Ambulatory Surgery Centers: A Growing Trend in Healthcare

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Overview of Presentation

- What is an Ambulatory Surgery Center?
- Types of Surgeries in ASCs & Additional Information
- Overview of ASC Industry Growth & Macro Trends
- ASC Specific Growth Factors & Overall Outlook
- Risks Associated with ASCs
- Specific ASC Companies & Valuations
- Recommendations
What is an ASC?

- An Ambulatory Surgery Center is a medical center that is mainly used for outpatient procedures.
- Types of procedures include: Gastrointestinal, Ophthalmology, Pain Management, Orthopedic, Dermatology, among Others.
- Why have they become so popular?
  - ASCs offer a great cost savings
  - They have significantly lower infection rates than Hospital Outpatient Departments (HOPDs)
  - Offer more choices and convenience.
## Cost Comparison: ASC v. Hospital Outpatient Department

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Patient Cost</th>
<th>Medicare Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ASC Co-pay</td>
<td>HOPD Co-pay</td>
</tr>
<tr>
<td>Cataract</td>
<td>$193</td>
<td>$490</td>
</tr>
<tr>
<td>Upper GI Endoscopy</td>
<td>$68</td>
<td>$139</td>
</tr>
<tr>
<td>Colonoscopy</td>
<td>$76</td>
<td>$186</td>
</tr>
</tbody>
</table>

ASCA Analysis of CMS Rates Effective 1 Jan. 2012
Medicare Certified ASCs
Breakdown of Cases Handled

- Pain Management [10%]
- Urology [5%]
- Orthopedics [15%]
- Plastic [8%]
- GI [14%]
- Ophthalmology [30%]
- Other [18%]

ASC Ownership Structure

- 100% Ownership
- 51%/49% Ownership
- Managed Facilities
- When physicians maintain ownership in an ASC, they have a direct financial interest in the success of the facility, and work to ensure this success.
ASC Ownership

Physician 65%
Hospital-Physician 17%
Corporation 8%
Hospital 2%
Corporation-Hospital-Physician 6%
Corporation-Hospital-Physican 6%

ASCA's 2011 ASC Employee Salary & Benefits Survey
Industry & Macro Trends

- New ASC growth was ~10% from 2000-2010, since then there has been a more modest amount of growth.
- However, there are still a lot of ASCs that are physician only owned.
- Aging US population a factor for potential existing center growth.
- ASCs are highly regulated to ensure quality of care.
- Reimbursement model changes and cost-cutting pressures imposed by the Patient Protection and Affordable Care Act (ACA)
- Revenue Growth still very strong in industry.
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<tbody>
<tr>
<td>Eye proc - cataract removal/lens insertion</td>
<td>27%</td>
<td>29%</td>
<td>23%</td>
<td>36%</td>
</tr>
<tr>
<td>Endoscopy - colonoscopy</td>
<td>22%</td>
<td>23%</td>
<td>19%</td>
<td>25%</td>
</tr>
<tr>
<td>Endoscopy - upper gastrointestinal</td>
<td>10%</td>
<td>9%</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>Eye procedure - other</td>
<td>2%</td>
<td>6%</td>
<td>4%</td>
<td>-26%</td>
</tr>
<tr>
<td>Pain Management</td>
<td>17%</td>
<td>13%</td>
<td>19%</td>
<td>28%</td>
</tr>
<tr>
<td>Orthopedic</td>
<td>8%</td>
<td>8%</td>
<td>9%</td>
<td>7%</td>
</tr>
<tr>
<td>All other</td>
<td>14%</td>
<td>12%</td>
<td>14%</td>
<td>20%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
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Specific ASC Growth Factors

- **Median Incomes**: Income is one factor that influences the demand for healthcare services, with demand for health services increasing with income. Incomes accounted for 5 to 20 percent of long-term healthcare spending growth.

- **Changes in Health Status**: Some of the underlying factors influencing the increase in medical spending include the increase in chronic diseases or the increased prevalence of certain diseases.

- **General Lifestyle Changes**: Lifestyle choices can influence a person’s health and overall wellness. Three important choices include the use of tobacco products, maintaining appropriate weight, and incorporating physical activity into a regular routine.
Regular Physical Activity: In recent years, American adults have made only modest progress towards achieving recommended levels of physical activity or strength training. Less than three percent introduced some physical activity into their lifestyle.

Technological Advances: Much of the growth in outpatient surgeries would not be possible without technological improvements that have allowed for faster recovery. These advances include many new surgical techniques, using micro-instrumentation resulting in fewer and smaller wound sites.
Challenges Facing ASCs

- Potential for Affordable Care Act to force HOPDs to lower charges and become more competitive with freestanding ASCs
- Hospital’s desire to gain market share
- Declining Reimbursement Rates
  - Current & Projected Medicare Pressure
  - ASC revenues also face nonreimbursement challenges as they are wholly dependent on the number of cases performed.
- Inability to Attract New Physicians
  - Declining Physician Investor Pool
  - Existence of Alternatives for Physicians
  - Price Prohibited Cost for Investment
Health Care Facilities Sector
Revenue Growth

<table>
<thead>
<tr>
<th>Within</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare Sector</td>
<td># 2</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td># 8</td>
</tr>
</tbody>
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Revenue Growth Y/Y

chart by amCharts.com

12.20% 10.72% 10.09% 10.97%

4 Q 1 Q 2 Q Current
AmSurg Corp

- AmSurg provides ambulatory and physician services in the United States. The company operates through two divisions, Ambulatory Services and Physician Services. The Ambulatory Services division acquires, develops, and operates ASCs in partnership with physicians.
- Currently operating 256 ASCs.
- Revenue Growth of ~53% this year.
Tenet Healthcare Corp

- Tenet Health operates more in HOPD side of the ASC market.
- Acquired an ASC company recently (USPI).
- As of October 2, 2015, the company operated 87 general acute care hospitals, 19 short-stay surgical hospitals, and approximately 425 outpatient centers in the United States.
Surgical Care Affiliates, Inc.

- Surgical Care Affiliates operates 190 ASCs, and generates 1.5 billion in revenue.
- Generate some of their revenue from management of ASCs, with intent to potentially acquire them in the future.
Surgery Partners, Inc.

- Surgery Partners together with its subsidiaries, operates surgical facilities in the United States. Its surgical facilities include ambulatory surgery centers and surgical hospitals.
- SGRY had its IPO at the end of September. Their initial price per share was $19.
- Currently operate 136 ASCs.
Surgery Partners, Inc. (SGRY) 

18.93 +0.31 (+1.66%) NASDAQ - As of 4:00PM EST

- Open: 18.75
- Close: 18.93
- Low: 18.04
- High: 19.07
- Volume: 245.30K
- % Chg: -0.37%
HCA operates general, acute care hospitals that offer medical and surgical services, including inpatient care, intensive care, cardiac care, diagnostic, and emergency services; and outpatient services, such as outpatient surgery, laboratory, radiology, respiratory therapy, cardiology, and physical therapy services.

As of December 31, 2014, the company operated 166 hospitals, including 162 general acute care hospitals, 3 psychiatric hospitals with 396 licensed beds; and 1 rehabilitation hospital, as well as 113 freestanding surgery centers.
Universal Health Services, Inc., through its subsidiaries, owns and operates acute care hospitals, behavioral health centers, surgical hospitals, ambulatory surgery centers, and radiation oncology centers.

As of February 26, 2015, it owned and/or operated 24 acute care hospitals and 216 behavioral health centers.
Summary

- ASCs remain a very good area for investment despite decreasing numbers of surgeons and reimbursement rates.
- Although these macro factors are slowing ASC growth and harming ASC same-store growth, surgery centers are a true cost saver for Medicare and can be for private payers too.
- Movement of surgical procedures from hospital outpatient departments to ASCs reduces aggregate program spending because Medicare pays HOPDs substantially more than ASCs for the same services.
- There will likely continue to be mergers and acquisitions in this subcategory of Healthcare. As well as increased corporate ownership in ASCs.
- **Recommendations:** SRGY, SCAI, AMSG