White Paper

Six Key Insights for MedTech Companies Looking to Partner with Ambulatory Surgery Centers

Perspectives from ASC leaders

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Introduction

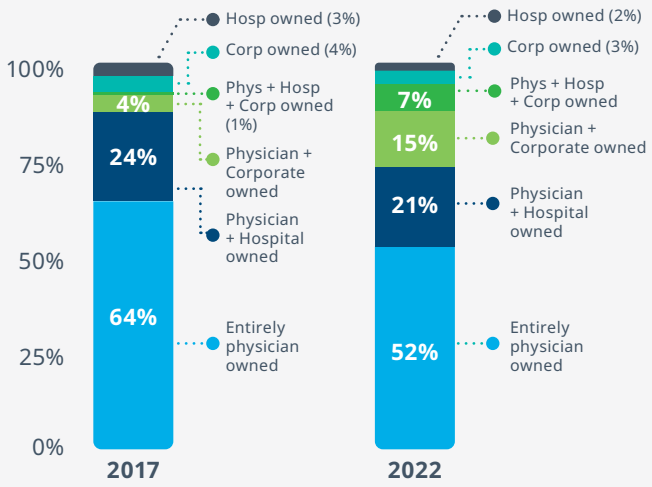
Ambulatory Surgery Centers (ASCs) have seen immense procedural and facility growth over the past decade, driving significant MedTech manufacturer focus on this care setting. The confluence of physicians looking to build financial equity, strategic investors seeking an expansion of their care delivery channels, and payers looking to steer their covered parties to lower-cost sites of care continues to drive quick evolution into this area.

In 2023, IQVIA MedTech published our perspective on strategies that MedTech companies can utilize to "win" in the ASC space. To build upon these strategies, we spoke with leaders in the industry, including physicians with an equity stake in an ASC, CEOs of hospital/physician joint venture ASCs, and development directors of ASC management companies, capturing in-depth perspectives from clinical and administrative leadership at both the local and corporate/investor level. In speaking with these leaders, six key insights emerged. This white paper will discuss each of these insights and provide guidance for MedTech organizations looking to partner with ASCs in the coming years.

1 Much of the day-to-day ASC facility management and strategic decision making remains at the local ASC level, despite strategic investors holding majority financial ownership.

Since 2017, ASC ownership structures have shifted, moving to more joint ventures. While physician-only owned entities still represent the majority of ASCs, they likely represent a much smaller percentage of the procedural volume as they have less organizational scale than hospital- or corporate-owned entities. Conversely, there has been significant growth in joint ventures between physicians and corporations as well as three-party ventures between physicians, hospitals, and corporations. The increase in joint ventures with hospitals and corporate entities speaks to the scale and operational expertise that is increasingly required for ASCs to become successful in their geographies. Physicians, once seeking an equity stake in ASCs to have more administrative and clinical control, are now partnering with hospitals and corporate entities that, although not occurring today, could threaten elements of that very autonomy in the future. Later in this piece, we will discuss the implications of these financial partnerships.

Percent ownership type across ASC entities



Important note: The percent distribution of ASC entities likely does not mirror the percent distribution of ASC procedure volume, as large hospital or corporate-owned ASCs are more likely to have greater organizational scale.

Source: Beckers ASC

> "The partnership has a self-governance model with a medical executive committee. While we have a majority control on the financial entity itself and the responsibility towards the debt, we do want our physicians to have active stewardship of the business operations."
>
> — VP of Operations for an ASC management company

When ownership is split between physicians and a strategic investor, it is not quite an equal 50/50 relationship, though all parties continue to maintain meaningful equity to ensure proper organizational alignment. 50.1% hospital or corporate to 49.9% physician ownership relationships are more common, with the institutional partner taking a majority stake to hold the ultimate control over decision making while preserving financial incentives for physicians. The ASC leaders we spoke with were quick to note that there is significant meaningful intention placed on achieving an equity split that leaves all parties financially engaged in making the ASC a success.

> "Decisions are made locally; I (corporate) bring in data from other centers that helps in local decision making."
>
> — VP of Development for an ASC management company

Despite strategic investors' ability to supersede physicians' preferences in operating decisions, both parties indicate that physicians hold significant power and retain decision making at the local level. ASCs remain self-governing organizations, not limited, constrained, or dictated to by large corporate entities to drive decision making solely by the bottom line.

> "The model is that they are owners and have control and somewhat of a strong voice in the execution of vision of that center. We (corporate) are there to support and execute along with them."
>
> — VP of Operations for an ASC management company

One of the key drivers of the remaining local ASC control is competition over the pool of available physicians (see Insight five). ASCs recognize that physicians have options when it comes to their procedural work, particularly in urban geographies where there are multiple ASCs for physicians to choose from. As a result, ASCs are inclined to let physicians drive day-to-day decisions, including MedTech purchases, as a means of attracting and retaining talent. In addition to recruiting new physicians, physician retention is also a concern as physicians have shown a willingness to move if their needs (clinical, technological, economic) are not met. Therefore, ASC decision making often capitulates to physicians' demands in the name of physician retention. Lastly, ASCs are concerned with the increasing trend of full-time physician employment, which ultimately precludes physicians from joining ASCs not affiliated with their hospital or system. This reduction in an already competitive talent market further retains the locus of power and decision-making at the local level.

2 Despite reimbursement and medical supply pressures, ASCs do not appear focused on MedTech pricing as a primary cost control measure.

On average, payments for procedures[1] conducted in an ASC are about 50% of the rate given to hospital outpatient departments (HOPDs) conducting the exact same procedures. While payers may correctly assume that there is less overhead in an ASC than an HOPD, and therefore, a lower reimbursement is warranted, this payment differential leaves little room for ASCs to absorb the rising costs seen in healthcare, particularly during and after the initial waves of the COVID-19 pandemic. ASC administrators report that medical supply costs are rising, in some cases from 20% of revenue to 40% of revenue. Additionally, wages are increasing in a time when inflation is high and the talent pool across many key roles is competitive. One of the most critical examples is anesthesiology, which has emerged as an

[1] Regent Surgical Health. HOPD to ASC Conversion: Now or Later with Transition to Value-Based Care. 2018.

area of tight labor competition. This is compounded by reimbursement cuts for anesthesia services that have negatively affected ASCs' ability to contract with anesthesia providers. In a positive development for ASC finances, CMS issued a 3.1% increased for all reimbursable services in the ASC and indicated it will continue to mirror reimbursement increases between ASCs and HOPDs.

While much of the current dialogue in the MedTech industry focuses on pricing pressures and the need for medical supply costs to decrease, the industry leaders who spoke with IQVIA MedTech did not list MedTech pricing as a key area of focus to drive organizational success. Interestingly, many countervailing trends appear to diminish the focus on MedTech prices.

First, ASCs are sensitive to anything that might suggest that they would deliver lower quality care, given the competitiveness of ASCs in their geography. ASC leadership understands that quality care requires the right tools and are hesitant to cut corners that may ultimately compromise patient outcomes or even create the perception of putting financial health in any way over patient health. As a result, devices that can articulate a value proposition based on clinical benefits may be partially insulated from pricing pressures (see Insight four for additional discussion of quality metrics in ASCs).

Second, oftentimes physician preference overcomes pricing concerns, particularly for medical technology that is directly used by the physician. For example, a particular knee or shoulder implant and accompanying instrument set will likely receive significantly less pricing scrutiny because it directly affects the physicians' procedural experience. Conversely, other capital equipment like beds or IV pumps may be less insulated from pricing pressures, as they are less likely to be protected by physicians' preferences. Thus, for firms that have both capital equipment and physician-utilized technology, bundling these purchases together will likely serve to insulate some risk to capital equipment pricing erosion.

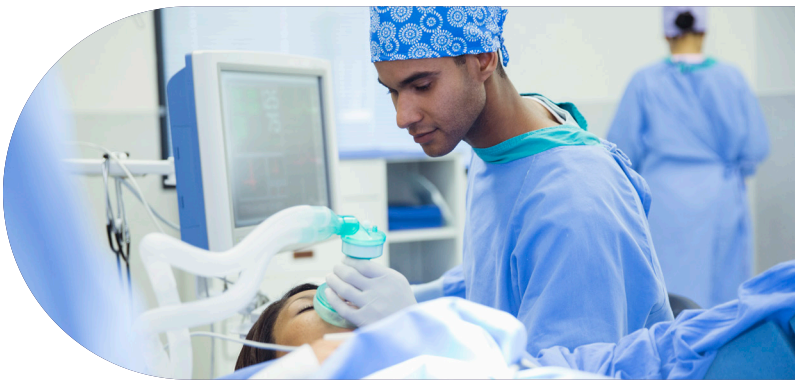
Although ASC leaders do not expect to be aggressive in demanding MedTech pricing discounts, when discussing services that they would value from their vendor partners, they express interest in achieving mutually beneficial pricing, such as:

Crediting capital equipment purchases towards implant volume rebates.

Offering procedure-based pricing ("construct pricing") to reduce cost variability

With companies like Stryker offering robust ASC services for de novo practices (including financing), we were surprised that these ASC stakeholders did not indicate that manufacturer-provided financing is a meaningful or differentiated offering. For many ASCs that are aligned with larger organizations, access to capital — when the purchase is justified — does not appear to be of major concern.

> "The delicate line we always have to walk is that ASC doesn't equal lower quality. We maintain the quality of care but through efficiencies and economy of scale, we are able to be more productive."
>
> — Orthopedic surgeon and ASC owner



> We can have an extremely valuable, durable, single-specialty ophthalmology center or GI center. That center is not necessarily going to have as high of a margin, but it is an extremely durable, predictable, valuable business.

— VP of Operations for a strategic ASC investor

3 Strategic investors and partners, like ASC management companies, look to invest in procedure areas that provide durable growth, not just high margins.

Similar to strategic investors (i.e., payers or hospitals), ASC management companies often take a majority financial equity stake in an ASC and provide a range of administrative and strategic services. Given their organizational scale and geographic breadth, it may be expected that these stakeholders care primarily about immediate and short-term margins. While margins are and will continue to be critical, ASC management company leaders articulate three key drivers of interest in their diligence of ASC investments.

> Maybe the multi-specialty spine and ortho location is going to have higher margin, but it might not be as durable because it is concentrated with a few physicians or concentrated with a few services that can have drastically varied reimbursement over time.

— VP of Operations for a strategic ASC investor

First, the durability of the market is critical. Here, they evaluate the extent to which the clinical area and associated procedures have high volumes and a reliable patient base. For example, gastroenterology and ophthalmology procedures may not have high margins, but these clinical areas have high volume and are extremely reliable and durable to otherwise volatile market conditions facing healthcare in recent years.

Second, future growth is also an important consideration when evaluating ASC partnership in specific clinical areas. Orthopedics and ENT have experienced significant growth in the past five years, and as a result, management companies are increasingly interested in partnering in these clinical areas.

Third, management seeks clinical areas characterized by steady reimbursement. Even in the face of smaller margins, if a clinical area is specialized and has reliably consistent historical reimbursement, it will be prioritized over higher margin procedures with more volatile reimbursement patterns.

4 Quality has been tightly self-governed, but CMS is starting to monitor ASCs more closely.

One common theme among ASC leaders is their focus on clinical quality. They perceive patient satisfaction and quality as intertwined and crucial to their business model that survives on referred patient volumes. Creating and maintaining trust from potential referrers in their community (either within their system or from outside their system) is critical to maintaining a healthy referral pipeline. ASC leaders are also quick to note that they are wary of their facilities being misperceived as prioritizing cost over quality and believe that those misperceptions would ultimately make them less competitive against hospitals and other ASCs in their geography.

Although clinical quality has been a key metric for ASCs to track internally, regulatory changes are also surfacing to solidify and codify clinical quality. CMS has made substantial changes to the quality measures in the Ambulatory Surgical Center Quality Reporting Program, which resulted in CMS tracking 12 mandatory quality measures (plus one voluntary measure) in 2023 to determine ASC payments in 2025. The same measures will be tracked in 2024 and are expected to be utilized moving forward.[2] For MedTech manufacturers, awareness of and creation of value in support of these quality metrics will likely drive additional interest in their product and service portfolios.

> “If I want to use a device but its cost causes a case to have a margin of only $500, that case is not viable at the ASC. At that time point, then you have to move that case to an acute site of service such as an HOPD.”
>
> — Orthopedic surgeon and ASC Owner

> “Measurement of quality outcomes and clinical excellence is an extremely active and disciplined part of what we do.”
>
> — VP of Development for an ASC management company

[2] CMS – Ambulatory Surgical Center Quality Reporting Final Rule

Quality metric	2024 status
Patient burn	Mandatory
Patient fall	Mandatory
Wrong site, wrong side, wrong patient, wrong procedure, and wrong implant	Mandatory
Endoscopy and polyp surveillance: Appropriate follow-up interval for normal colonoscopy in average risk patients	Mandatory
Facility seven-day risk-standardized hospital visit rate after outpatient colonoscopy	Mandatory
Normothermia outcome	Mandatory
Unplanned anterior vitrectomy	Mandatory
Hospital visits after orthopedic ASC procedures	Mandatory
Hospital visits after urology ASC procedures	Mandatory
Facility-level seven-day hospital visits after general surgery procedures performed at ASCs	Mandatory
COVID-19 vaccination coverage among health care personnel	Mandatory
Outpatient and ambulatory surgery consumer assessment of healthcare providers and systems (OAS CAHPS) survey measures	Voluntary and shifting to mandatory in CY2025

Source: Ambulatory Surgery Center Association[3]

[3] Ambulatory Surgery Center Association. "ASC Quality Reporting Program."

5 Future ASC market growth may be limited by labor shortages as well as demand for ASCs to treat more complex cases.

Healthcare workers, in general, are in short supply. About 150,000 left the field between 2021 and 2022.[4] For ASCs, key categories of labor shortages include anesthesia, surgical techs, sterile processing staff, and revenue cycle management. ASC leaders cite these labor shortages and retention concerns as one of their key areas of concern in strategic planning and the future growth of their organizations. Administration is actively seeking strategies to overcome these issues including offering non-compensatory benefits to staff. One strategy being tested is the utilization of work-from-home providers who would be able to provide virtual follow-up care. The effectiveness of this strategy remains to be seen, as most of an ASC's revenue-driving care is provided in person.

Additionally, as echoed at the 2023 AdvaMed conference,[5] the long-term growth of the ASC market may be limited once "easy" segments become fully penetrated. To date, ASCs have grown by capturing the procedures and the patients that are best suited for that setting. These procedures tend to be lower-risk and more straightforward, as well as performed in patients who are healthier and have access to care and support to recover at home.

However, with the rate of growth and the procedural scales in ASCs, eventually growth from these "easy" clinical areas and patient segments will be exhausted. The industry will need to evaluate and determine the appropriateness and the ability for ASCs to expand into more complex clinical areas and to more severe patient populations, including patients with more limited resources and support (e.g., limited caregiver capability, restricted access to transportation, and other burdens, which may include patients who require the ASC to provide some degree of at-home care).

If the market eventually pursues these types of patients, ASCs may find it challenging to accurately identify patients with additional care requirements and match those needs in a cost-effective approach, leading to some degree of risk. Coupled with the increased formalization of quality metrics discussed previously in Insight four, the increased clinical complexity of patients treated in ASCs may create organizational and reimbursement risk.

> "The cost-side obstacles that we are running up against are staffing. Anesthesia staffing, nursing staffing. Sterile Processing Department (SPD) is a big burden. Retention of those people is a big burden with a lot of nurses leaving and going into traveler pools and travelers really being too expensive for the ASC as an effective means of staffing."
>
> — Orthopedic surgeon and ASC owner

[4] Becker's ASC Review

[5] 2023 AdvaMed Conference. Session Title: "Drive Optimal Care Quality as Care Setting Shifts"

6 ASCs rely on and demand high-touch vendor support, particularly for clinical case days.

Although MedTech pricing is not a key driver of decision making, ASC leaders consistently report that sales representative and clinical case support is a compelling value driver. Vendors who provide high-quality service differentiate and ingrain themselves into an ASC team, making them indispensable. ASC leaders define high quality service in four ways:

Clinical support
Supporting the physician through case planning, basic site logistics, and in some cases, supporting interactions with patients' caregivers.

Reliable delivery
For procedures in which product is not inventoried or there is an uncommon size, the ASC can rely on the representative to deliver equipment and supplies promptly, eliminating any potential delays.

Troubleshooting
Providing technical support to minimize procedure delays due to any issues that arise using the company's medical technology.

General ASC service
Offering support that reduces administrative or clinical burden on the staff (e.g., pulling inventory ahead of cases, supporting claims issues, or supporting reorders).

> "Total joints, over the past five or six years, have been the hot specialty that has really shifted to the outpatient setting. We're seeing our total joint volume grow significantly."
>
> — VP of Development for an ASC management company

> "Let's say in a GI suite, having an Olympus rep around when you're going full throttle at the end of the year and everybody's on low gas, just having that extra support to constantly troubleshoot is huge. There are things that can go wrong with the equipment, the instruments, disposables, whatever. Just stepping in. Not necessarily with the patient, but with the caregivers and saying, What else can I do? I'll help get these scopes to the clean room. Let me see why your picture quality is low after you just did 500. Just noticing the little intricacies of the efficiencies of the procedure style is huge. If you have good reps and good manufacturing relationships, they understand these physicians as well as we do."
>
> — CEO of multi-specialty ASC network

The ASC market appears to be more physician-driven than hospitals; although financial ownership increasingly resides at the corporate and hospital level, decision making is being retained at the local level (see Insight one), and clinical preferences and value propositions appear to be winning out. This window of opportunity presents a significant opportunity for MedTech manufacturers to build loyal physician champions that can integrate preferred products into their ASCs while not facing significant risks to price erosion — at least not yet.

The ASC market will continue to evolve, and as it does, the majority shareholders of ASCs may decide to wield more day-to-day decision-making power with a greater emphasis on economic and operational returns, impacting MedTech price pressures and commercial value propositions, akin to the current needs articulated by hospitals. But for now, MedTech manufacturers should continue to engage ASCs at the local level by engaging with physician champions and empowering them to fight for technology that delivers differentiated clinical value.

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