

L.E.K. ASC Insights Study

MedTech Publication Deck

February 2024

These materials are intended to supplement a discussion with L.E.K. Consulting. These perspectives will, therefore, only be meaningful to those in attendance. The contents of the materials are confidential and subject to obligations of non-disclosure. Your attention is drawn to the full disclaimer contained in this document.



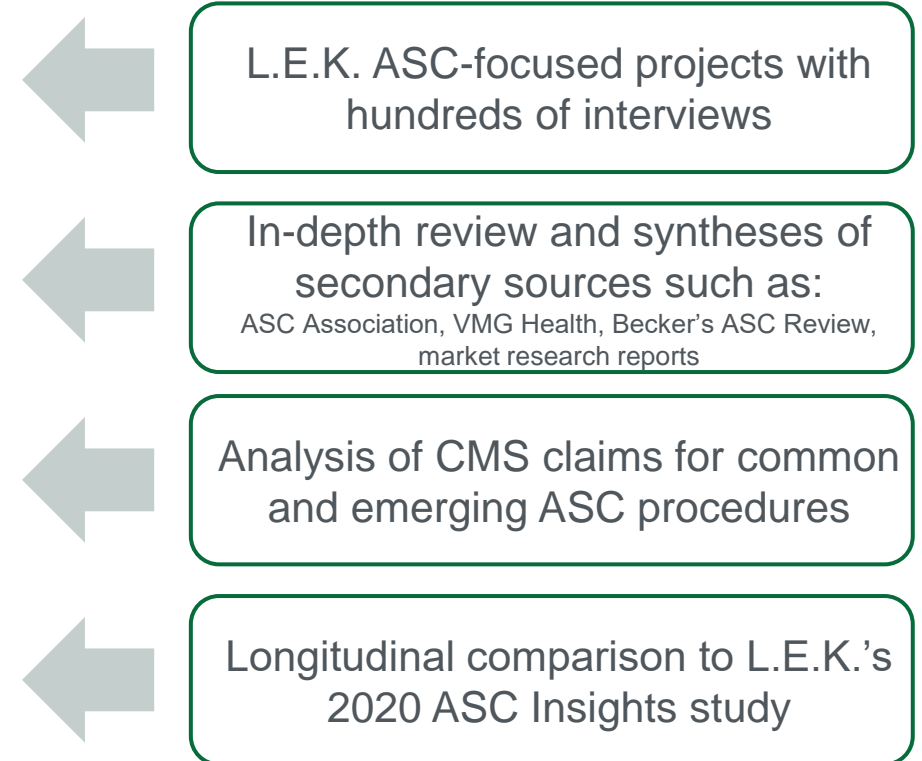
L.E.K. Consulting presents the 2024 ASC Insights Study

~150 respondent survey

- ~80% physicians / medical directors, ~20% admins / nurses
- ~80% multi-specialty, ~20% single-specialty
- Representative mix of physician-, hospital-, and management-owned ASCs
- Mix of geographies, indexed to regional locations of ASCs



Additional L.E.K. IP and resources

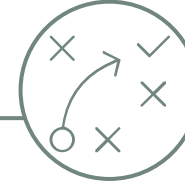


ASCs are becoming an increasingly important part of the provider landscape and offer large potential, but require tailored strategies given different clinical, economic, and decision-making dynamics



ASCs are becoming a more meaningful portion of the market and growing strongly

- ASC related revenues and spending growing strongly at 6-8% p.a. overall
- Relatively higher growth expected within high-spend specialties like spine and cardiovascular
- Health systems / hospitals increasingly investing in ASCs




ASCs present an attractive opportunity, but require tailored strategies

- Diverse and distributed network of smaller-sized call points vs. the hospital setting
- Higher price sensitivity with discount expectations
- High variation in ASC segments with different needs, behaviors from hospital customers

Learning how to succeed in the ASC setting is becoming increasingly critical for MedTechs

Six key themes have emerged from the 2024 ASC Insights Study, reflecting how ASCs have advanced as customers and how MedTechs can better support the evolving ASC landscape

- 1 ASC segmentation:** The ASC market is diverse, with a range of key archetypes based on ownership (i.e., 100% physician-owned, hospital-owned, management company-owned) and specialty of focus (i.e., multi- vs. single-specialty)
 - 2 Robust market growth:** ASC revenue is expected to grow ~6-8% p.a. through 2027, driven by increasing procedure volumes and reimbursement rates, increased ASC spending, and a mix-shift towards higher value procedures; pockets of higher growth are expected in emerging specialties
 - 3 Increased professionalization:** ASCs remain heterogeneous in their purchasing attitudes, but have made operational improvements and are becoming more professionalized as they scale, with some differences by ownership structure
 - 4 Strategic priorities:** While quality of care, staffing, and basic operations are key table stakes priorities, ASCs are also focused on expansion to new physicians, procedures, payer networks, and specialties as they continue to mature
 - 5 MedTech partnerships and offerings:** Many ASCs are seeking closer partnerships with MedTechs who can help them deliver on their clinical and economic objectives, including contracting (and support) models that are more aligned to ASC settings
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- 6 Developing a winning ASC strategy:** ASCs have historically been a challenging (and deprioritized) customer segment for MedTechs, but require sufficient attention and tailored approaches as they become an increasingly important portion of the market

The ASC market is highly diverse with a few key customer archetypes that influence their purchasing attitudes and behaviors

1

ASC segmentation by ownership and specialty, with example ASCs



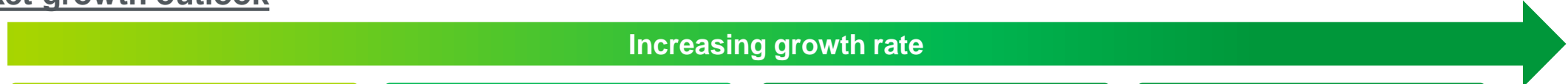
- ASCs are outpatient facilities where routine surgical procedures are performed, often in a more cost-effective and convenient environment than hospitals and HOPDs
- Hospitals have been investing more in ASCs, with partial or full hospital ownership growing from ~20% to ~30% of ASCs in the past decade
- Multi- and single-specialty ASCs tend to operate similarly within an institutional ownership or affiliation (i.e., hospital or corporate / mgmt.)
- However, 100% physician-owned have different behaviors and attributes across multi- and single-specialty focus

Note: * Only ~2% of ASCs are 100% hospital-owned, with the remaining ~28% only partially owned by hospitals (as of 2021), and ~7% are joint owned by physicians, hospitals, and corporate / management companies
 Source: OR Manager; Beckers ASC; Avanza; ASC Market Trends Report; ASCdata; L.E.K. ASC Survey, research, and analysis

The ASC market has a robust growth outlook, with revenue and spend expected to increase ~6-8% p.a. through 2027, with pockets of higher growth in higher value ASC specialties

2

U.S. ASC market growth outlook

		Increasing growth rate 			
		Facility volume*	Procedure volume	ASC revenue	ASC spend
Market size	2023	~6.2K	~25-30M	~\$40B	Not quantified
	2027	~6.5K	~30-35M	~\$50B	Not quantified
CAGR%	19-23	~1.5%	~1-3%	~6-7%	Not quantified
	23-27F	~1-3%	~3-5%	~6-8%	~6-8%
CAGR%** 23-27F for emerging, high-spend specialties^		Not quantified	~6-9%	~9-12%	~9-12%
Growth drivers		<ul style="list-style-type: none"> Continued investment by hospitals and management companies Removal of laws regulating establishment of new facilities in many states 	<ul style="list-style-type: none"> Facility volume growth Higher case volume per OR 	<ul style="list-style-type: none"> Procedure volume growth Increased reimbursement rates Mix shift to higher-value procedures 	<ul style="list-style-type: none"> Procedure volume growth ASC spending increase expectations Growth in higher-value, complex procedures that require more expensive equipment and devices
Key sources		CMS; ASCdata	LSI; CMS; ASCA; L.E.K. survey	Databridge Market Research; Grand View Research; Business Wire	L.E.K. research and IP

These growth rates contrast with those of hospitals, which are experiencing flat to declining numbers of staffed beds and declining number of inpatient days / patient admissions

ASC procedure volumes are ~35% of total procedure volumes in relevant specialties^^ across all settings in 2023, expected to reach ~40% in 2027

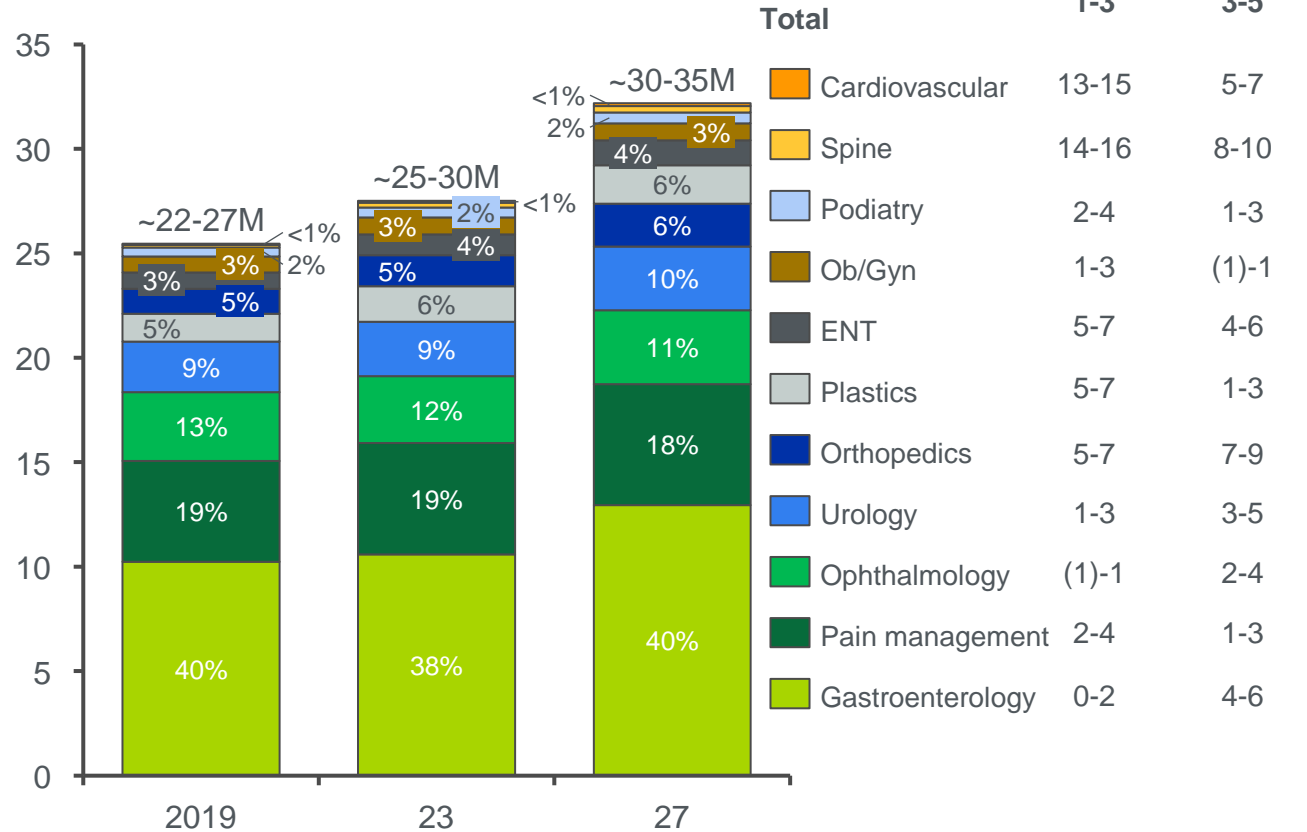
Note: * Only includes Medicare-certified ASCs; there are an additional 3,000-4,000 non-Medicare-certified ASCs in the U.S. today; ** Represents a range across specialties, not the CAGR range for each specialty; ^ Emerging, high-spend specialties includes cardiovascular, spine, and orthopedics; ^^ List of relevant specialties included in following slide
 Source: Statista; CDC; CMS; ASCdata; Becker's Healthcare; Business Wire; Grand View Research; Databridge Market Research; VMG Intellimarker; Ambulatory Surgery Center Association (ASCA); Life Science Intelligence (LSI); L.E.K. ASC Survey, research, and analysis

Continued market growth has been supported by growth in procedure volumes, encouraged by a range of growth drivers and progress on key historical growth barriers

2

U.S. ASC procedure volumes by specialty*
(2019, 23, 27)

Number of procedures



ASC growth has been encouraged by a wide range of drivers...

- Improved payer coverage due to payer cost savings
- Physician satisfaction and compensation
- Enhanced patient experience / satisfaction
- Changes to surgical techniques

... as well as progress on historical growth barriers

- Level of reimbursement from payers
- Payer coverage of various procedures

The top remaining barrier to further growth is access to trained staff, which has become a more pressing problem in the last several years in line with the broader industry

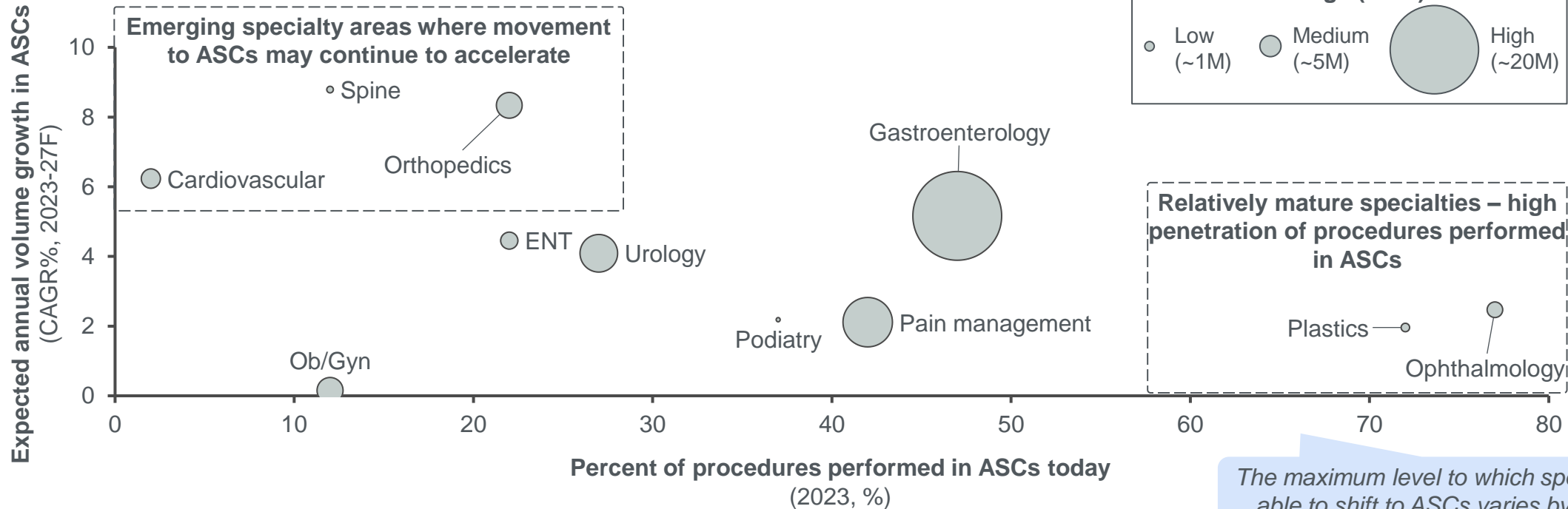
Note: * Does not include all procedures within a specialty, only a representative set, and is based on a sampling of select procedures
Source: CMS; LSI; L.E.K. ASC survey, research, and analysis

Specialties have migrated to ASCs to varying degrees; cardiovascular, spine, and orthopedics are emerging ASC specialties with relatively higher ASC growth expectations

DIRECTIONAL

U.S. ASC share of procedures and expected annual growth by specialty* (2023, 27E)

Percent of specialty, based on a representative set of procedures**



The maximum level to which specialties are able to shift to ASCs varies by specialty

Survey: Across the U.S., in your opinion, what percentage of [“insert procedure name based on logic below”] procedures are performed in hospital inpatient settings (i.e., hospitals in which patient remains overnight) compared to outpatient settings (e.g., ASCs, hospital outpatient, physician’s office, etc.) today (2023)? What about pre-COVID (2019)? Show for all. What do you expect it to be in four years (2027)?

Note: * 2023 percent of procedure in ASCs is calculated using percent of procedure in ASC from 2021 CMS data, then grown to 2023 using procedure-specific 2019-2023 CAGR from survey; ** All data in chart are based on a representative subset of ASC-relevant procedures within each specialty, weighted by estimated procedure volume from 2021 CMS data to get the overall weighted average percent of a specialty done in ASCs today; ^ Includes all procedures within specialty, and not just procedures approved by CMS for ASC reimbursement

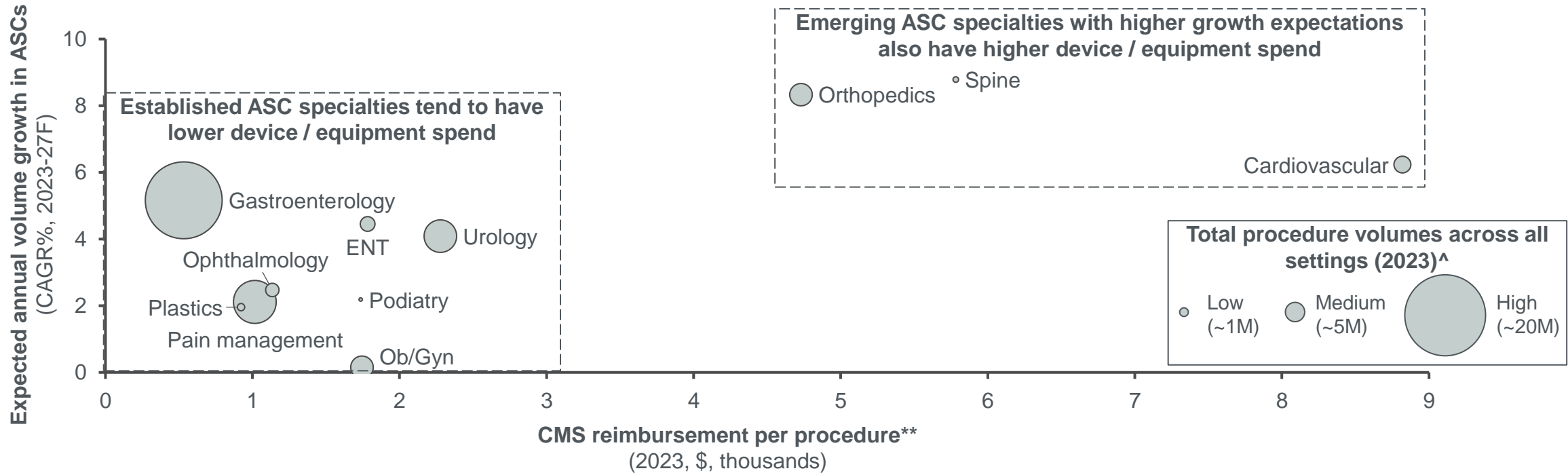
Source: CMS; LSI; ASCA; Anthem Public Policy Institute; Cataract & Refractive Surgery Today; Hospital & Healthcare Management; Becker’s ASC Review; The Journal of Urology; OR Manager; American Academy of Otolaryngology; MedTech Dive; L.E.K. ASC Survey and analysis

Emerging ASC specialties with higher growth expectations (i.e., CV, orthopedics, spine) are also those with higher-revenue procedures requiring higher spend on medical devices and equipment

DIRECTIONAL

Estimated U.S. specialty growth and CMS reimbursement in ASCs* (2023, 27E)

Percent of specialty, based on a representative set of procedures**



Survey: Across the U.S., in your opinion, what percentage of ["insert procedure name based on logic below"] procedures are performed in hospital inpatient settings (i.e., hospitals in which patient remains overnight) compared to outpatient settings (e.g., ASCs, hospital outpatient, physician's office, etc.) today (2023)? What about pre-COVID (2019)? Show for all. What do you expect it to be in four years (2027)?

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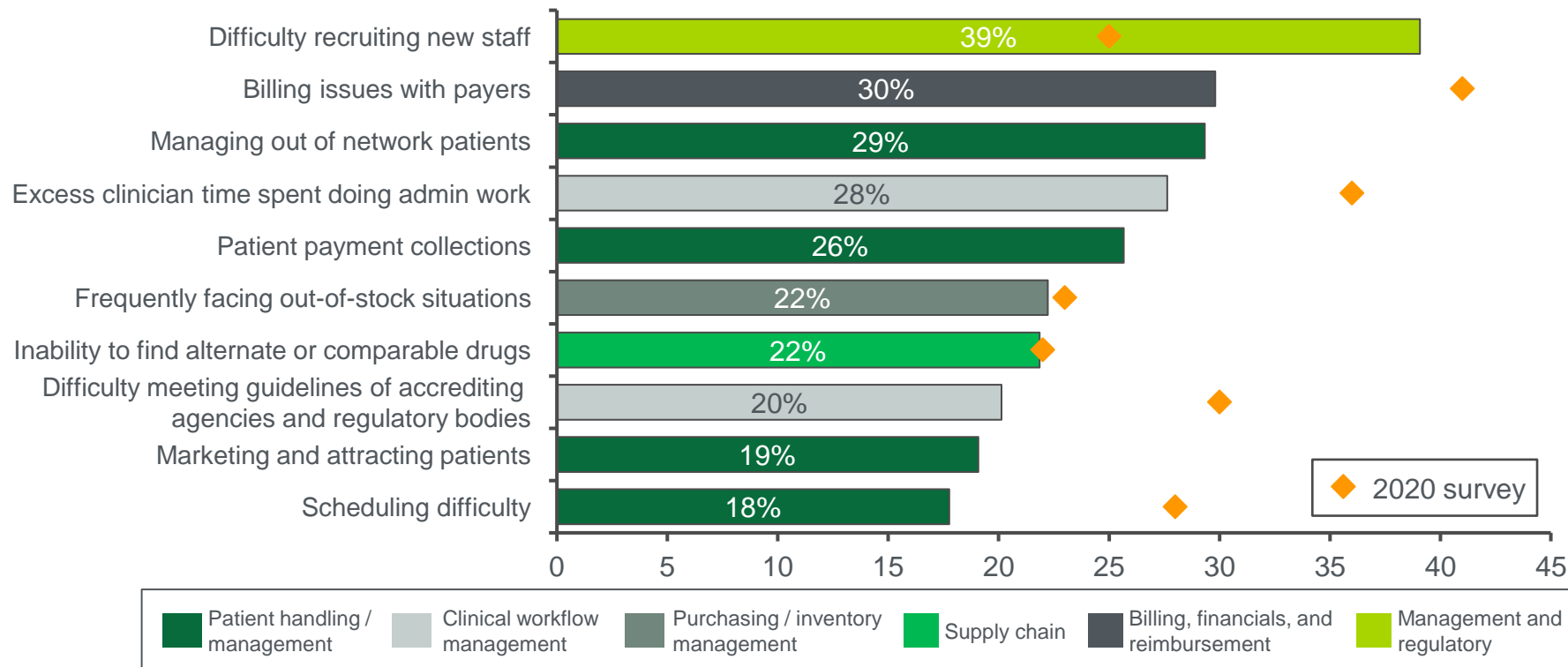
Source: CMS; LSI; L.E.K. ASC Survey and analysis

ASCs have made operational improvements in the last few years, addressing key pain points related to billing, patient handling, clinical workflow management, and purchasing

3

Most ASC pain points have declined since 2020 as ASCs continue to mature and professionalize

Percent of all respondents who answered 6 or 7 out of 7, where 7 means 'significant pain point'* (n = 153)^



- Key operational pain points have decreased in significance since 2020 as ASCs have continued to professionalize
- Recruiting new staff has become a more significant pain point since 2020, in line with the broader industry

Survey: Which, if any, of the following pain points have you experienced operating an ASC in the U.S.? Please rate on a scale of 1 to 7 where '1' means "not a pain point" and '7' means "significant pain point"
 Note: * Pain points without a 2020 survey comparison were not asked about in the 2020 ASC survey; ^ Respondents who answered "I don't know" were included in N above but excluded from the analysis (0-5 respondents per pain point)
 Source: L.E.K. ASC Survey and analysis

In terms of strategic priorities, ASCs are focusing on table stakes issues like quality of care, staffing, and basic operations, while also considering expansion to new physicians, procedures, and payer networks

Importance of ASC strategic priorities

Percent of all respondents who answered 6 or 7 out of 7, where 7 means 'very important' (n = 153)^

Table stakes priorities		Higher priority differentiators		Lower priority differentiators	
Attraction / retention of nurses	73	Improved revenue cycle management (RCM), including charge capture / billing / reimbursement	48	Improved clinical and non-clinical workflow efficiency tools	35
Improved patient satisfaction with clinical care	63	Expansion to include new procedures within existing specialties	47	Access to specialized EMR / practice management software and other related tools	34
Quality metrics (e.g., reduced readmission rates, medical errors, improved infection control, etc.)	59	Access to new payer networks	45	Improved patient-facing technology	27
Improving efficiency of processes	57	Access to new medical device technologies (e.g., novel transcatheter interventions, robotic surgery)	44	Introduction of new locations / operating rooms	27
Attraction / retention of allied medical specialties / non-clinical staff	56	Reduced total cost of ownership of equipment and supplies (e.g., reduced waste)	43	AI and predictive analytics for clinical use	21
Cost-effective contracting/purchasing of medical devices/equipment	55	Expansion to include new surgical specialties	38	Telehealth and / or remote patient monitoring capabilities	21
Attracting new physicians to operate in existing specialties	53	Improved supply chain resilience (e.g., ensuring suppliers guarantee inventory, shifting to near-shore suppliers)	37		

■ Quality of care
 ■ Operating performance / staffing
 ■ Tech/digital health
 ■ Expansion

Survey: How important are each of the following strategic priorities for your ASC today (2023)? Please indicate the importance of each need on a scale of 1-7, ('1' meaning the need is not at all important and '7' meaning the need is very important).

Note: ^ Respondents who answered "I don't know" were included in N above but excluded from the analysis (0-4 respondents per priority)

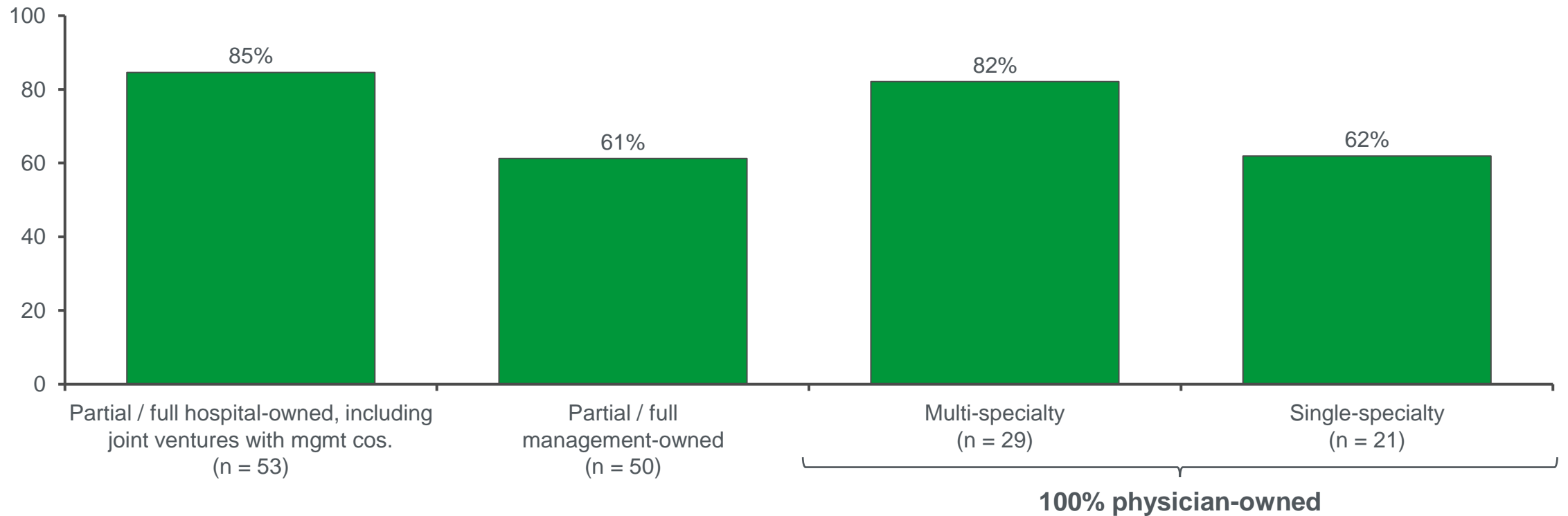
Source: L.E.K. ASC Survey and analysis

Many ASCs are seeking closer partnerships with MedTechs to help deliver on their clinical and economic objectives, especially hospital-owned and 100% physician owned multi-specialty ASCs

5

Most ASCs want MedTechs to provide valuable services, solutions, and support beyond just their products

Percent of all respondents who answered 5, 6, or 7 out of 7, where 7 means 'strongly agree' to the above statement^



Survey: Please indicate the extent to which you agree or disagree with the following statements regarding your ASC(s) relationship with its MedTech suppliers. Please rate on a scale of 1-7, '1' meaning "Strongly disagree" and '7' meaning "Strongly agree"

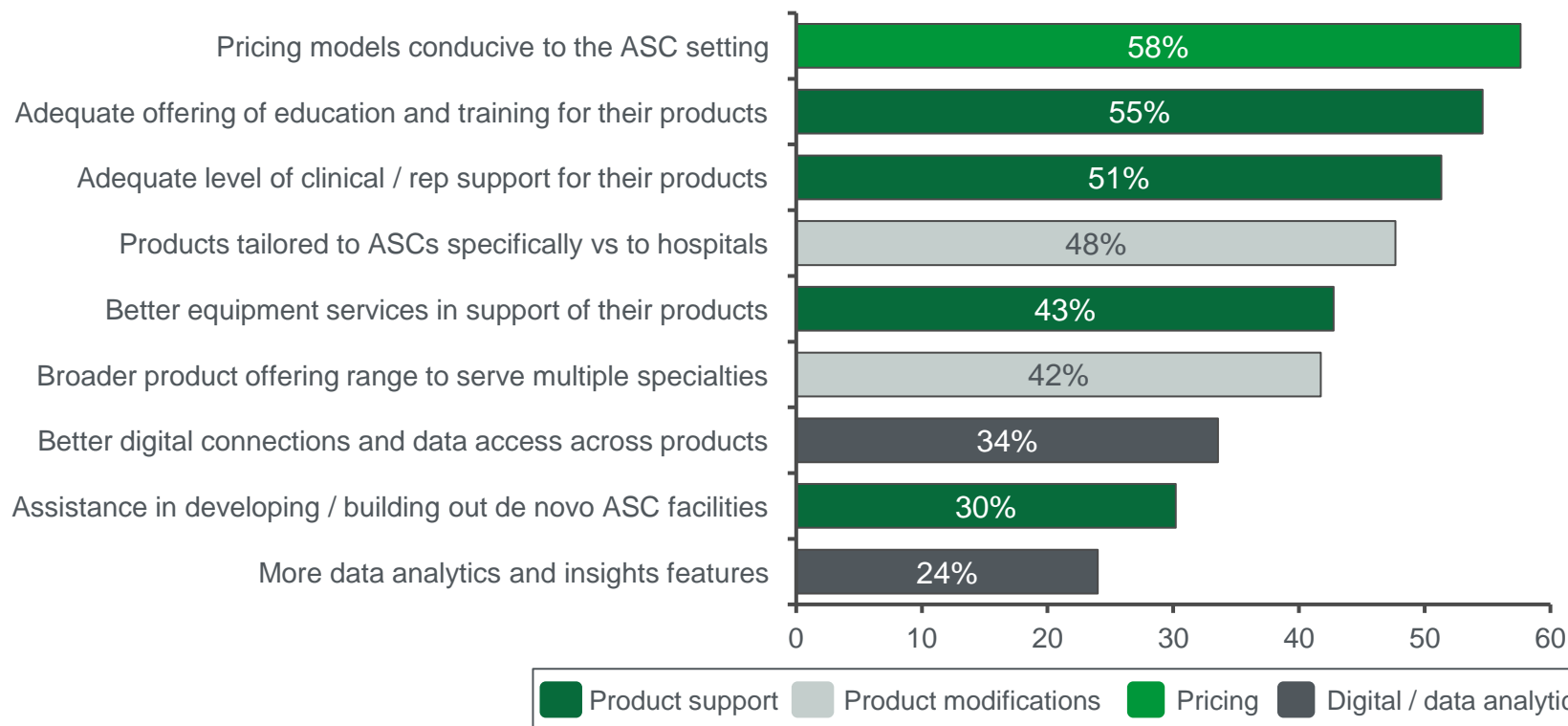
Note: ^ Respondents who answered "I don't know" were included in N above but excluded from the analysis (0-1 respondent per ownership type)

Source: L.E.K. ASC Survey, research, and analysis

In particular, ASCs are most interested in MedTechs providing them with better suited pricing models as well as product support (e.g., education, training)

ASCs believe several offerings are needed from MedTech suppliers to provide better products / services to ASCs

Percent of all respondents who answered 6 or 7 out of 7, where 7 means 'strongly agree'^ (n = 153)



- MedTechs can provide better products and services to ASCs by offering modified pricing models and improved product support (e.g., education / training, rep support, equipment services)
- Adequate education / support is a point of alignment across ASCs and hospitals in terms of desired offerings
- Digital / data analytics offerings are not as critical to ASCs today, but will likely grow in importance as ASCs evolve and mature

Survey: Please rate the extent to which you agree or disagree that the following offerings are needed to provide better products / services to ASCs. Please rate the following statements on a scale of 1 to 7 in which '1' means "Strongly disagree" and '7' means "Strongly agree"

Note: ^ Respondents who answered "I don't know" were included in N above but excluded from the analysis (1-4 respondents per offering)

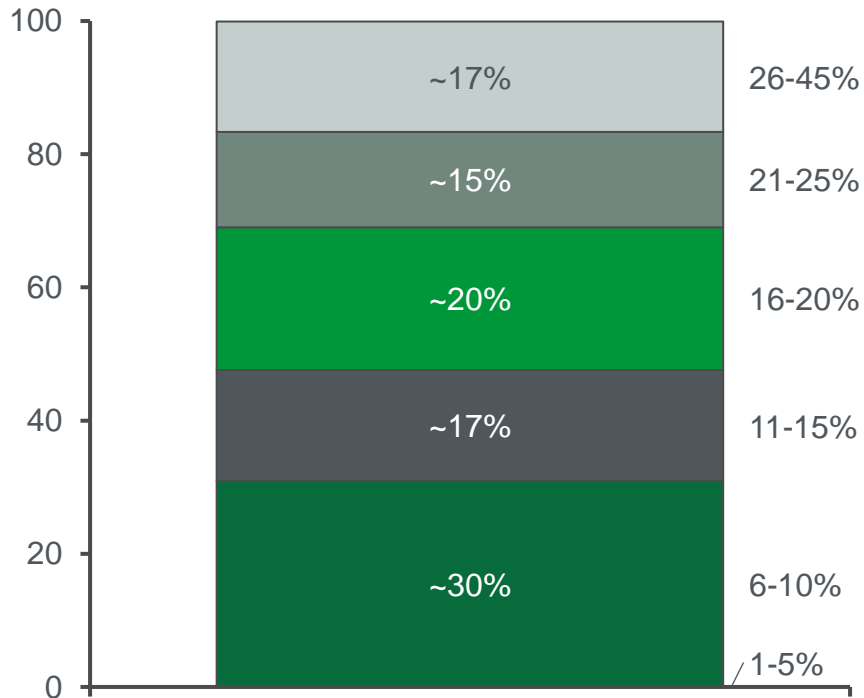
Source: L.E.K. ASC Survey, research, and analysis

ASCs expect price discounts compared to hospital prices and are willing to work with MedTechs on pricing models / arrangements to unlock lower prices

5

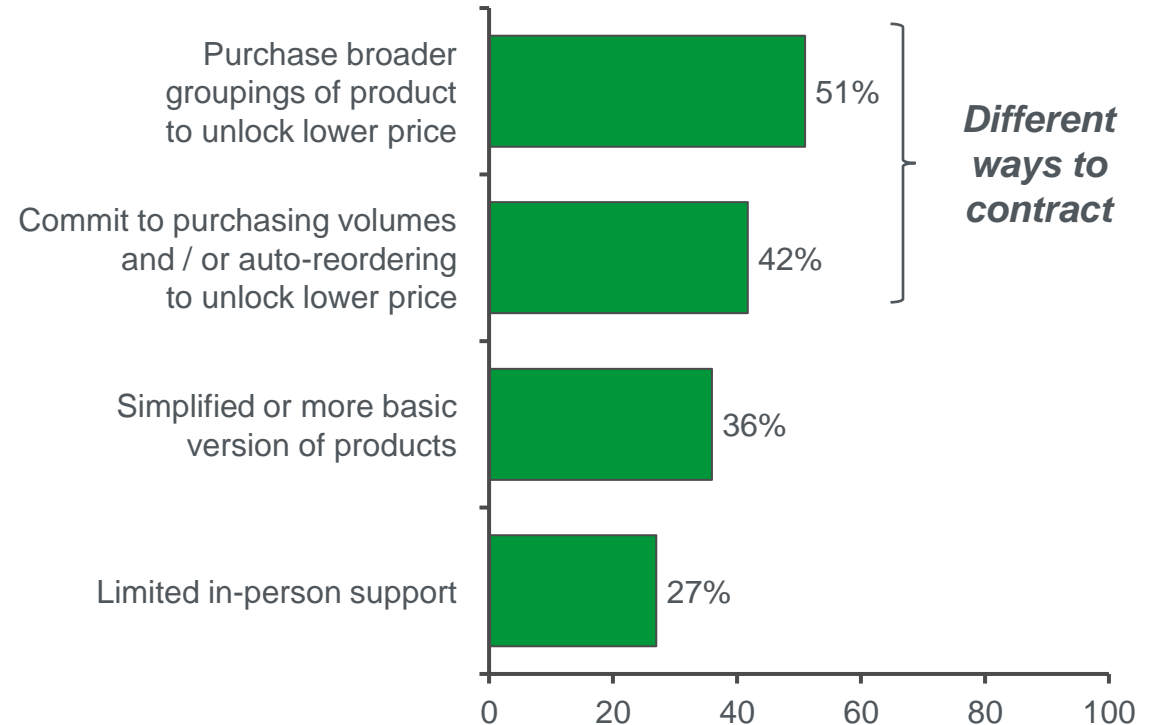
ASCs expect price discounts off hospital prices...

Distribution of expected percent discount among respondents who work in both the ASC and hospital settings (n = 43)[^]



... and are accepting of changes to MedTech products / support in exchange for a lower price point

Percent of all respondents who answered 6 or 7 out of 7, where 7 means 'very acceptable' to suggested change (n = 153)^{^^}



Survey: For products / brands you use in the hospital, how much of a price discount off of the hospital supply price would you expect for you to then use in the ASC?; To what extent would you find the following changes to MedTech products / support acceptable in exchange for a lower price point? Please rate the following statements on a scale of 1 to 7 in which '1' means "Not at all acceptable" and '7' means "Very acceptable"

Note: [^] Respondents who answered "I don't know" were included in N above but excluded from the analysis (0-4 respondents); ^{^^} Respondents who answered "I don't know" were included in N above but excluded from the analysis (0-2 respondents per potential change)

Source: L.E.K. ASC Survey, research, and analysis

6

While ASCs are interested in building broader relationships with MedTechs, they have been a challenging customer segment due to several unique dynamics

ASC dynamics that complicate MedTech ASC strategy



Fragmentation of ASCs across many small call points



Limited data on ASC behaviors and attitudes



Price sensitivity



Difficulty in sustaining traditional MedTech SG&A model



Greater distributor customer control / ability to disintermediate

Some MedTechs have made meaningful progress in contracting / pricing, commercial strategy, and adjusting their portfolios, and now have viable and cost-effective models and ASC strategies

To develop a successful ASC strategy, MedTechs need to address the following questions

Key questions to answer when developing ASC strategy



Market expertise

- What is our **forecast for procedure migration** to ASCs, by market?
- How should we **segment customers** based on priorities and purchasing behaviors relevant to our specialty?
- Which **customers should we prioritize** for in-person targeting by account size and growth outlook?



Commercial model design

- How should we create a **customer-facing model (e.g., sales force)** that optimizes ROI of serving highly fragmented customer base?
- What type of **value-added services** will be offered?
- How will we adapt **internal bandwidth** to support additional services?
- **Is our supply chain prepared** to distribute across a more diverse network with more customer sites?





Pricing optimization


- How should we set our **pricing to be conducive** to the ASC?
- Which **different ways to contract can we offer** based on customer segment and preferences?
- How can we **prevent cannibalization** among core hospital customers from lower ASC prices or de-featured products?


Please reach out to L.E.K.'s MedTech leadership team to discuss any questions and/or for access to L.E.K.'s more detailed ASC Insights study report




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