

Avanza Intelligence

2021-2022 HOSPITAL LEADERSHIP

• **ASC SURVEY** •

EXECUTIVE SUMMARY

More than 6 out of 10 hospitals and health systems intend to increase their investments in ambulatory surgery centers (ASCs), according to the fourth annual national survey of senior executives and clinical leaders at hospitals and health systems across the country. Conducted by Avanza Healthcare Strategies, the survey demonstrates the growing importance of ASCs to hospital systems attributable to a multitude of factors, including the ongoing shift of non-urgent surgical procedures into the outpatient setting, growing competition for physicians and surgical cases, and the movement toward value-based care.

Results also reveal that hospitals and health systems are becoming less reliant on third-party management vendors for their ASCs while becoming more willing to partner and share ownership with physicians in joint venture ASCs to strengthen engagement and collaboration. Half of all respondents indicated current ownership of multiple ASCs in their portfolios.

Accompanying the statistics and analyses in this Avanza Intelligence report are informative comments from survey respondents that provide insights into the nuances of the ASC sector — one of the most dynamic in the entire healthcare ecosystem.

SURVEY SAYS:

Hospitals Increasingly Pursuing and Investing in ASCs

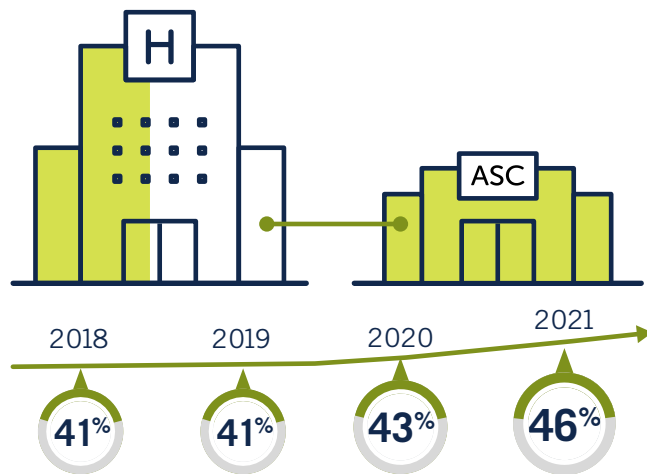
The latest outpatient strategy survey of healthcare executives and clinical leaders by national consulting firm Avanza Healthcare Strategies finds that most hospitals and health systems are looking to expand their ambulatory surgery center (ASC) portfolios by increasing investments and affiliations with surgery centers.

HOSPITALS ARE FACED WITH A CHOICE. MOST ARE CHOOSING ASCs.

Hospitals and health systems have come to recognize the need for at least one freestanding ASC — and increasingly multiple centers — in their portfolios to accommodate patients, payers and physicians looking for a more efficient and less expensive site for outpatient surgery.

The COVID-19 pandemic further solidified ASCs as a needed and preferred setting for high-quality, low-cost surgical care, thus motivating even more hospitals and health systems to convert their outpatient departments or migrate cases to ASCs. Consumer- and payer-driven trends from the past several years, including the increasing shift to value-based care and ongoing migration of surgical care out of inpatient settings, strengthens the competitive positions of ASCs.

HOSPITAL SYSTEMS ARE INCREASING THEIR NUMBER OF ASCs



ASC ownership by hospitals and health systems continues its upward trend, with 46% having at least one ASC in 2021.

We expect this figure to cross 50% within the next few years. COVID-19 delayed some ASC development due to hospitals and health systems having to focus efforts elsewhere in 2020 and 2021, but many of these organizations are making up for lost time by aggressively pursuing new ASC opportunities.

MOST HOSPITAL SYSTEMS WITH ASCs OWN MULTIPLE CENTERS



In 2021, for those hospitals and health systems that own ASCs, 61% own two or more, while 32% own five or more.

Increasingly, hospitals and health systems that have identified a need to include ASCs in their portfolios are seeing the value of owning multiple centers. This is becoming the norm and is often the result of acquiring physician practices that own existing ASCs. In fact, data from the Ambulatory Surgery Center Association show that the percentage of physician-hospital owned ASCs has risen from 24% in 2017 to 31% in 2021.

HOSPITAL SYSTEMS ARE MORE LIKELY TO SHARE OWNERSHIP IN THEIR ASCs

From 2020 to 2021, the percentage of ASCs with 100% hospital and health system ownership declined from 25% to 12%. Meanwhile, majority ownership by hospitals and health systems in ASCs increased from 54% to 58% during that same period. Furthermore, over 80% of hospitals and health systems are structuring their ASCs as joint ventures.

The changes in hospital and health system ownership levels of ASCs may be attributable to several factors. Hospitals and health systems may be more amenable to sharing ownership with physicians since physician financial investment in the surgery center may serve to motivate physicians to be more cost-conscious, thus helping drive profitability. Physicians are still interested in joint ventures where they are the minority owners because they want to leverage contracts such as those from payers and group purchasing organizations that are only accessible if the hospital demonstrates control. A willingness by physicians to accept hospital and health system majority control may point to their developing greater trust that hospital and health system leaders will not try to unnecessarily control ASC operational decisions.

100% OWNERSHIP



MAJORITY OWNERSHIP (50-99%)



82%

OF HOSPITALS AND HEALTH SYSTEMS HAVE THEIR ASCs AS JOINT VENTURES.

TOP REASONS HOSPITAL SYSTEMS OWN OR AFFILIATE WITH ASCs

These trends have remained largely consistent with previous years of the survey, but we are seeing value-based strategies as a bigger driver and one poised to increase in significance.

With the continuing focus on driving down the cost of healthcare, ASCs are becoming an essential strategy for payers and patients looking for ways to reduce the cost of non-urgent surgery.

1

RESPOND TO CONSUMER-DRIVEN TRENDS

2

PREVENT PHYSICIANS FROM TAKING CASES OUTSIDE THE HOSPITAL/HEALTH SYSTEM

3

SUPPORT A VALUE-BASED STRATEGY

4

ENHANCE PHYSICIAN RELATIONSHIPS

MORE HOSPITAL SYSTEMS PLAN TO EXPAND ASC INVESTMENTS AND/OR AFFILIATIONS



63% of hospitals plan to increase ASC investments or affiliations.

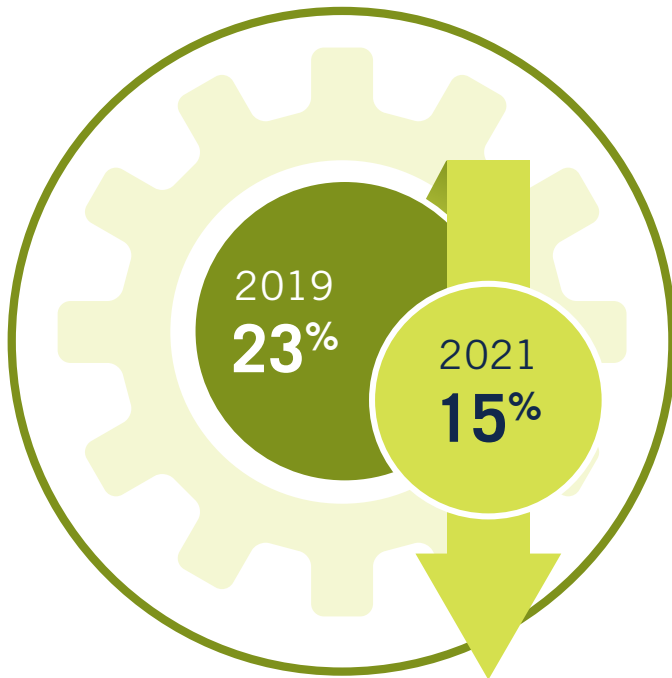
It's not surprising to see nearly two-thirds of hospitals and health systems indicate plans to increase ASC investments and affiliations given the current push toward lower-cost sites of service. We believe every hospital, health system and academic medical center — regardless of size or location — should have *at least* one ASC in its portfolio to better meet the surgical needs of the patients they serve.

“ Payer pressures are pushing surgical cases to ASCs. We need these facilities, and we need to be aligned with surgeons to maintain our competitiveness.

“ This is a fast growing market for us. We need to increase efficiency to accommodate increased surgical volume.

“ Value-based medicine has sped up since COVID-19. ASCs are a significant piece of this puzzle for us.

THIRD-PARTY MANAGEMENT IS DECLINING

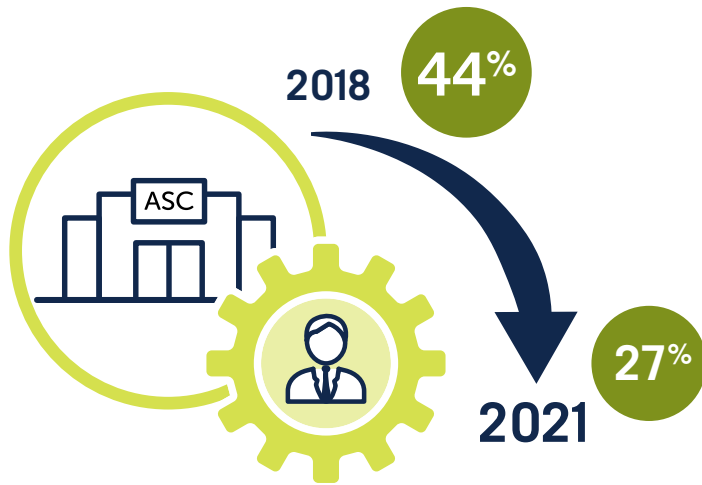


In 2019, 23% of hospitals and health systems with ASCs had a third-party manager. That figure declined to 15% in 2021.

This trend is continuing, and we feel it is due to the maturity of the ASC sector. Outside management services were a necessity in the early days of surgery centers. Back then, one needed an outside third party that understood what was needed to operate an ASC successfully.

Now, more than 50 years since the first ASC opened, many vendors and technologies are specializing in support services assisting the ASC industry. In addition, many advisors — clinical and business oriented — have ASC experience and can assist groups interested in developing and running ASCs. The need to share equity and enter long-term, expensive management agreements is not necessary for an ASC to succeed today.

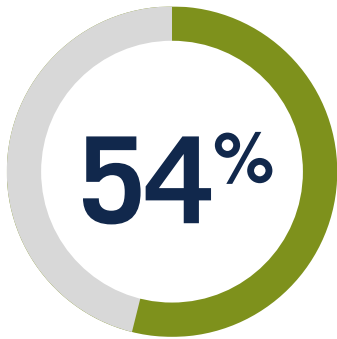
THIRD-PARTY PARTNERSHIP IS DECLINING



The percentage of hospitals and health systems with ASCs that permit third-party equity partners has declined from 44% in 2018 to 27% in 2021.

The trend follows the decline in management company involvement with hospital-owned ASCs. While private equity firms are interested in ASCs as an investment target, they aren't typically considering ASCs owned by hospitals and health systems. Rather, private equity is more interested in physician-owned ASCs that they can bundle and sell at a profit.

MORE THAN HALF OF HOSPITAL SYSTEMS ALLOW EMPLOYED PHYSICIANS TO INVEST IN ASCs



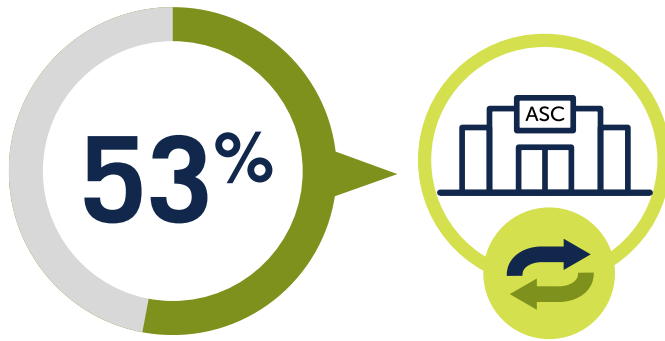
In 2021, 54% of hospitals and health systems permitted employed physicians to invest in their employers' ASCs.

Whether hospitals and health systems should permit employed physicians to invest in their employers' ASCs continues to be a frequent question asked of Avanza. While survey results for this question have remained fairly consistent year to year, we are seeing less resistance among hospital leadership and more willingness to consider this approach because of its potential benefits.

“ We allow our physicians to invest because it increases their engagement and accountability for outcomes.

“ Permitting employed physicians to be investors has been an effective recruitment tool.

MORE THAN HALF OF HOSPITAL SYSTEMS WITH HOPDs THAT MIMIC ASCs ARE CONVERTING THEM TO FREESTANDING ASCs



In 2021, 53% of hospitals and health systems with hospital outpatient departments that mimic ASCs are considering converting one or more of their HOPDs to ASCs.

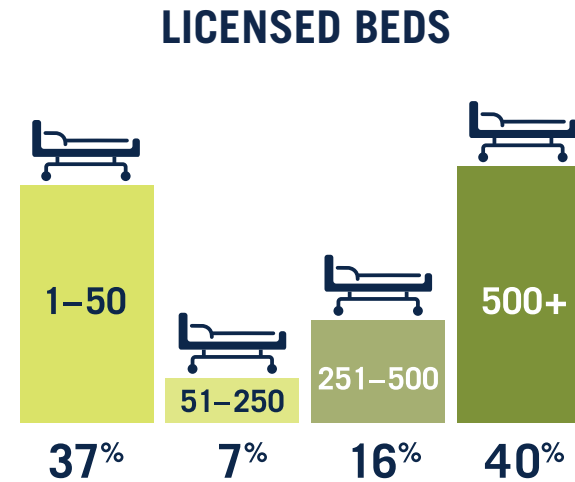
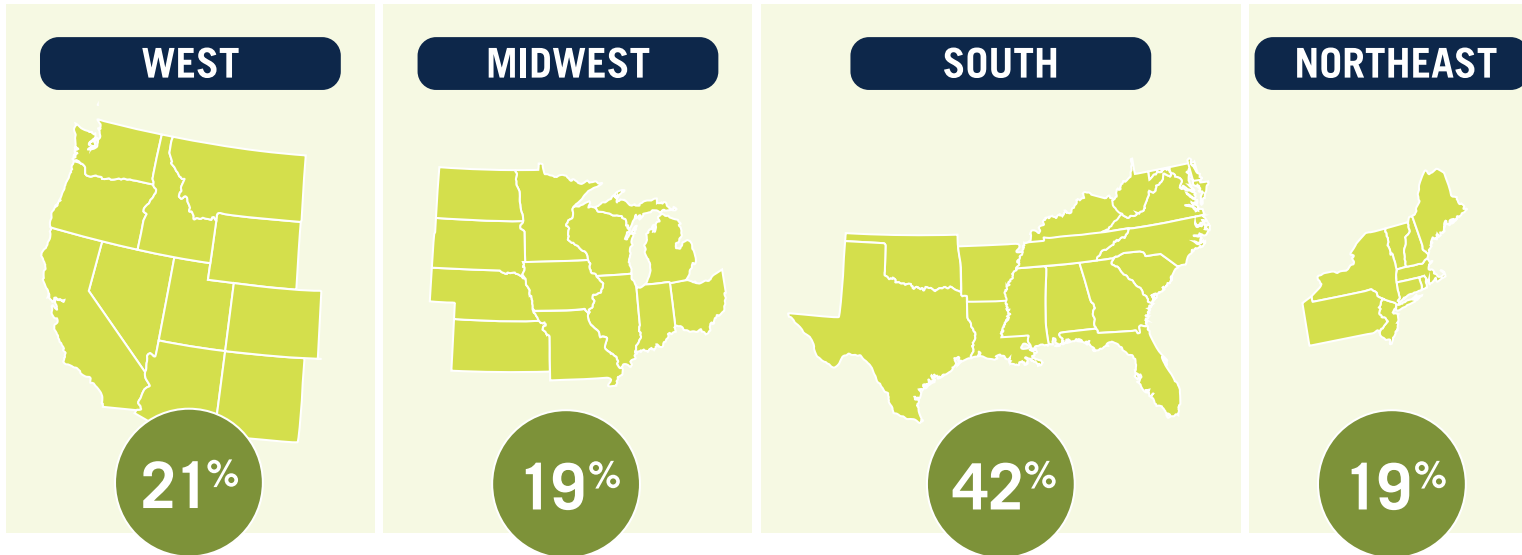
HOPD conversions are one of the fastest growing areas of new, freestanding ASC development. Many hospitals developed what they labeled as “surgery centers” that mimicked freestanding ASCs but were operated as departments of the hospital and collected hospital reimbursement. Hospitals and health systems are now realizing they need to have an ASC. Converting an existing HOPD is often the most efficient and effective way to open an ASC.

A recent RAND Corp. study found that Medicare per-procedure payments to HOPDs were 2.1 times higher than payments to ASCs and commercial payments were 2.6 times larger. With increased attention being paid to this variance, the move to site neutrality will gain momentum. It will become increasingly difficult for hospitals to justify the differential.

“Converting an HOPD to a freestanding ASC is a key step in the hospital’s ‘continuing value-based journey.’”

The reduction in revenue that accompanies an HOPD-to-ASC conversion is a hard pill for some hospitals and health systems to swallow. But with payer pressures combined with the ability to partner with surgeons to lower costs, the long-term, strategic benefit may outweigh the short-term financial impact.

SURVEY RESPONDENT DEMOGRAPHICS





NO NEED TO GO IT ALONE

Avanza's annual survey of hospitals and health system leaders brings to light the trends and developments increasingly motivating these organizations to pursue ASCs and make them a more central component for the delivery of surgical care. Avanza is an industry leader recognized for its unmatched experience supporting hospital-owned ASCs and working with hospital-physician joint ventures longer than any other company. This annual survey is part of our investment in market intelligence that helps organizations make sound business decisions concerning their short- and long-term outpatient strategies.

When developing an ASC or converting an HOPD, expert guidance from Avanza can help you determine what's best for your organization and support your efforts to create a highly effective and sustainable surgery center strategy. We offer flexible agreements, no requirement for equity and multi-disciplinary teams with extensive experience, which have made Avanza a sought-after partner for hospitals and health systems looking to migrate low-risk inpatient services to outpatient settings.

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