

## Equity Research

October 2, 2014

### Sean Lavin M.D.

(212) 527-3570  
slavin@btig.com

### Marie Thibault

(212) 527-3557  
mthibault@btig.com

### Karen Koski

(212) 527-3554  
kkoski@btig.com

## MEDICAL TECHNOLOGY

### Hospital CFO Dinner Takeaways

Two NYC-area Academic Centers Highlight What They're Willing to Spend On, and Where They're Cutting Back

**Robotics, imaging, personalized medicine and smart tools are areas of investment, while reducing inpatient care offers savings.**

- ▶ **Overall, both hospital CFOs seemed much more positive than a few years ago.** One noted his center is running at a 9% operating margin this year and both noted HC reform has not had a major negative impact this year as many had previously feared.
- ▶ **Focus on outpatient care continues; as does push back on device prices.** Both are reducing inpatient beds, with one eventually expecting 70% of rev. to come from outpatient care with more ambulatory care and a 23-hour surgery center. Both are pushing down costs on undifferentiated devices such as hips, knees, screws, stents, and mesh.
- ▶ **Over time, we think these trends** may lead device makers to focus on generating meaningful clinical data and innovations that further shorten hospital length of stay and differentiate their products.
- ▶ **Robotics:** These administrators have found that ISRG's (BTIG Neutral Rated) robot helps extend the careers of older surgeons (who may be losing hand steadiness) while helping younger surgeons improve more quickly. They noted that minimally invasive robotic procedures save costs with faster discharge. Both CFOs said their centers profit from robotic surgery and both now have credentialing programs in place. Both seemed more open to additional adoption than a few years ago.
- ▶ **The robot is currently used for urology, gynecology, and cardiology** procedures, but surgeons are asking to use it for general surgery. One CFO would like to see more profitable reimbursement rates. This particular center's robots are at capacity, so a new robot would need to be purchased for use in general surgery. A request for an Xi is being evaluated. The other CFO noted that they are in the process of buying four new robots for a new center.
- ▶ **Radiation oncology benefits from outpatient focus.** Both of these centers primarily use rad onc systems from Varian (BTIG Neutral Rated). The CFOs noted that the infrastructure and software make it difficult to switch providers, but that they intend to continue buying rad onc systems as the cancer population grows.

## Additional Highlights

**Efficiency is key:** Both CFOs say their centers are striving to become more efficient. In the case of a cancer diagnosis, quickly finding the right treatment for a specific subtype of cancer is important. This means the patient doesn't suffer through unnecessary, unhelpful therapies, while the hospital saves time and cost. Similarly, there is a focus on preventing unnecessary care for end-of-life patients when palliative care or home discharge might be best. These centers have invested in cancer diagnostics, personalized medicine, and system-wide healthcare IT to provide top care with the most information about each specific patient possible.

**Part of the effort to provide the most informed care involves spending to standardize medical equipment and software.** These centers prefer buying equipment from companies that can provide data through their preferred software system. In addition, smart tools such as smart infusion pumps are getting these hospitals' dollars, since they reduce errors and improve communication, resulting in better care.

**Proton consortium moving forward:** There are now three centers in the NYC-area consortium of hospitals collaborating on a proton center for NYC patients. Construction on the proton center is slated to start in January at a site in East Harlem.

**Determination to provide top-notch care at a lower per-patient cost seems higher than ever.** We have held several hospital CFO dinners in the past, but it seemed to us that these CFOs were more vocal than ever in praising treatments that allow outpatient care or shorter hospital stays. Additionally, they seemed more candid than ever in rejecting physician preference items that lack a proved clinical edge. Both administrators seem intent on improving their hospitals' reputations and expanding their markets with more branches, ambulatory centers, and partnerships. We think these trends are clear indicators of the path medicine is taking in urban areas.

---

---

## Analyst Certification

I, Sean Lavin, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Marie Thibault, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Karen Koski, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

## Regulatory Disclosures

### Analyst Stock Ratings Definitions

BTIG LLC's ("BTIG") ratings, effective May 10, 2010, are defined as follows:

**BUY** – A stock that is expected at initiation to produce a positive total return of 15% or greater over the 12 months following the initial recommendation. The BUY rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

**SELL** – A stock that is expected at initiation to produce a negative total return of 15% or greater over the next 12 months following the initial recommendation. The SELL rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

**NEUTRAL** – A stock that is not expected to appreciate or depreciate meaningfully over the next 12 months.

**NOT RATED** – A stock that is not rated but that is covered by BTIG.

### Distribution of Ratings and Investment Banking Clients

BTIG must disclose in each research report the percentage of all securities rated by the member to which the member would assign a "buy", "neutral" or "sell" rating. The said ratings are updated on a quarterly basis. BTIG must also disclose the percentage of subject companies within each of these three categories for whom the member has provided investment banking services within the previous twelve months. Below is the distribution of BTIG's research recommendations.

BUY: 57% NEUTRAL: 37% SELL: 6%

Stocks in coverage as of the end of the most recent calendar quarter (September 30, 2014): 105

The percentage of Investment banking services is calculated as of September 30, 2014. Distribution of investment Banking Relationships: BUY: 100% NEUTRAL: 0% SELL: 0% after the ratings distribution.

For purposes of FINRA ratings distribution rules, BTIG's stock ratings of Buy, Neutral and Sell fall into Buy, Hold and Sell categories, respectively.

### **Disclosures in Research Reports Covering Six or More Companies**

All current required disclosures can be obtained by contacting BTIG at 825 Third Avenue, 6th Floor, New York, NY 10022 or on our website at <http://www.btigresearch.com>

### **General Disclosures**

Research reports produced by BTIG LLC ("BTIG") are published for and intended to be distributed solely to BTIG institutional and corporate clients. Recipients of BTIG reports will not be considered clients of BTIG solely because they may have received such BTIG report.

The equity research analyst(s) responsible for the preparation of this report receives compensation based upon a variety of factors, including the quality and accuracy of research, internal/client feedback, and overall Firm revenues.

BTIG reports are based on public information and BTIG considers the same to be reliable, comprehensive information, but makes no representation or warranty that the reports are accurate or complete. BTIG opinions and information provided in this report are as of the date of the report and may change without notice.

This research report is not an offer to buy or sell or solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal. This research report was not drafted specifically for any particular individual or entity and is not a personal recommendation to participate in any particular trading strategy or transaction. Any recipient of this research report should obtain independent advice specific to their personal circumstances before undertaking any investment activity and must make their own independent evaluation of any securities or financial instruments.

Facts, views or opinions presented in this report have not been reviewed by, and may not reflect information known to, employees or other professionals in the "BTIG Group" (BTIG Group includes, but is not limited to, BTIG and its parents, subsidiaries and/or affiliates). BTIG Group employees, including Sales Representatives and Traders, may provide oral or written commentary or advice that may be inconsistent with the opinions and/or views expressed in this research report. BTIG Group employees and/or its affiliates not involved in the preparation of this research report may have investments in securities or derivatives of securities of companies mentioned in this report that are inconsistent with the views discussed in this report.

Investors in securities products bear certain risks in conjunction with those investments. The value of, and income from, any investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors within or beyond the companies control. Recipient of the research reports should be aware that investments in equity securities may pose significant risks due to the inherent uncertainty associated with relying on forecasts of various factors that

can affect the earnings, cash flow and overall valuation of a company. Any investment in equity securities should be undertaken only upon consideration of issues relating to the recipient's overall investment portfolio and objectives (such as diversification by asset class, industry or company) as well as time horizon and liquidity needs. Further, past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. There may be time limitations on the exercise of options or other rights in any securities transactions.

The trademarks and service marks contained herein are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability of any damages of any kind relating to such data. The report or any portion hereof may not be reprinted, sold or redistributed without the written consent of BTIG. This report is intended only for use by the recipient. The recipient acknowledges that all research and analysis in this report are the property of BTIG and agrees to limit the use of all publications received from BTIG within his, or her or its, own company or organization. No rights are given for passing on, transmitting, re transmitting or reselling the information provided.

#### **Jurisdiction and Dissemination**

BTIG is a U.S. broker-dealer and member of FINRA and SIPC.

BTIG Australia Limited ACN 128 554 601, member of ASIC and ASX; BTIG Hong Kong Limited, an Exchange Participant of SEHK and licensed and regulated by the SFC; BTIG Ltd, member of the LSE, authorized and regulated by the FSA; and BTIG Singapore Pte Ltd, registered and licensed with MAS; are all separate but affiliated entities of BTIG. Unless governing law permits otherwise, you must contact a BTIG entity in your home jurisdiction for further information, or if you want to use our services in effecting a transaction.

Issues and approved for distribution in the UK and EEA by BTIG Ltd. to eligible counterparties and professional clients only. Issued and distributed in Australia to "wholesale clients" only by BTIG Australia Limited. In Singapore and Hong Kong, further information may be obtained from BTIG Singapore Pte Ltd and BTIG Hong Kong Limited, respectively.