Factors Motivating Expansion

• Under utilization of physical plant.
• Poor case mix for anesthesia providers.
• Attract and retain qualified staff.
• Enhance the profitability and free cash flow of the ASC.

Elements to Evaluate

• Regulatory requirements and constraints.
• Equipment and supplies, impact on sterile processing.
• Treatment spaces/physical plant.
• Staffing, credentialing and peer review.
• Other costs, including professional liability.
First – Expand Ophthalmology

- Advantages:
  - Equipment may already be owned.
  - Established contacts with other surgeons.
  - Long term upside for these procedures.
  - Improved reimbursements since 2008.

- Issues:
  - Cost of equipment, if not owned.
  - General anesthesia for some procedures.
  - Impact on physical plant, i.e., need for PACU.

Retina

- Advantages:
  - Some equipment may already be owned or upgradeable.
  - Established contacts with other surgeons allows identification of “ASC friendly” practitioners.
  - Younger demographic means more commercial payers.

- Issues:
  - Cost of equipment, if not owned.
  - General anesthesia for some procedures.
  - Impact on physical plant, i.e., need for PACU.
  - Specialized staff training for OR team.

- Reimbursement in 2015:
  - Most common codes fall into the same APC.
  - National CMS average rate for 2015 is $1,683.84.

Retina Equipment and Supplies Costs

- Equipment needs:
  - Vitrector with 532nm laser $100K - $120K
  - Cryo and light source $10K
  - Microscope $70K - $90K
  - Indirect view system $20K - $50K
  - Image capture $10K - $30K
  - Instruments sets Volume/Preference

- Equipment total $200K+ - $300K+

- Supplies:
  - Surgical packs $325 - $600 per case
  - Silicone Oil/Perfluoron $350 - $600 per case

- With average case times of 30 to 90 minutes, incremental revenue should be very favorable.

“Retail” Services - Femto

- The clinics must build a sales infrastructure first.
- Requires a solid commitment from the surgeons.
- Try before you buy, options to lease or rent “per click.”
- Assess your market potential.
  - 15 cases per month or less – “outsource.”
  - 20+ cases per month may support purchase.
- The pay-back period should be 36 months or less.
- The “all-in” cost per case in the current market will approach $650; thus, your facility fee must equal or exceed that amount.
“Retail” Services - Plastics

- Recruit established surgeons with existing volumes.
- Support existing staff members that are expanding practices.
- Negotiate facility fees and anesthesia fees well in advance for purely cosmetic procedures.
  - 2015 CMS rates for blephs are $758.86.
  - There is market tension between the professional and facility fees.
- Don’t crowd out other more profitable cases.
- Relatively minimal equipment and supplies costs.
- The ASC will usually also pick up the “functional” cases, e.g., ptosis, entropion, ectropion, etc.
- These cases are also desirable and profitable - $827.48 CMS.

Other Ophthalmic Services

- Glaucoma:
  - Lower volumes in most cases, limited new equipment needs.
  - Should be profitable; however, be aware of multi-procedure discounts when combined with cataract.
  - 66174 – 66813 CMS 2015 - $1,683.64.
  - Traditional valves are $400 to $600; Stents are $900 to $1,000.
  - Stent procedures done with cataracts are only marginally profitable.
  - Ensure that commercial contracts are updated to include the new CPT codes for these procedures.
  - Other procedures, e.g., ECP and Trabectome are very, very volume dependent to carry the equipment and supplies costs.

Other Ophthalmic Services, Cont.

- Cornea:
  - Lower volumes in most cases, limited new equipment needs.
  - Reimbursement for tissue may be problematic:
    - Ensure that commercial plans have a carve-out for the tissue.
    - Some state may require the ASC to be separately licensed to handle tissue.
    - Obtain processed DSEK tissue. In-house processing is not reimbursed to the facility.
  - Generally these cases support a surgeon also performing other anterior segment procedures.

- Ophthalmic Lasers:
  - Generally profitable across all sub-specialties.
  - Two major impediments are scheduling (duplicate patient visits) and site-of-service differentials.
  - Most retina surgeons are unwilling to bring these cases.

Other Specialties To Consider

- Other surgical specialties:
  - May not need arthroscopy/endoscopy:
    - Pain Management
    - Oral Surgery
    - Cosmetic and/or Reconstructive Plastics
  - Require arthroscopy/endoscopy:
    - G. I.
    - ENT
    - Orthopedics
    - Podiatry
    - Urology
    - Gynecology
Pain Management

- Anticipated equipment costs - $90K to $200K.
- Advantages:
  - Intermediate equipment costs, depending on provider needs.
  - Low supply costs, relatively high margins.
  - Potential large case volumes.
  - Favorable payer mix, more commercial coverage.
  - Doesn’t require a sterile room.
- Issues:
  - Need a Radiological Technician to operate the C-arm.
  - Site of service differential for basic procedures.
  - Trend toward being office-based, threat to deletion from ASC list.
  - Neurostimulator trials and implants may change the analysis.

Oral Surgery

- Anticipated equipment costs - $15K to $40K.
- Advantages:
  - Surgeons often ill-treated at the hospital.
  - Relatively low equipment costs.
  - Public relations value.
- Issues:
  - Longer case times, typically lower volumes.
  - Frequently pediatric cases.
  - Need for general anesthesia and longer recovery times.
  - Credentialing, hospital coverage.
  - High mix of Medicaid in many cases.

Plastic Surgery

- Anticipated equipment costs - $60K to $125K.
- Advantages:
  - Private pay patients.
  - Growing market segment.
  - Relatively low equipment and supplies costs.
- Issues:
  - Professional liability insurance issues.
  - Very long case times, low revenue per hour.
  - Reconstructive cases are often Medicare or Medicaid.
  - Long recovery times increase labor costs.
  - Need to be careful of ‘mix’ of patients in reception area.
  - Highly demanding, potentially litigious patients.

G. I.

- Anticipated equipment costs - $200K - $300K
- Advantages:
  - Large case volumes and short case times.
  - Low supply costs, relatively high margins.
  - Most frequently performed ASC cases after eyes.
  - Doesn’t need a sterile room.
- Issues:
  - Contamination of OR.
  - Cleaning of equipment, i.e., “cold” sterilization
  - Staff training.
  - May need significant blocks of time.
**ENT**

- Anticipated equipment costs - $40K to $150K.
- Advantages:
  - Relatively low equipment costs, unless endoscopic sinus.
  - Low supply costs, relatively high margins.
  - Favorable payer mix, more commercial coverage.
- Issues:
  - Longer case times.
  - Need for general anesthesia.
  - Kids won’t mix with adults in the center.
  - Some practices have a large Medicaid component.

**Orthopedics**

- Anticipated equipment costs - $250K to 400K per room.
- Advantages:
  - The ‘hot’ market segment for the last several years.
  - High percentage commercial, thus high per case reimbursement.
  - Large case volumes appropriate for the ASC.
- Issues:
  - Larger practices are likely to develop their own center.
  - High equipment and supplies inventory costs.
  - Inability to bill for implants, etc. for governmental patients.
  - More complicated recordkeeping due to cost and volume of supplies.
  - The local hospital will not be pleased to lose these cases.

**Podiatry**

- Anticipated equipment costs - $40K - $150K.
- Advantages:
  - Relatively low equipment costs, unless endoscopic ankles.
  - Low supply costs, relatively high margins.
  - Favorable payer mix, more commercial coverage.
- Issues:
  - Longer case times, typically lower volumes.
  - Implant costs if performing endoscopic cases.
  - Need for general anesthesia and longer recovery times.
  - Credentialing, hospital coverage.
  - Professional liability insurance cost impacts.

**Urology**

- Anticipated equipment costs - $50K to $100K.
- Advantages:
  - Intermediate equipment costs, depending on provider needs.
  - Low supply costs, moderate to high margins.
  - Favorable payer mix, more commercial coverage.
  - Many procedures don’t require a sterile room.
- Issues:
  - Some contamination problems unless the physical plant was built to accommodate.
  - Trend toward being office-based, threat to deletion from ASC list.
Gynecology

- Anticipated equipment costs - $80K to $150K.
- Advantages:
  - Intermediate equipment costs, depending on provider needs.
  - Moderate supply costs, moderate to high margins.
  - Favorable payer mix, more commercial coverage.
- Issues:
  - Relatively small volumes.
  - Longer recovery times.
  - Potential for complications blood loss in some of the more complex cases.

THANK YOU!!

Questions and Answers

Physician Retention

- Expect Owners to contribute 80+ percent of total case volume.
- Consider equity sales to compatible surgeons.
- Equipment leasing and supplies purchases arrangements may be used to facilitate adding high cost specialties.
- Agreements must be written and reflect Fair Market Value for all parties.