

# L.E.K.'s 2024 ASC Insights Study

## Key takeaways for provider organizations

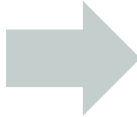
These materials are intended to supplement a discussion with L.E.K. Consulting. These perspectives will, therefore, only be meaningful to those in attendance. The contents of the materials are confidential and subject to obligations of non-disclosure. Your attention is drawn to the full disclaimer contained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



**L.E.K. Consulting presents the 2024 ASC Insights Study, which draws on a newly fielded operator survey, project experience, claims data analysis, and a range of secondary sources**

**~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 sources**

- ← ASC-focused L.E.K. projects with hundreds of interviews
- ← In-depth review and syntheses of secondary sources such as:  
ASC Association, Becker's ASC Review, market reports
- ← Analysis of CMS claims for common and emerging ASC procedures
- ← Longitudinal comparison to L.E.K.'s 2020 ASC Insights study

# L.E.K.'s 2024 ASC Insights Study reinforces the opportunity associated with ASCs and provides insight into where and how provider organizations should focus to develop a winning ASC strategy

## For provider organizations, L.E.K.'s 2024 ASC Insights Study...

<p><b>1</b></p> <p><b>Reinforces the criticality of ASC strategies for provider organizations</b></p>	<p><b>2</b></p> <p><b>Provides insight into where to focus development efforts</b></p>	<p><b>3</b></p> <p><b>Assesses the options available to expand and optimize ASC footprint</b></p>	<p><b>4</b></p> <p><b>Outlines opportunities for provider organizations to differentiate and win</b></p>	<p><b>5</b></p> <p><b>Makes clear the need for a data-driven approach to ASC strategy</b></p>
<ul style="list-style-type: none"> <li>• The shift to ASCs is undeniable; procedure volume and ASC revenue are expected to grow ~3-5% and ~6-8% p.a. to 2027</li> <li>• Provider organizations that proactively develop an ASC footprint can expand patient access, gain share, improve experience, and build closer alignment with physicians</li> <li>• Those that do not risk losing market share and physician alignment</li> </ul>	<ul style="list-style-type: none"> <li>• Today, the share of ASC-eligible procedures that are conducted in an ASC is highest in “early mover” specialties like GI, ophth., plastics, pain, and podiatry</li> <li>• Runway in these specialties is limited in some markets</li> <li>• Nationwide, more rapid growth (&gt;6% p.a.) is expected in historically “core” hospital specialties like cardiovascular, orthopedics / spine, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Provider organizations can choose from a range of options (e.g., building de novo, converting HOPDs, acquiring existing ASCs)</li> <li>• They can decide to “go it alone” or partner with an established operator</li> <li>• The largest whitespace exists in de novo builds and HOPD conversion; only a small portion of existing ASCs (~15-20%) would consider partnering</li> </ul>	<ul style="list-style-type: none"> <li>• Physicians are most interested in accessing capital, GPO discounts, and hospital branding in partnering with a hospital / health system on ASC development</li> <li>• Provider organizations can further differentiate in the eyes of potential ASC partners by addressing common pain points - staffing, billing, and operational management</li> </ul>	<ul style="list-style-type: none"> <li>• In an opportunity-rich and fast-evolving environment, provider organizations that leverage claims data, primary research, and analysis of internal data to develop their ASC strategy are most likely to succeed</li> <li>• L.E.K. has developed data-driven frameworks to inform ASC strategy and helps leading organizations take decisive ASC development action with confidence</li> </ul>

# ASC revenue growth is expected to accelerate slightly to ~6-8% p.a. to 2027, driven in large part by a set of specialties that are earlier in their ASC transition

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## Criticality of ASC strategy

### U.S. ASC market growth outlook

		Number of facilities*	Number of procedures	ASC revenue
Market size	2023	~6.2K	~25-30M	~\$40B
	2027	~6.5K	~30-35M	~\$50B
CAGR%	19-23	~1.5%	~2-3%	~6-7%
	23-27F	~1-3%	~3-5%	~6-8%
<b>Growth drivers</b>		<ul style="list-style-type: none"> <li>Continued investment by entrepreneurial physicians, PPM platforms, hospitals, and ASC management companies</li> <li>Continued growth in the list of ASC-approved procedures</li> <li>Continued consideration of CON regulation changes in some states</li> </ul>	<ul style="list-style-type: none"> <li>Growth in the number of facilities and ORs per facility</li> <li>Continued growth in the list of ASC-approved procedures</li> <li>Higher case volume per OR driven by improved capacity utilization</li> </ul>	<p>Add 3-4% for high-growth specialties – CV, spine, orthopedics</p> <ul style="list-style-type: none"> <li>Procedure volume growth</li> <li>Mix-shift towards higher value procedures due to increased approval of higher complexity procedures, paired with increasing surgeon and patient comfort with the ASC setting</li> </ul>
<b>Key sources</b>		CMS; ASCdata	LSI; CMS; ASCA; L.E.K. survey	Databridge Market Research; Grand View Research; Business Wire

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  
 Source: 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

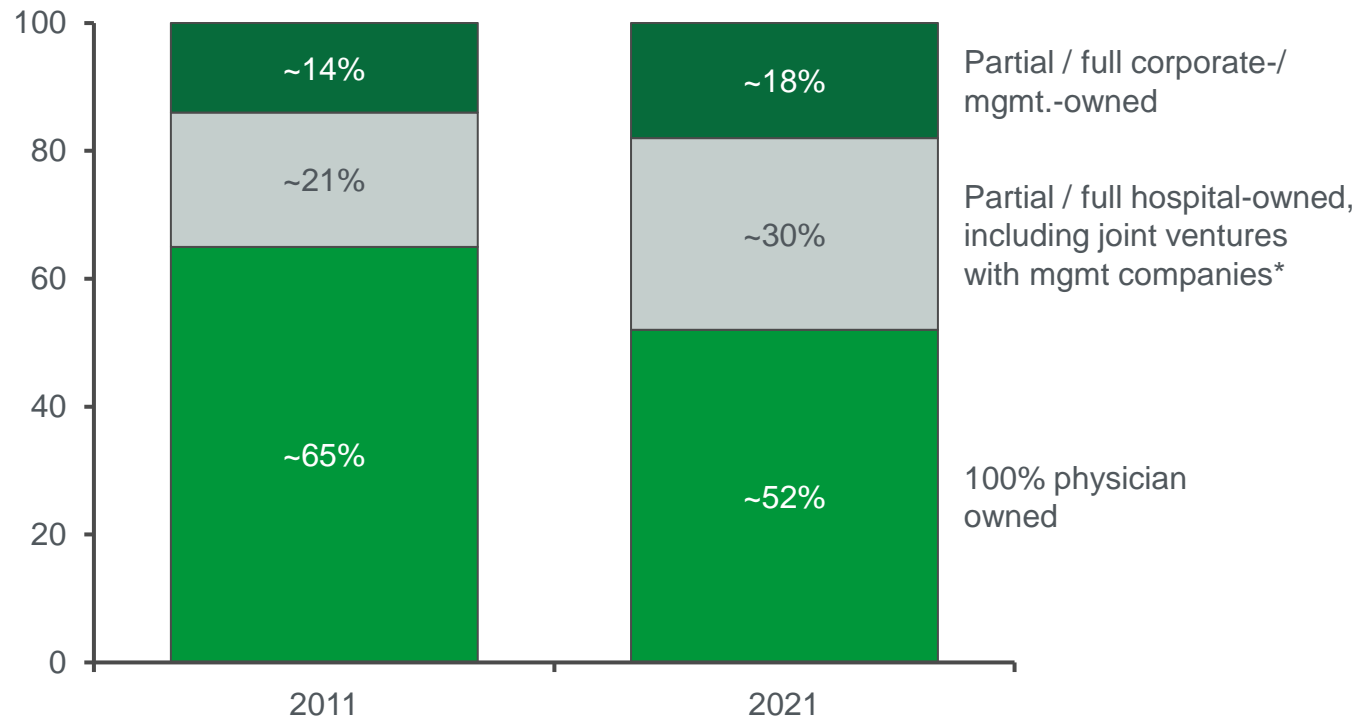
# Hospitals and health systems have been significant contributors to this shift and have increasingly invested in ASCs since 2011

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## Criticality of ASC strategy

### Hospitals / health systems have increased their participation in ASCs

Percent of ASCs by ownership type



### Drivers of hospital investment

- Efficiently build capacity and expand patient access
- Improve patient experience and satisfaction (e.g., more convenient location, improved waiting and recovery experience, no procedure time “bumping” due to emergency cases)
- Align with physician preference and improve physician affiliation (e.g., physician joint venture development)
- Build deeper relationships with payers

Note: \* ~7% are joint owned by physicians, hospitals, and corporate / management companies

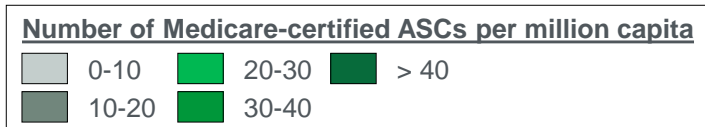
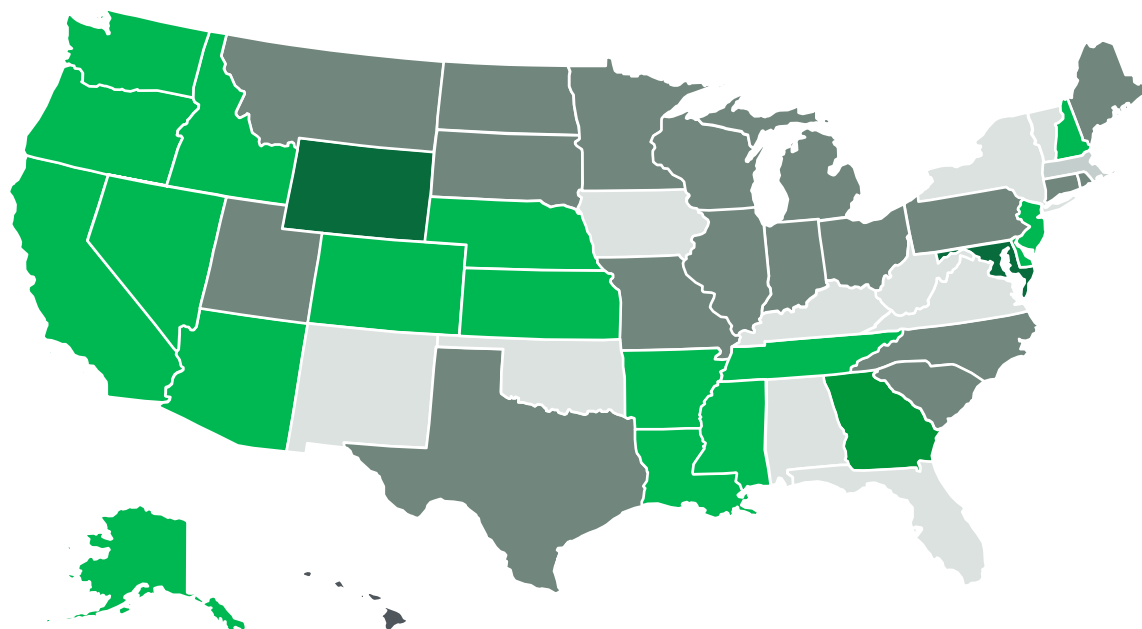
Source: ASCA Salary and Benefits Survey as cited in Outpatient Surgery ASC Market Trends Report and ASCA publications; L.E.K. ASC Survey, research, and analysis

# ASC market dynamics are not nationally uniform; provider and health system proactivity has yielded very different ASC supply and competitive dynamics

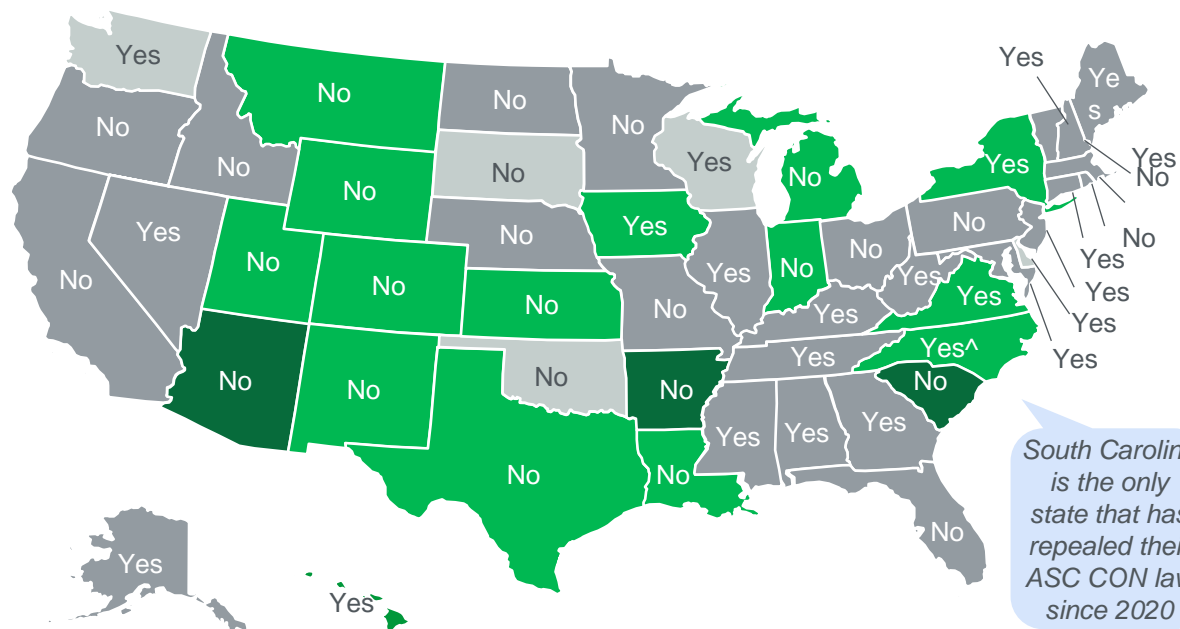
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## Criticality of ASC strategy

### Number of Medicare-certified ASCs per capita by U.S. state (2023)



### Growth of Medicare-certified ASCs by U.S. state (2019-2023) and existence of ASC-specific CON laws (2024)



Note: \* In a state with a Certificate of Need (CON) program, opening or expanding an ASC requires approval from the state health planning agency, who determines whether new infrastructure is necessary to meet the service area's needs; Arizona, Minnesota, and Wisconsin do not have an official certificate of need program, but maintain various approval processes that function similar to a CON law; CON requirement status current as of February 2024; ^ North Carolina is partially removing ASC CON laws from 2025 onwards

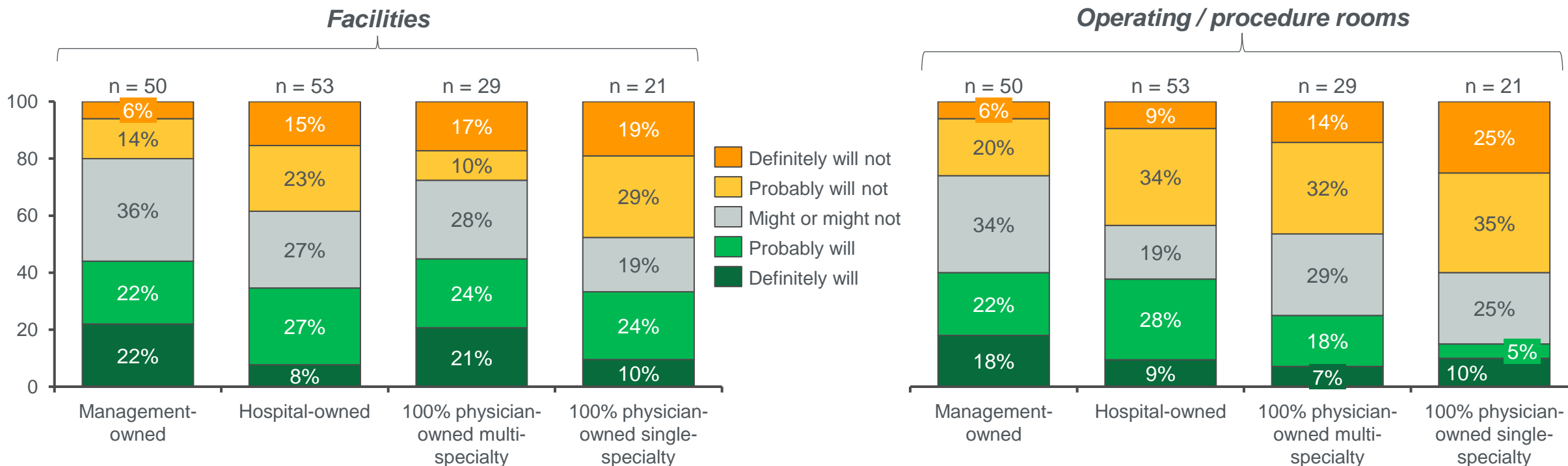
Source: U.S. Census Bureau; ASCData; Becker's Hospital Review; VMG Health; L.E.K. research and analysis

# ASC operators of all types are planning to expand their footprints and facilities over the next four years, further emphasizing the need for proactive strategy and investment from health systems

## 1 Criticality of ASC strategy

### Many ASCs plan to expand the number of both facilities and operating / procedure rooms over the next four years

Percent of all respondents by ownership type<sup>^</sup>



Survey: In your view, what is the likelihood that your ASC ownership group will add facilities in the next 4 years (2027)?  
 Note: <sup>^</sup> Respondents who answered "I don't know" were included in N above but excluded from the analysis (0-1 per ownership type)  
 Source: L.E.K. ASC Survey, research, and analysis

# ASC penetration is relatively high in ophthalmology, plastics, GI, pain management, and podiatry, but rapid growth is expected in historically core hospital specialties (e.g., orthopedics, CV, spine)

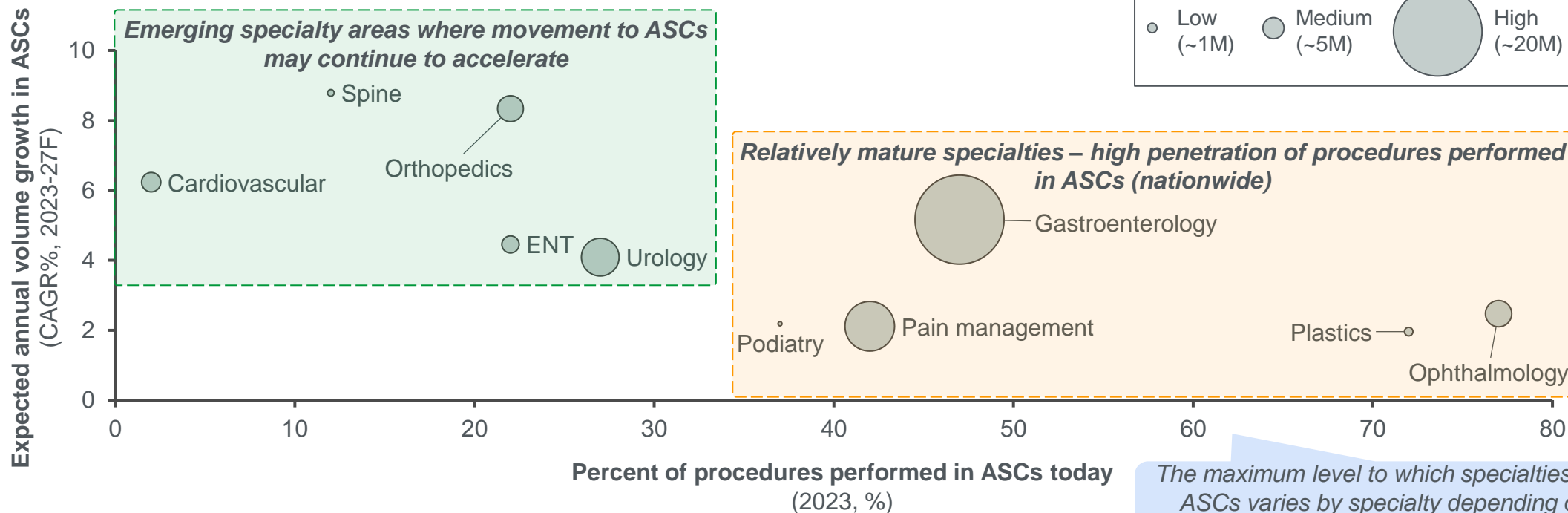
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Where to focus development

DIRECTIONAL

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 can shift to ASCs varies by specialty depending on patient characteristics and risk level 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)?  
 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



# Provider organizations have access to a range of ASC entry and network development options, and must carefully consider existing local dynamics to determine the approach that best meets their goals

## 3 Options for expanding and optimizing ASC footprint

### Options for expanding and optimizing ASC footprint

#### De novo site development

Provides clearest path and greatest opportunity to drive physician alignment, but at greatest execution risk and significant investment requirements

#### Acquisition / partnership with existing ASC

Provides fastest path to participation, but with less control over placement, strategy, etc., and only with ASCs interested in partnership

#### Freestanding HOPD\* conversion

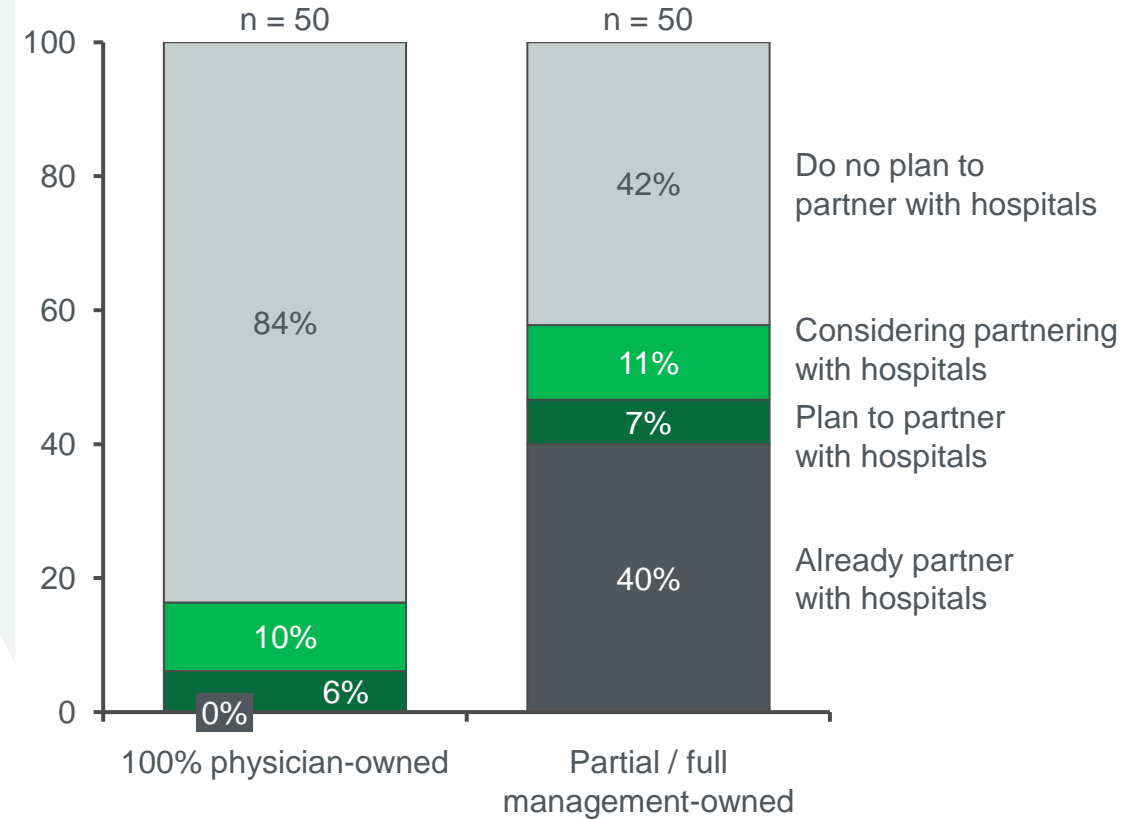
Provides less capital-intensive option, but at high risk of cannibalization, especially where competition from other ASCs is low

#### Office-based lab conversion

Provides a less capital-intensive option where existing OBL assets are optimally located, particularly as the cardiovascular ASC opportunity (and maturation) continues to grow

### ASC hospital partnership plans

Percent of non-hospital-owned respondents\*\*



Survey: To what extent do you expect your ASC to partner with hospitals in the next 4 years (2027)?

Note: \* HOPD: Hospital outpatient department; \*\* Respondents who answered "I don't know" were included in N above but excluded from the analysis (1-5 respondents per ownership type)

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

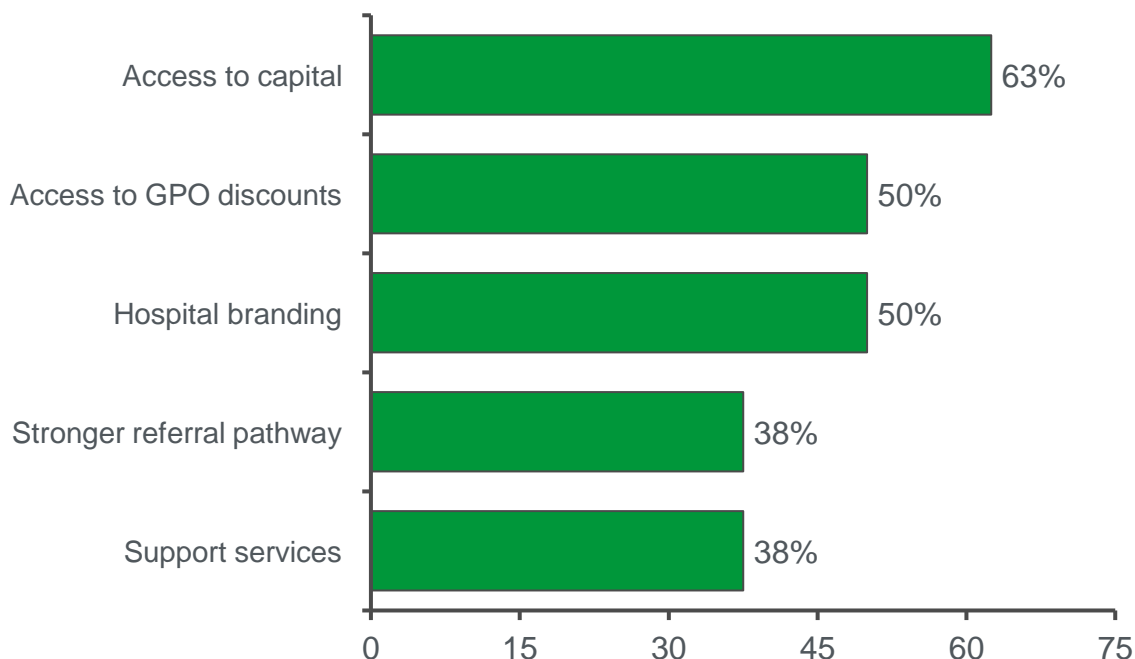
# Regardless of entry option, provider organizations must differentiate themselves as a partner of choice to physicians and ASCs in pursuing an ASC strategy

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How to differentiate and win

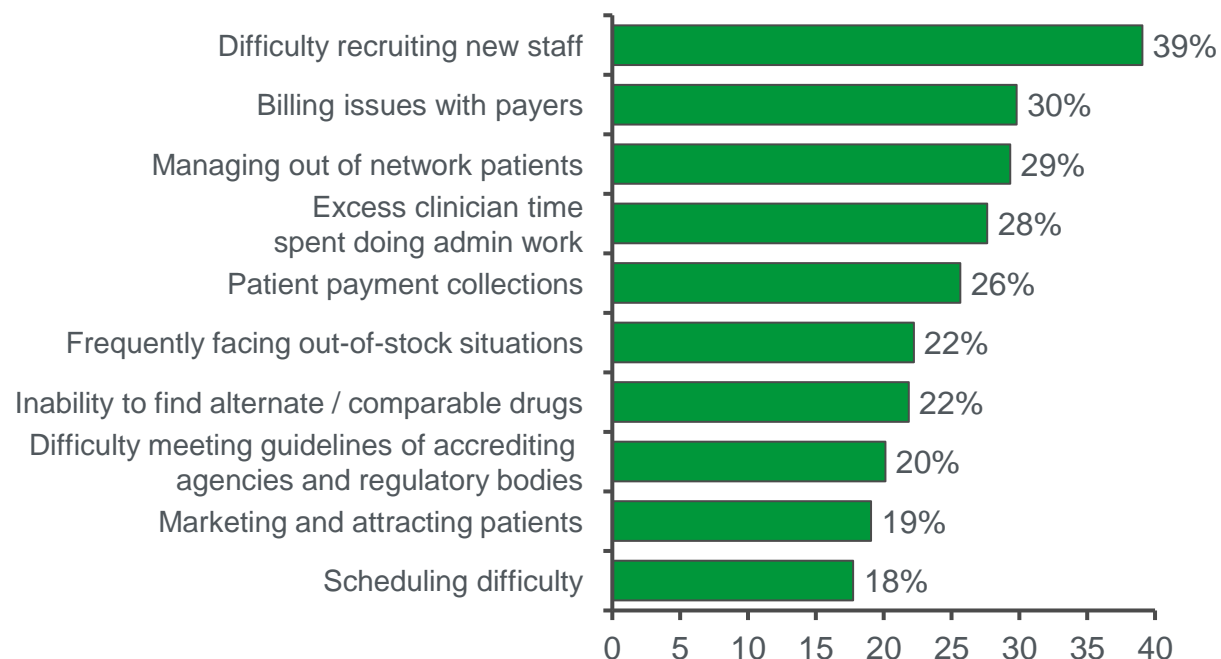
## Reasons ASCs want or consider to partner with hospitals

Percent of respondents who plan or are considering to partner with hospitals selecting as a top three reason (n = 16)



## ASC operating pain points that provider organizations could alleviate

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



Survey: In order of importance, what are the key reasons you would consider partnering with hospital(s)? 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: ^ 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 our experience, provider organization ASC strategies fail to meet expectations due to some combination of the below factors

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## Building a data-driven approach



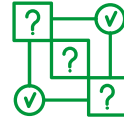
### Blind to local market dynamics (for each site)

Plan is developed based on anecdotal or state level intelligence, or built on “we believe we can achieve \_\_\_\_\_”



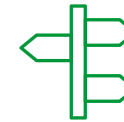
### Blind to physician perspectives

Plan is designed based on hard volume / supply data, but without a view on the perspectives and desires of local physicians / patients



### Too hypothetical

The development timeline is not based on the experience of others and not cognizant of regulatory / financing / other approval needs



### At odds with legacy business

The impact to the legacy business (e.g., cannibalization) is not well-considered or well-communicated to leaders, driving resistance



### Too centered on legacy organization design

Health systems often apply hospital cost structures to ambulatory assets, rather than undertaking a “blank page” design to reflect ambulatory best practice

# L.E.K. helps leading provider organizations avoid these pitfalls and take decisive action rooted in a deep understanding of their local market and physician dynamics

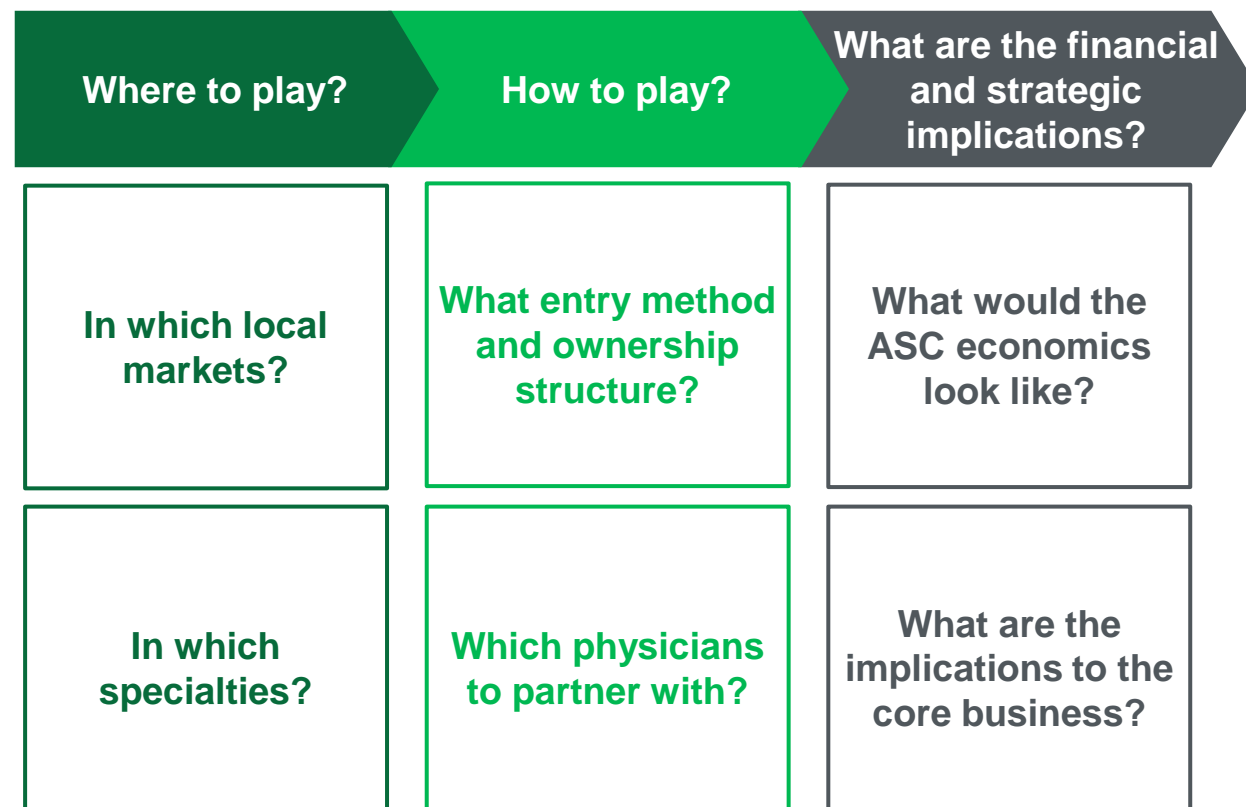
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## Building a data-driven approach

### Key analytical inputs

- Analysis of **local physician, hospital, and ASC landscape** data by local market
- Analysis of **local demand / demographics** data by local market
- Analysis of **claims data to understand volume of ASC eligible procedures** by physician and CPT code
- In-market **interviews / surveys** of physicians
- Analysis of **L.E.K. IP** including this ASC Insights Study
- Discussions with **L.E.K. executive advisors** and network
- Analysis of **client volume / value data to understand cannibalization** and backfill outlook
- Workshops to review and **refine recommendations** formed based on this database

### Data-driven ASC strategy



# Reach out to L.E.K.'s Provider leadership team to discuss ASC strategies and for access to L.E.K.'s full ASC Insights report, and visit our Provider Insights hub to download our insights on other issues



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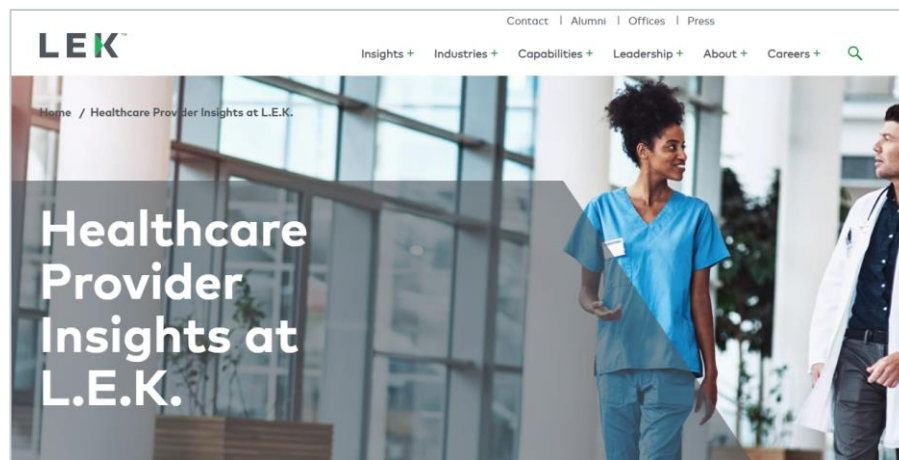


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Insights hub



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