CEO Leadership Series: Vol 17

GROWTH ORTHO

Organic Growth through Technology Solutions with Peter McCann

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Key Takeaways

Guiding Principles

- We are selling patient satisfaction.
- Fundamentally, private practices like to be private, especially in orthopedics. We developed a model where they feel that they are still in that private practice and they have control.

Key Organic Growth Opportunities in Orthopedics

- ASCs.
- Provider recruitment.
- Enhanced patient acquisition through technology solutions (e.g., self-scheduling).
- Orthopedics is unique in the fact that 65% of referrals come from former patients and these former patients really drive the success of the given practice.

Approach to Scaling the MSO

- Remain focused on core specialty – avoid distracting expansion too far from core focus until a later date
- Prioritize add-on acquisition fit over growth for the sake of growth. Physician to physician relationships to create exclusive discussions with attractive practices that are otherwise not involved in a broad process.
- Preserve local practice culture, systems and autonomy – at least until the MSO has matured over the next 5+ years. In the meantime, limited centralized services and light central MSO team – heavier interim reliance on specialized third-party service providers.
- Focus on data analytics to allow for centralized performance visibility across dispersed network and disparate systems. Requires clean data mapping in order to arrive at meaningful, actionable dashboarding results.

Value-Based Care in Orthopedics

- Concept remains early stages in orthopedics – will require further development over 10+ years.

Interview with Peter McCann

I began my career over 30 years ago in healthcare operations, distribution, services, provider content. I started with a family-owned business. My father was a partner in a medical and dental products manufacturer and distribution business out of New York. So I kind of grew up in that space as a teenager sweeping the warehouse floors, picking orders, but then really transitioned in my teenage years to going out to physician offices and helping them support their business through service, supplies, financing, all the aspects. I did that through my college years through the start of my career and in the mid '90s we sold that company to The Henry Schein model, the large Fortune 500 medical, dental veterinary products distributor. Wonderful company based

also out of New York. At the time, the Henry Schein model was building their organization. I came along and it was about a $1.8 billion revenue company and I transitioned to their M&A team, and we did about 40 transactions of all different shapes and sizes in two years. So really that's the Henry Schein model was to build their entire network for the most part through acquisitions and they did a great job of it. So today they're about a $16 billion or $17 billion company, have expanded beyond products and services, IT, financing, anything to help medical, dental, veterinary offices make the transition to the large IDN kind of ACO environment for supplies. I started my own company with some venture capital money. Again, distribution business, but really more focused on how to help physician practices grow their business. I did that for six years, sold that organization and then went to work for Darby Medical to take over their medical division. It was a privately held company. About $1 billion organization that I positioned for an exit. The irony is I sold that company back to the Henry Schein model so I then went back to the Henry Schein model for about six years in a corporate role. I was one of four people that ran their medical division for six years, and we really had sensational success. We watched the physician market in healthcare transport itself to the IDN ownership of the physician offices, while we drove services and patient satisfaction. I left the organization and started consulting about 12 years ago, I have consulted with and worked directly with most of the largest healthcare provider groups in the nation from the IDN provider groups to private equity backed groups and have witnessed the ongoing transformation of healthcare.

Coming out of the consolidation of health systems into the IDEA networks, I did a stint with Compass Group North America on a consulting basis to build up their healthcare team. Compass Group North America is probably the largest healthcare services company that most people have never heard of. They go to market with about 29 different brands. They do most of the food service, EVS cleaning, equipment repair for almost half the hospitals in America. They have about 300,000 employees in the US, and really understood that we weren't selling food, we weren't selling cleaning services, we were selling patient satisfaction.

About eight years ago I jumped into healthcare private equity. I ran an ophthalmology roll-up and started the largest distribution company in the ophthalmology space. I successfully exited the business and continued to consult to 10-15 sponsors. That was until about a year and a half ago when I was approached to take over as the CEO of Growth Ortho, which is a national orthopedic MSO, backed by Trivest Capital Partners. I always wanted to get back into the CEO's seat running an organization like that, knowing that my experience would help guide the group. At this point we have ramped up to about 800 employees and the growth has materialized fast enough that we would consider an exit.

You have one of those rare vantage points where you've seen many peaks and so you get to evaluate your current situation a little bit more differently. What makes the ortho space so special?

Having done some of the consolidation with dental, urology, gastro, ophthalmology and primary care, there was a uniqueness but also a commonality to all of those categories. In each category the goal is to consolidate and create scale in volume and operations. When it came to orthopedics, and the reason orthopedics has only recently been a focus for private equity, it's a really different model. In healthcare, most of your referrals for those other subspecialties, a lot of them come from your insurance providers or your local health systems really dominate where referrals come from.

Orthopedics is unique in the fact that 65% of referrals come from former patients and these former patients really drive the success of the given practice.

Is this from patients coming in for a repeat treatment of care or is this from patients spreading through word of mouth the practice to family and friends?

Both. Orthopedic care impacts everyone from adolescents to the elderly. The procedures are common, but they're also life changing. People who are healthy otherwise, but who have problems walking or have problems with their shoulders, hips, ankles will go out and electively select a procedure in order to improve their quality of life. They go from being in pain to being able to walk again. Successful surgeons are in high demand and are normally very well compensated. There's typically a large surgery center component. Orthopedic ASCs are one of the most profitable surgery center specialties out there, exceeding gastro and ophthalmology. The distributions from a really well-run surgery center are tremendous. I had the opportunity to consult to a few Ortho platforms before I took the CEO role at Growth Ortho, and I was looking forward to building what I believe is a more sustainable MSO partnership with our surgeons.

What are the ortho groups that are just not getting it done failing to do correctly?

The locality of healthcare and orthopedics, as in most specialties, is really important. So when you have the more affluent areas that have a better mix of commercial payers for the population, CON laws play a really big important role in orthopedic success from a financial aspect. You've got states where you can go out and create or partner with and build your own ASC. But really it starts with the physicians themselves. We only look at groups that have

really high provider scores and great reputations in the industry. We have access to all the commercial and Medicare data out there. So we know specifically by CPT code where those procedures are happening in the country. So we look at volume, we look at which private practices are capturing a better share in the local market than sometimes even the competing health system.

So there's a formula to it, focused on financial strength and patient satisfaction that draws us to certain types of successful practices.

Are there any elements on the rest of the MSK spectrum that you are more or less focused on for business reasons?

Right now, we are purely focused on ortho. It's orthopedic surgery practices and surgery centers. There is certainly bandwidth down the road to expand into pain management or neurosurgery or some of the other MSK specialties. But there's five core ancillaries within the current orthopedic space that would give us enough for this first ride with this fund, that we've got about four or five years of executing our current business plan. And that keeps us focused on what we want to do because there are pain management roll-ups, there are neurosurgery roll-ups, there are other models that are different. We keep focus here and certainly that give us an advantage.

And which primary competitors are you most focused on? Is it local hospital systems that have legacy relationships with those same patients and providers? Is it the rapidly growing MSOs, national, regional, local? Is it individual practices? Is it all of the above?

The first real competitor in the space is the physician practices themselves because most of them, the quality ones that I just described, don't need to partner with anyone. So it's never easy convincing them that there is a competitive challenge out in the marketplace and that they should be looking at changing their status quo. So that's really the first competition. And we have a lot of groups that have looked at multiple models, including other private equity backed MSOs. We do compete with other MSOs and health systems, but in most cases we are relying on physician to physician relationships to create exclusive discussions with attractive practices that are otherwise not involved in a broad process.

How do you provide the practices you target with your take on the industry as a whole?

I take physicians through the journey of the private practice consolidation from the '80s to today. And there certainly is a wave of consolidation and then decentralization for all the different models. We have lived through local hospitals, to IDNs, to large groups, to private equity backed MSOs, and when you see that trend, there's always a place where private practices go back to private practice. So understanding why that happens helps me develop the Growth Ortho model a little bit differently. Fundamentally private practices like to be private, especially in orthopedics.

How do you keep them private, give them the investment they need to be competitive. And from that vantage point is where we develop a lot of the guiding principles of Growth Ortho that I'd say resonate with every practice that we talk to on multiple levels.

It's strange to say that when private equity's involved, but we developed a model where they feel that they are still in that private practice and they have control. As we know, private equity likes to get involved and control and redesign everything so that the organization, no matter what, it is more efficient and can scale. But there is a point in orthopedics where you don't need to do that, and I learned that from these waves of consolidation that didn't work for the last 35 years. Believe it or not, in the last year of the MSO, it was myself and one other person. We were building a story, we were going out recruiting practices, doing deals and building this concept around what Growth Ortho was. Now my team is 12 plus people plus consultants like SCALE and some other key consulting groups because I don't believe that I need to have full time FTEs to do all of the functions in building this company.

How do you monitor and measure progress and success relative to the Company's strategic plan and what are some of the greatest needs and challenges in terms of executing on that plan?

We're in the process of finalizing probably all of our financial dashboarding KPI metrics and tools across all the platforms. We do not combine EHRs, we don't merge systems. Each independent practice runs independently. They manage their own operations. We do give them some support and guidance, but 85% to 90% of our time is just focused on growing those independent regions that we're in. So part of the challenge is, to your point, how do you measure success?

We've built backend data warehouses and power BI dashboards that monitor all that. And then we can compare one versus two versus three and understand the metrics.

We also use it for due diligence. So, if we're looking at a practice and we signed an NDA and received their data in terms of CPT coding data or just revenue data, we'll dump that into our financial modeling and compare it against our current practices to see if it's similar, or what the opportunities are. That helps us evaluate. You can do a lot in due diligence in terms of is this the right fit, is this the right practice? Specifically, is this the right fit or practice for what we have built? It's easy to chase the large groups just for the revenue, but if they don't fit down to the tactical levels of operations KPIs and what we're delivering, there's more of an operational lift that you can spend a lot to fix. So, it's easy to be successful in a very efficient manner.

If you were to think of your time as a CEO as a pie chart, how it breaks down and which portion of the pie chart would you like to spend more time on, less time on?

For the first 12 months, it was spent on relationship building with the practices we owned and those we were prospecting. We've continued to build and we've got four more practice targets under LOI now, but all that was really my time spent out in the marketplace.

Please can you expand on your data warehouse and then some of your KPIs for each of the different departments or divisions.

I developed the financial dashboarding packages prior to coming here for private equity backed provider roll-ups, specifically orthopedic ones. What I found was when you have disjointed systems across these practices, you don't necessarily want to switch every EHR or their accounting system and really change their day-to-day operations, but you need the data that's contained in these systems. So, we developed a system where we'll go out and take all of the data from all of those systems and analyze it on a weekly basis. So we'll go in on the IT side, dump all the data into the warehouse and then we had specific healthcare professionals help us map the data so that it was realistic in terms of the billing data, all of the office metrics which is visits per day, visits per provider, revenue per provider, down to the payer level in terms of which payers are most profitable down to the provider, down to how many office visits.

There's multiple ways to approach it, but the biggest challenge was getting all that data mapped in a data warehouse to be able to pull those reports. And again, once we buy the next practice that they have eight or nine systems they're using in their office, we're just going to do the same thing and it helps us to compare practices across regions. And then we take some benchmark data that we purchase from some of the organizations and run that up against what we're currently doing.

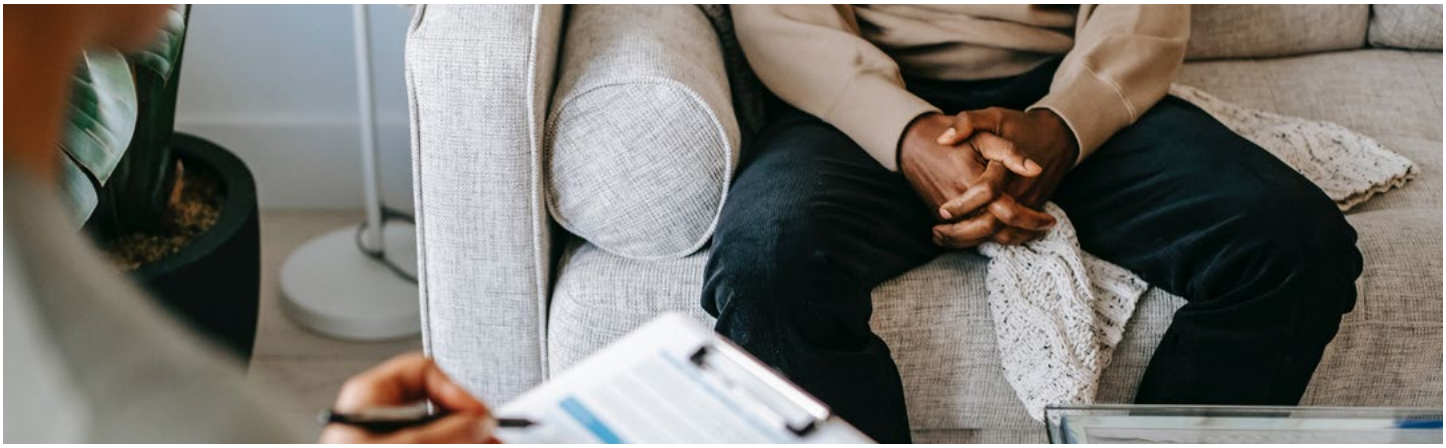
Pete, are you turning away from practices based on which systems they currently use and thinking about what will and won't integrate into your existing warehouse? Or are you feeling confident that you can work with any and every system and find sort of piecemeal solutions to sit on top of whatever you find at the practice level?

There isn't a system I found that we couldn't pull data from to get to the data warehouse. The biggest part about when you pull data from healthcare information systems of any type is having a healthcare professional map that data. Now, I say healthcare data scientists map that data and again, through a former consulting relationship that I had, I've got a team that helps us do that and they are specifically in this marketplace. But that's important because healthcare data for analytics is much different than any other industry that I've worked in from either manufacturing or products or even services. So you have to understand it and make sure it's mapped.

Can you talk about risk-based, value-based, performance-based reimbursement agreements that you've seen out there that you are in any way part of or plan to be part of?

I've done a lot of work in that space and within orthopedics right now, conceptually, I think it has some merit. Realistically, however, in the orthopedic space for the next five or 10 years, it's a concept rather than a reality. In fact, I'm just converting a surgery center which had a really value-based model and we're eliminating that, or at least scaling it down to almost zero for the value-based part of it. Every private equity group in orthopedics wants to have an element of value-based care in their portfolio. But my thing is within the next 10 years it may develop, but in the next five years this is going to be the business the way we're running it. So, if I'm focused on driving additional revenue, from the revenue standpoint, I'm going to be focused on fee for service.

In terms of patient care, the data's still out, right? The data's still out on any of the models, whether that's going to deliver a more efficient model. I look back to the early 2000s when the ACO model came out and when they had the pioneer groups, a lot of that data didn't prove anything better than what was already occurring. In fact, they abandoned most of that. Most of the groups in the pioneer ACO stopped participating in that program. The concept was there, but I don't think the marketplaces, specifically in ortho and many other specialties, is ready for it yet or provides any.



Strategic partnerships specifically focused on patient referrals and separately focused on provider recruiting. How do you think about those two opportunities?

I think we're fortunate we've got a really good internal resource for provider recruitment. In fact, we just signed and added six new physicians to our network within the last two months. Patient referrals, I think there's a lot of real quality technology solutions that are out there that we're employing that do a lot better job than we can ever do in-house.

And are they more focused on digital campaigns or when you say technology, are you thinking about marketing?

I did a project for another ortho based MSO before I came here and we implemented technology based on simple things such as self-scheduling appointments. And most of the physicians will fight tooth and nail saying, "No. We want to schedule our own patients, have them call and...". We implemented third party self-scheduler and within the first six months we realized that first of all, there was a giant spike in new patients and those new patients were 19 years younger than our traditional patient. So we were tapping into a marketplace that we weren't involved with before, and in orthopedics to have a patient who's 19 years younger than your current patient, you have a patient for a lot longer. So there are products out there to drive technology engagement with a patient population that you may not touch otherwise.

I have one more sort of related to that topic. You've mentioned a few times the decentralized model. I was curious how much you're investing in building the national MSO brand and what you see as the goals, objectives, and initiatives related to building the national MSO brand.

The National MSO brand, really what we want to be considered, it's in our name kind of Growth Ortho. Again, I mentioned that 85% to 90% of the MSO's time will be spent on growing local practices. That's what we want to be known for. Now that's where we are, I call in our first ride with the private equity and maybe even the second ride with the next private equity. They'll get to a point where someone will come in and say, there are synergies. You can standardize certain functions and the MSO should do the billing, should do the EHR and technology. I don't see that. I don't see that in orthopedics in the next 10-year horizon, so if we stay focused on supporting them where we can, operationally we can support, we've got departments for each of the major operational supports. But our model is about growing your practice, keeping healthcare local and growing you locally around that region. So that that's really the brand of what Growth Ortho is coming to market with.

Special thanks to Peter McCann for his insights in this discussion.