

Equity Research

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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.

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