



Performance, Efficiency, Achievement, Knowledge

## Spine ASC Development Concept Through Delivery

June 12, 2015

13th Annual Meeting – Spine, Orthopedic and Pain Management  
Driven ASC Conference + The Future of Spine  
Kenny Hancock, President and Chief Development Officer  
Meridian Surgical Partners

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## Spine ASC - The Market Drivers

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## Market Drivers – Spine ASCs

### Minimally Invasive "Mindset"

- > Physicians
- > Patients – internet search "Minimally Invasive"
- > Industry – less invasive technology

### Technology

- > Surgical - implants, instruments and techniques

### Anesthesia

- > Ability to eliminate nausea
- > Pain control

### Post-surgical Recovery Options

- > Skilled facilities
- > Home care

### Insurance Company Acceptance

- > Safe to perform in an ASC setting
- > Superior environment & less expensive than the hospital alternative
- > High quality patient outcomes

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## Migration of Spine to ASC

**Spine Surgery Shift to Outpatient**

- > 2015 Shift of Spine to ASCs – 45%
- > Driven by Technology, Anesthesia, Physician Mindset and Insurance Acceptance
- > Insight from Spine Investments – MSP

Spine Surgery	2005	2010	2015	CAGR
Inpatient	523,219	417,700	348,150	-4.3%
Outpatient	32,559	179,044	284,850	26.3%
<b>Total</b>	<b>551,888</b>	<b>596,814</b>	<b>633,000</b>	<b>1.4%</b>
% Outpatient	5.0%	30.0%	45.0%	

Source: NeuroQuest Inc. 2005

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## The Essentials for Success

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## The BIG Idea...where do you go from here?

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## Develop a Detailed Business Plan

Detailed Business Analysis

- > Project Scope
- > Surgical Case Volume & Mix
- > Financial Analysis and Plan
- > Partnership Structure
- > Reimbursement - Managed Care Strategy
- > Equipment Plan
- > Operations Plan

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## Financial Analysis

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## Project Scope

Determine the **Scope** of the Project  
The **Scope** Determines the **Cost**  
The **Cost** Determines the **Investment**

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    graph TD
      Scope[Scope] --> Cost[Cost]
      Cost --> Investment[Investment]
      CaseVolume[Case Volume] --> WorkingCapital[Working Capital]
      CaseVolume --> PreOpening[Pre-Opening Expenses]
      CaseVolume --> Construction[Construction Cost]
      SpecialtyMix[Specialty Mix] --> Construction
      SpecialtyMix --> Equipment[Equipment Costs]
      NumPhys[Number of Physicians] --> CaseVolume
      NumPhys --> SpecialtyMix
      NumOR[Number of ORs/Pre-Post] --> Construction
      NumOR --> Equipment
      SquareFootage[Square Footage] --> Construction
      SquareFootage --> Equipment
      WorkingCapital --> Equity[Equity]
      PreOpening --> Equity
      Construction --> Debt[Debt]
      Equipment --> Debt
  
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## Summary Financial Analysis

### Surgical Case Analysis

- Determine **Volume**
  - Complete case data worksheets
  - Discount case volumes
- Determine **Reimbursement** per case
  - Market Specific
- Determine **Revenue**
  - Volume times Reimbursement
- Use historical cost to build financial model

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## Determine Volume by CPT Codes - Spine

CPT	Description	Case 2013	Case 2014	Case 2015	ASC Case Rate
63020	Neck spine disk surgery				\$ 3,000.00
63030	Low back disk surgery				\$ 3,000.00
63075	Neck spine disk surgery				\$ 3,000.00
63045	Removal of spinal lamina				\$ 3,000.00
63047	Removal of spinal lamina				\$ 3,000.00
63048	Removal of spinal lamina				\$ 3,000.00
63040	Laminotomy, single cervical				\$ 3,000.00
63042	Laminotomy, single lumbar				\$ 3,000.00
63061	Remove vert body dumpin crnd				\$ 3,000.00
63060	Remove vert body dumpin lmb				\$ 3,000.00
22520	Perical vertebroplasty thor				\$ 3,000.00
22521	Perical vertebroplasty lumb				\$ 3,000.00
22523	Perical kyphoplasty thor				\$ 3,000.00
22524	Perical kyphoplasty lumb				\$ 3,000.00
22856	Cervical diskectomy				\$ 12,000.00
22551	ACDF - Neck spine fuse&remov bel c2 - Level 1				\$ 10,500.00
22552	ACDF -cerv neck spine fusion - Level 2+				\$ 14,000.00
22558	ALIF - Lumbar spine fusion - Level 1				\$ 30,000.00
22555	ALIF - Additional spinal fusion - Level 2+				\$ 30,000.00
22512/22554	ALIF/PLIF - Lumbar spine fusion - Level 1				\$ 30,000.00
22512/22555	ALIF/PLIF - Spine fusion extra segment - Level 2+				\$ 30,000.00
22630	PLIF/TLIF - Lumbar spine fusion - Level 1				\$ 18,500.00
22632	PLIF/TLIF - Spine fusion extra segment - Level 2+				\$ 24,500.00
22633	PLIF/TLIF 360 - Lumbar spine fusion combined - Level 1				\$ 18,500.00
22634	PLIF/TLIF 360 - Spine fusion extra segment - Level 2+				\$ 24,500.00
22672	PLIF - Lumbar spine fusion - Level 1				\$ 18,500.00
22674	PLIF - Spine fusion extra segment - Level 2+				\$ 24,500.00
	avg per month	0	0	0	

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## Determine Volume by CPT Codes - Pain

CPT	Description	Case 2013	Case 2014	Case 2015	ASC Case Rate
62921	Percutaneous arthroscopy, 1 vertebral body, unilateral or bilateral injection; lumbar				\$ 475.00
27096	Injection Sacrospin ligament				\$ 675.00
62920	Lumbar discography Injection				\$ 675.00
62929	Cervical discography Injection				\$ 675.00
62918	Epidural Injection Cervical-Thoracic				\$ 675.00
62917	Epidural Injection Lumbar-Sacral				\$ 675.00
62919	Injection(s), including indwelling catheter placement, continuous infusion or intermittent bolus, of diagnostic or therapeutic substance(s) includes contrast for localization when performed, epidural or subarachnoid; lumbar or sacral (caudad)				\$ 675.00
63960	Implantation, revision or repositioning of tunneled intrathecal or epidural catheter, for long-term medication administration (as an external pump or implantable reservoir/infusion pump; without laminectomy)				\$ 5,500.00
63963	Revision including replacement, when performed, of spinal neurostimulator electrode percutaneous array(s), including revision or replacement of spinal neurostimulator pulse generator or receiver, direct or indirect coupling				\$ 3,000.00
64427	Injection, anesthetic agent, interscalene nerves, multiple, regional block				\$ 675.00
64473	Injection fluoroscopy-guided/cervical, thoracic				\$ 675.00
64483	Injection(s), anesthetic agent and/or steroid, transforaminal epidural, with imaging guidance (fluoroscopy or CT); lumbar or sacral, single level				\$ 675.00
64490	Injection(s), diagnostic or therapeutic agent, paravertebral facet (zygapophysial) joint (or nerves innervating that joint) with imaging guidance (fluoroscopy or CT); cervical or thoracic; single level				\$ 675.00
64493	Injection(s), diagnostic or therapeutic agent, paravertebral facet (zygapophysial) joint (or nerves innervating that joint) with imaging guidance (fluoroscopy or CT); lumbar or sacral; single level				\$ 675.00
64501	Injection, anesthetic agent; unilateral (paravertebral sympathetic)				\$ 675.00
64502	Injection, anesthetic agent; lumbar or thoracic (paravertebral sympathetic)				\$ 675.00
64632	Destruction by neurolytic agent, paravertebral facet joint (nerve), with imaging guidance (fluoroscopy or CT); cervical or thoracic; single facet joint				\$ 900.00
64633	Destruction by neurolytic agent, paravertebral facet joint (nerve), with imaging guidance (fluoroscopy or CT); lumbar or sacral; single facet joint				\$ 900.00
	Totals	0	0	0	
	avg per month	0	0	0	

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## Summary Financial Analysis

### Net Revenue Determination – Spine Surgery

NeuroSpine - Surgeon 1			
CPT	Description	Rev/Case	Cases Net Revenue
63000	Cervical Disc Foraminotomy/Poist	\$1,996	0 50
63045	Cervical Laminectomy	5,993	22 131,835
22524	Thoracic Kyphoplasty	3,380	0 0
22924	Lumbar Kyphoplasty	3,380	2 6,759
63000	Lumbar Laminectomy / Micro Discectomy	4,796	11 52,315
63047	Decompressive Lumbar Laminectomy	5,195	100 521,477
22568	AUI/PLIF	19,937	71 1,413,035
22630	PLIF	18,755	12 218,808
63042	Laminotomy	4,286	5 21,430
63056	Transpedicular approach with decompression of spinal	5,195	40 207,819
22554	ACDF - 2/555	28,221	62 1,759,109
22850	1 level hardware removal	4,805	7 33,634
22852	2 or more levels hardware removal	4,288	0 0
22856	Artificial Disc re placement	6,437	5 32,183
Totals			337 54,396,054
Net revenue per case - surgeon 1			\$163,056

NeuroSpine - Surgeon 2			
CPT	Description	Rev/Case	Cases Net Revenue
Net revenue per case - surgeon 2			\$8,963
<b>Total blended net revenue per case</b>			<b>\$172,019</b>

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## Summary Financial Analysis

Construct a free cash flow analysis to view the opportunity from a realistic, albeit conservative, set of assumptions

### Free Cash Flow Analysis

These assumptions include:

- Case count
- Reimbursement
- Supply cost
- FTE count
- Other operating
- Capital expenditures
- Working capital and debt service

Free Cash Flow	Year 1	Year 2	Year 3	Year 4	Year 5
Net Revenue	3,533	5,430	5,979	5,731	5,887
Salaries and Benefits	798	988	1,023	1,059	1,094
Medical Supplies	1,038	1,580	1,812	1,645	1,678
Rent Expenses	307	314	324	334	344
Insurance	70	72	74	75	77
Management Fee	212	208	205	204	203
Other Operating	345	431	448	454	467
EBITDA	798	1,717	1,763	1,818	1,879
Dep Service	(255)	(480)	(480)	(480)	(480)
Capital Expenditures	-	(14)	(21)	(29)	(38)
Change in Working Capital	(98)	(279)	(20)	(21)	(21)
Free Cash Flow	(120)	938	1,238	1,283	1,327

Per Case Data	Year 1	Year 2	Year 3	Year 4	Year 5
Case Volume	1,823	2,788	2,783	2,821	2,869
Revenue	1,928	1,964	1,987	2,021	2,066
Salaries and Benefits	430	357	369	375	385
Medical Supplies	568	571	577	583	589

Percent of Revenue	Year 1	Year 2	Year 3	Year 4	Year 5
Salaries and Benefits	21.7%	18.2%	18.3%	18.5%	18.6%
Medical Supplies	29.2%	29.1%	28.9%	28.7%	28.5%
Rent	8.1%	5.8%	5.8%	5.9%	5.9%
EBITDA	22.8%	31.6%	31.6%	31.7%	31.8%

Distribution Analysis	Year 1	Year 2	Year 3	Year 4	Year 5
Free Cash Flow	(120)	938	1,238	1,283	1,327
Beginning Cash Balance	1,287	150	150	150	150
Maximum Cash Balance	(150)	(150)	(150)	(150)	(150)
Distributions	992	988	1,238	1,283	1,327

Single Investor Returns Analysis	Year 1	Year 2	Year 3	Year 4	Year 5	
Investor CashFlow	(1,500)	992	988	1,238	1,283	1,327
Annual Return	68.1%	65.9%	62.4%	65.5%	68.9%	
Cumulative Return	-33.0%	32.0%	114.4%	199.9%	288.4%	

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## Spine ASC & Real Estate Partnership Structure

## Partnership Structure



### Real Estate Partnership

- > Separate partnership is usually formed
- > RE partnership captures land purchase, site, utilities, fees & permits, shell building and tenant construction allowance
- > Includes physicians from the ASC partnership
- > Investment:
  - Land (\$6.50 to \$14.00/sf) - 1.54 acres (\$436-\$939k)
  - Site Improvements/AE/soft costs - (\$30/sf)
  - Building Shell (\$100 to \$110/sf)
  - TI construction cost allowance (\$45/sf)
- > Investment Thesis:
  - 15 year lease term with personal guarantees (5-7yrs)
  - Total investment: \$3.55mm - \$236 sf. (MOB w/ASC)
    - o Equity: 30% (\$1.05mm)
    - o Debt: 70% (\$2.5mm)
    - o Guarantees pro-rata
  - Cash-on-cash returns - 14% to 20% over 15 year term

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## Partnership Structure



### Surgery Center Partnership

- > ASC partnership
- > Physician owners + management partner
- > Investment includes:
  - \$300 sf.
  - Interior construction cost
    - o \$1.35mm (\$145/sf)
    - o TI allowance - \$45/sf - (\$419k) (RE provides)
  - Equipment (\$1.4mm)
  - Working capital (\$1.5mm)
- > Investment Thesis:
  - Total investment: \$4.25mm
  - Equity: \$1.5mm - 1% pro-rata \$15K
  - Debt: \$2.75mm
  - Guarantees -1% pro-rata - \$27.5k
  - 15 year lease term
  - Cash-on-cash returns 40% +

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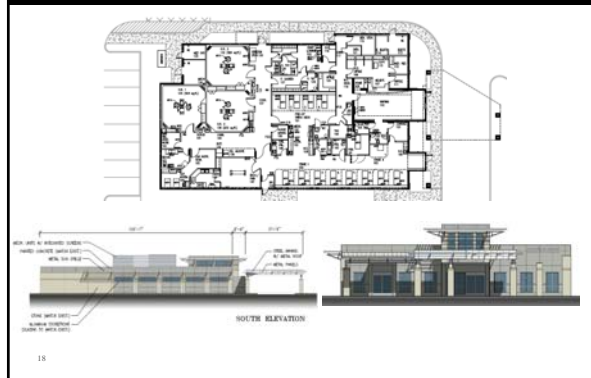
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## Planning - Schematics



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## Spine Ambulatory Surgical Center



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## What Must be Considered?

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## Reimbursement – Make Sure You Get Paid!

### Reimbursement

- Getting paid is a critical step in the business plan
- Most spine procedures are not approved by Medicare
  - Procedures were by MC for 2015
- Must convince the insurance company these procedures are safe in an ASC
- Some insurance companies are beginning to develop ASC fee schedules for spine
- This is a negotiation between the ASC and insurance companies
- Becomes a major problem if OON is prohibited – and you can't get a contract

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## Implant Cost

### Implant Costs

- > Addressing implant cost is essential
- > Negotiate carve-outs
- > Having solid cost data is important when negotiating with the payors
- > Off-load implant cost to a third-party company



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## Equipment Considerations

### Equipment Costs

- > Hire an experienced equipment planner to assist
- > Expense – up to \$700-\$1mm per operating room
  - Microscope - \$80-120k
  - C-arm - \$150k
  - Drill set - \$30,000
  - Spine instrument trays – cervical and lumbar \$50k+
  - Lumbar table \$75-100k



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## Operations – Staffing

### Staffing

- > Hire a staff that has spine/TJR experience
- > Hire a staff that has worked with your surgeons
- > Understanding the challenges and needs of the patients pre and post-operatively will make a significant difference in success out of the gate



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## Operations – Patient Discharge Plan

**Skilled Nursing**

- Discharge patient to rapid recovery center
  - Hotel-like amenities
  - Licensed as a skilled or immediate care facility
  - Transportation
  - Pain protocol developed
  - Physical therapy plan developed

**Home Care**

- Develop a program with Home Care
  - Patient plan after discharge to home
  - Pain protocol developed
  - Physical therapy plan developed
- Develop a process that produces high patient satisfaction

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## Rapid Recovery



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## Summary

**Spine Surgeons are evaluating opportunities to develop/join ASCs**

- Driven by desire to control their surgical environment
- Increase productivity, simplify their lives
- No change in what you do --- just where you do it
- Incremental cash flow – increase their income

**Advancements in technology drive Spine into an outpatient setting**

- MIS product and instrument design
- Improvements in anesthesia and pain control
- Evolution of surgeon acceptance and comfort in an outpatient setting

**Planning is essential for a successful outcome**

- Careful business plan development is critical
- Seek assistance from professionals with specific experience

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Thank You!

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