Although the ambulatory surgery center market is considered mature, the outlook for growth in 2017 is quite positive. With the possible repeal and replacement of the 2010 Patient Protection and Affordable Care Act, a healthcare industry already in flux has become even more uncertain as what was established and mature begins to look new again. As the healthcare industry continues to focus on improving quality and lowering costs, Ambulatory Surgery Centers (ASCs) can thrive in this changing healthcare environment. As more surgical procedures shift to an outpatient setting with the evolution of medical technologies, there will also be increased demand for ASC services and investments.

PATIENTS AND PAYERS SEEKING TO LOWER COSTS

Much of the national healthcare debate has centered on how to reduce costs, and for good reason. National healthcare expenditures represented almost 18 percent of the U.S. gross domestic product in 2016, and the Centers for Medicare & Medicaid Services projects that health expenditures will make up almost 20 percent of GDP by the year 2025, as shown in the chart below.

Source: Centers for Medicare & Medicaid Services, Office of the Actuary, NHE Projections, Table I: National Health Expenditures and Selected Economic Indicators
With healthcare costs expanding much faster than the rate of inflation, both patients and payers seek to reduce healthcare expenditures. Surgery costs make up a significant portion of total healthcare expenditures in the U.S.; therefore, ASCs will help bend this cost curve. For most procedures, the costs in an ASC setting are approximately 60 percent of the cost of the same surgical procedure when it is provided in a hospital outpatient department (HOPD). Per a study performed by the Ambulatory Surgery Center Association, Medicare would save over $2.4 billion per year if merely half the eligible surgical procedures shifted to the ASC setting (as opposed to taking place in a HOPD).¹

Commercial payers have recently shown more interest in ASCs, as the ACA and the insurance exchanges have reduced their own profitability levels. At the beginning of 2017, UnitedHealth, through its subsidiary Optum, purchased Surgical Care Affiliates Inc., a publicly traded operator with approximately 200 surgical centers and hospitals across the nation. With a commercial insurer now invested in a large outpatient surgery operator, more outpatient surgeries may now be shifted to a lower-cost ASC setting. In the coming months, more commercial payers may explore partnerships with ASCs, which further changes the dynamics of these relationships.

Meanwhile, high-deductible health plans have risen in popularity in recent years as patients seek to reduce premium costs. Per a study conducted by the Kaiser Family Foundation, 29 percent of Americans in an employer-sponsored health plan were enrolled in a high-deductible health plan in 2016, as compared with 4 percent in 2006.² This same study also found that the average annual deductible for single coverage jumped almost 50 percent from 2011 to 2016. With patients bearing more financial responsibility for healthcare costs, shopping for lower-cost surgery providers to reduce out-of-pocket spend is a necessity, which in most cases leads patients to an ASC.

A recent positive for the ASC market is the 21st Century Cures Act, passed in December 2016. The act required the Department of Health & Human Services to create a public database where Medicare beneficiaries can compare the costs of surgical procedures between an HOPD setting and an ASC setting. As transparency in pricing becomes more readily available, ASCs should be strategically positioned to gain more Medicare surgical volumes.

Another win for the ASC industry was the Bipartisan Budget Act of 2015, which requires any new off-campus HOPDs opened after January 1, 2017 to bill under the applicable nonhospital payment system rather than the higher HOPD rates.³ While this legislation did not go as far as requiring existing HOPDs to bill at lower rates, it does level the playing field for ASCs relative to any new off-campus HOPDs.

**PATIENT SATISFACTION AND CONVENIENCE**

The healthcare industry has been shifting payment models from fee-for-service to value-based, quality reimbursement. In fact, the Centers for Medicare & Medicaid Services has set a goal to have 90 percent of all Medicare fee-for-service

---

¹ Ambulatory Surgery Center Association, “ASCs: A Positive Trend in Healthcare.”
INCREASE IN OUTPATIENT PROCEDURES

Over the past few decades, there has been a dramatic shift from inpatient care to outpatient settings. Advances in medical technologies, surgical techniques and anesthesiology/pain management procedures have shortened recovery times and allowed procedures that once required hospitalization to be performed on an outpatient basis.

Since Medicare first began reimbursing ASCs in 1982, the number of approved procedures has grown steadily. In 1982, Medicare reimbursed only approximately 200 surgical procedures in an ASC setting; by 2016, more than 3,400 surgical procedures were approved for reimbursement by Medicare for ASCs. Further, more complex surgical cases, such as certain spine procedures and total joint procedures, are now being performed in the ASC setting. Less than a decade ago, many of these procedures required lengthy hospital stays, but with advances in medical technologies, these cases can now be performed safely in an ASC. As advances in minimally invasive techniques and technology continue to increase, the shift to outpatient care should accelerate.

RISE IN ASC INVESTMENT POPULARITY

With so many positive market factors, it should come as no surprise that ASC investment popularity is on the rise. Traditionally, physicians were the primary investors in ASCs. While the clear majority of ASCs are still physician-owned, investments from other sources are becoming more prevalent. Lately, health systems and insurers have both shown more interest in ASC investments.

Health systems have historically been in direct competition with ASCs. Since ASCs mainly perform elective procedures...
and do not provide emergency services, health systems have long contended that ASCs “cherry-pick” the most profitable surgical cases, leaving the systems to bear the burden of the uninsured and indigent population. But recently, health systems have started to view ASCs as potential partners and extensions of their outpatient service offerings.

There are several different transaction structures that are popular among health systems and ASCs. Some health systems purchase ASCs outright to eliminate competition in their markets. However, joint ventures have risen in popularity in recent years, and this trend is expected to continue. Under this model, the health system generally acquires at least a 51 percent interest in the ASC, with the originating physician ownership holding the remaining minority interest. Additionally, three-way joint ventures between health systems, ASC operators, and physicians have recently increased in popularity.

As previously mentioned, commercial insurers are now also interested in ASC investments. Insurers are searching for ways to reduce medical claims costs, and ASCs are a prime route to cost reduction for surgical services.

The ASC industry was recently bolstered by the appointment of Dr. Tom Price as the U.S. secretary of HHS. Price was formerly an orthopedic surgeon and is very familiar with ASCs. Many in the ASC industry feel that, as a former surgeon, Price may be supportive of ASC interests in his role as HHS secretary.

**SUMMARY**

There are many opportunities for growth in the ASC market in 2017 and beyond. The transition from fee-for-service payments to value-based, quality payments should increase the activity and investment interest in ASCs. As patients and payers shift toward lower-cost settings, ASCs are in prime position to capture more surgical volume. Advancements in medical technologies and surgical techniques continue to drive surgical volumes to the outpatient setting. Thus, ASC acquisition and development activities should remain high in 2017. Also, as demand for ASC investment opportunities increase, we should see an uptick in valuation multiples.