only

Cataract Revenue/Year

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Cataract Revenue/Case

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Cataract $/Minute

• Numerator: Avg. cataract revenue per case
• Denominator: Avg. minutes per case
Cataract Time/Case

<table>
<thead>
<tr>
<th>Time</th>
<th>Case</th>
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<tbody>
<tr>
<td>15</td>
<td>min</td>
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<tr>
<td>10</td>
<td>min</td>
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<tr>
<td>10</td>
<td>min</td>
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<tr>
<td>30</td>
<td>min</td>
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<tr>
<td>65</td>
<td>min</td>
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Cataract $/Minute

<table>
<thead>
<tr>
<th>Time</th>
<th>Case</th>
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<tbody>
<tr>
<td>13.92</td>
<td>$/min</td>
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Low-Hanging Fruit
6. Question your assumptions
   - How many post-op visits required?
   - “My patients wouldn’t want a tech to perform their refraction”

Optical Shop

- Improve capture rate
  - Difficult to measure
  - Strategies to bring patients to the optical shop
    - Physically bring patients
    - Pick-up prescriptions
    - Talk-up the optical in exam room
  - No hiding in the lab

Optical Shop

- Know your niche
- Frame displays not too expensive or cheap
- Maintain broad selection of frame prices
  - Need some upper-end frames

Know Your Ratios

- Cost of goods
- Staffing costs
- General overhead
- Inventory turn-over
- Profit percentage
<table>
<thead>
<tr>
<th><strong>Cost of Goods</strong></th>
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<tbody>
<tr>
<td>• No on-site lab: 40-42% of revenue</td>
</tr>
<tr>
<td>• On-site finishing lab: 30-32%</td>
</tr>
<tr>
<td>• On-site finishing/surfacing lab: 25-27%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Staffing Costs</strong></th>
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<tbody>
<tr>
<td>• Payroll: 15-21% of revenue</td>
</tr>
<tr>
<td>• Revenue per optician: $200 – 250K per optician</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>General Overhead</strong></th>
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<tbody>
<tr>
<td>• Rent, telephone, postage, etc.</td>
</tr>
<tr>
<td>• Marketing</td>
</tr>
<tr>
<td>• Share of non-optical personnel</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Inventory Turnover Ratio</strong></th>
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</thead>
<tbody>
<tr>
<td>• Number of times frames turned over in 1 yr.</td>
</tr>
<tr>
<td>• Average 2.5 – 3.0 per year</td>
</tr>
<tr>
<td>• If keep 400 frames, should sell at least 1000 frames per year</td>
</tr>
<tr>
<td>• If ratio too low, inventory too high</td>
</tr>
<tr>
<td>• Never keep frame-boards empty!</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Profit %</strong></th>
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</thead>
<tbody>
<tr>
<td>• Wide variability</td>
</tr>
<tr>
<td>• Average: 10 -35% of optical revenue</td>
</tr>
<tr>
<td>• Varies by</td>
</tr>
<tr>
<td>– Size of practice</td>
</tr>
<tr>
<td>– How overhead split between medical and optical</td>
</tr>
<tr>
<td>– No lab/Surfacing lab/Finishing lab</td>
</tr>
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<tr>
<th><strong>ASCs</strong></th>
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<tbody>
<tr>
<td>• Add ASC</td>
</tr>
<tr>
<td>• Improve Costs and Ratios</td>
</tr>
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</table>
### Add ASC
- Start your own
- 1000 cataracts should be successful
- Buy-in to existing ASC
- Join with other groups to start ASC
  - Other ophthalmologists
  - Other surgical subspecialists
- Joint venture
  - ASC company
  - Local Hospital

### Ratios
- Personnel Cost Ratio
  - Salary + Benefits/ Revenue
- Supply Cost Ratio
  - Supplies/ Revenue
- Net Profit Ratio
  - Profit/ Revenue

### AmSurg (10-K)
- Personnel Cost Ratio – 29-30%
- Supply Cost Ratio – 12-13%
- Net Profit Margin – 25-27%

### Novamed (10-K)
- Personnel Cost Ratio – 30%
- Supply Cost Ratio – 23-24%
- Net Profit Margin – 14-16%

### Add Non-Insured Services
- Refractive Surgery
- Premium IOL’s
- Femtosecond laser cataract surgery
- Cosmetic Surgery
- ? Medical Spa
- ? Hearing Aids

* Do financial analysis prior!

### Femto Laser - Analysis
- Buy
  - Don’t forget maintenance costs
- Rent-to-buy
  - Be aware of:
    - Minimum cases/month
    - Return policy
    - Credit for per case fees if buy laser
- Roll-on, roll-off (SitePath)
Femto Analysis

- Need to assess potential volume
- Potential revenue
- Consider costs
  - Per case charges
  - Cost to buy
  - Cost to maintain
  - Cost to retrofit ASC
  - Cost to train

Femto Volume

- Difficult to assess
- Can use your conversion rate to premium IOL's
- Alcon estimates 30% conversion rate
- Depends on how surgeon feels about Femto!

Grow Internally

- Add full-time ophthalmologist
- Part-time ophthalmologist
- Optometrist

Full-Time Ophthalmologist

- Comprehensive/medical/subspecialist
- Partnership tract vs. employee
- Amount of business (waiting list)
- Space issues
- Quality of new doctor

Part-Time Ophthalmologist

- Usually subspecialist
- Reimbursement
  - Fixed “rent” vs. percentage of revenue
  - Needs to be fair market value
  - If any question, consult attorney
  - Consider competitor reaction

Optometrist

- Consider risk if high optometric referrals
- My bias:
  - Prior to hiring – What will they be allowed to do?
Financial Analysis Before Hiring

- Revenues
- Expenses

Financial Analysis - Income

- Revenues
  - Average revenue per patient in office
  - Expected additional number of patients seen
  - Average surgical revenue per patient
  - Expected additional surgeries

Financial Analysis - Expenses

- Fixed costs
- Variable costs

Expenses - Fixed

- Rent
- Outside professional services
- Some medical equipment
- Telephone and computer hardware

Expenses - Variable

- Personnel
- Supplies

Financial Analysis - Expenses

- Costs
  - Rent
  - Construction costs
  - New doctors salary + benefits
  - Additional personnel costs
  - New equipment (amortize)
  - Additional supply costs
  - Additional marketing costs
### Financial Analysis
- **Profit:**
  - Revenue – Expenses
  - Could include optical profits
    - Especially if adding optometrist
  - Could include ASC profits
    - If surgical ophthalmologist

### Satellite Offices
- New, free-standing in outlying community
- “Renting-out” subspecialist to another practice
- Part-time in OD office
  - Consider number of exam rooms
  - # of medical patients

### Satellite Office – Things to Consider
- May not make sense if:
  - Have enough space presently
  - As busy as you can be
  - If sending subspecialist -
    - Did they keep a list of potential referrals?
- Always do financial analysis (pro-forma)

### The New World
**Who Is Going to Control Your Destiny?**

### Become Part of a Larger Entity
- Sell-out to a local hospital
- Sell-out to a large, established group
- Sell-out to corporate medicine
- Acquire other physician(s)
- Join with others - loose entity
- Formal merger

### Sell-Out to Hospital
- Typically doesn’t involve “good-will”
- Advantage: Less business responsibilities
- Disadvantage: Loss of autonomy
Acquire Outside Practices

- Retiring solo practitioner
- Non-retiring practitioner or group

Retiring Ophthalmologist

- More straight-forward
- Financial Analysis
  - Do you have room?
    - Space
    - Appointment openings
  - Additional financial benefits
    - Additional surgeries
    - Additional diagnostic testing
    - Optical, ASC

Retiring Ophthalmologist

- Maximize retention rate
  - Retiring doc at new location at least 1 year
  - Keep old location open for 2 years
  - Minimum:
    - 2 letters to each patient
      - From retiring doctor
      - From new group

Non-Retiring Doctors

- Space sharing arrangements
- Employee (salaried)
- Partnership – Similar to mergers

“Loose-Entity” Mergers

- IPA
- Merger with autonomous divisions

IPA

- Anti-Trust limits on sharing information
- Limited efficiency or economies of scale
Merger with Autonomous Divisions

- New super-structure
  - Provides management
  - Employs doctors and staff
  - Billing
- Divisions (old groups) still have autonomy
  - Physician compensation
  - Hours

Full Merger

Total Integration

Why Merge?

- Increase market share
  - ACO’s
  - Insurers
  - Vendors

Why Merge?

- “Economies of Scale”
  - Marketing
  - Equipment
  - IT
  - Employees
  - Space
  - Supplies

Why Merge?

- Create more comprehensive group
  - Keep your referrals in-house
  - Improve quality

Don’t Merge

- Costs
- Time involved
- More bureaucracy
- Less personal
- Can create ill-will if merger fails to happen
- Messy to take apart
Identify Potential Targets

- Complementary subspecialists
- Similar corporate cultures
- Mutual respect

Steps

1. Get comfortable with each other
2. Tackle the key issues first
3. Get your advisers in line
4. Discuss secondary issues
5. Working groups – involve administrators
6. Due diligence
7. Communication

Get Comfortable

- Working together on small projects
  - Joint ventures
  - State society projects
  - Talks
- Low-pressure meetings to discuss advantages and disadvantages
- Include key administrators if at all possible
- Can take time if former competitors

Typical Key Issues

- Culture
- Money

Culture

- How do you get along?
  - Owners
  - Administrators
  - Employees

Culture

- Understand your similarities and differences
  - Scheduling
  - Days off/Vacations
  - Apportioning of patients
  - Use of technicians
  - Governance – How you make decisions
  - Marketing
  - Co-management
  - Subspecialists vs. comprehensivists
Money

• Buy-In
• Compensation in the new group

Buy-In

• What will it include, and how to value:
  – Hard Assets
  – Goodwill (if any)
  – Accounts Receivable
  – Optical
  – ASC interests

Compensation

• Equality
• Productivity
  – Revenue
  – RVU’s
• Blended
• Transition periods
• *Get neutral 3rd party consultant*

Advisers

• Neutral 3rd party
• Accountants
• Attorneys

Other Important Issues

• New building or group without walls
• Apportioning of patients
  • Comprehensive vs. sub-specialists
  • Within subspecialty
    • Who gets the cataract referral?
• Governance
• Administrative roles – merging of employees
• Outside professional services

Working Groups

• For large group mergers
• Owners and administrators from each group
• Meet regularly
• Reports back to all partners
Due Diligence

- Need attorneys and accountants involved
- Letter of non-disclosure

Communication

- When and to whom
  - Key Staff – Employee doctors, IT, billing
  - Managers
  - Other employees
  - Vendors

Communication

- What to say
  - Keep it simple
  - Why merge
  - Reassurance, not promises

After Merger

- No initial staffing changes
- Change as little as possible day 1
- Work on strategic and operational plans
- Gradually make changes

What I’ve Learned

- Everything takes longer than you think
- Get the money issues out of the way first
- Keep it moving or it will die
- Transparency builds trust
- Listen to the concerns of all owners
- Empower your administrators
- Consummating merger is just the beginning

Summary

- Live for today
- Plan for tomorrow
- Increase efficiency
- Search for ways to grow – more power in marketplace
COURAGE
Do one brave thing today... then run like hell.