



# Global Healthcare Advisors, LLC

*Building Leading Healthcare Companies*

## Radiation Clinical Oncology: Pendulum Favors Payors Yet Opportunities Exist

Vertical: Outpatient Services & Care, June 2015

### MIAMI OFFICE

333 SE 2<sup>nd</sup> Avenue  
Suite 2000  
Miami, FL 33131

### PROFESSIONAL TEAM

Lawrence S. Carter  
*Senior Managing Director*  
lcarter@ghadvisors.net

Jason Laurent, CFA  
*Managing Director*  
jlaurent@ghadvisors.net

Nathalie A. Rouzier  
*Vice President, Research*  
nrouzier@ghadvisors.net

Josh Weber  
*Vice President*  
jweber@ghadvisors.net

Julian Astrove  
*Analyst*  
jastrove@ghadvisors.net

Inna Pillipenko  
*Executive Assistant*  
ipillipenko@ghadvisors.net

### ADVISORY BOARD

Frank Blair  
Stanley B. Blaylock  
Joel B. Braunstein  
Brad Buxton  
Martin Z. Craig  
Timothy Dickman  
Angus Duthie  
Greg Guckes  
Steven C. Straus

### Executive Summary

**Market Analysis:** We are cautious on Outpatient Radiation Oncology Service and Care fundamentals, yet we think opportunities exist. GHA suggests that our clients take a contrarian or “value” thesis in the sector. Our cautious approach would change if (1) industry fundamentals improved from legislation or (2) bigger breakthroughs in technology happen to contain costs

**Reimbursement:** The pendulum favors payers given that 60% of oncology patients pay for treatment by Medicare, the average oncology practice generates approximately 65% of revenue from medication, oncology requires significant amounts of patient care planning and coordination that Medicare has traditionally struggled to adequately reimburse and the existing FFS model.

**Financial Models:** Models are under pressure thanks to FFS model and the high requirement of capital expenditures. Overall costs are growing in the mid teen range, faster than reimbursements, coupled with large CAPEX investment requirements for technology equipment. Furthermore, medication reimbursements are based upon average purchase price, not actual purchased price. Lawmakers are also considering eliminating or reducing the 6% markup under Medicare “Buy and Bill.”

**Regulation:** The Cancer Care Payment Reform Act of 2015 Could Improve Reimbursement Predictability, in Early Stages However. The Bill moves Oncology services to a “bundled model.” A bundled model means that Oncology Practices charge patients a fee for a specified level of treatment that is more predictable but may not necessarily improve margins

**Acquisition Environment:** The acquisition environment has been light, reflecting the sector’s business fundamentals and the late stage of major consolidation.

**Strategic Framework:** Long-Term we favor technology adopters and integrators. Medium / Near-Term, we like firms who focus on Convenience & Marketing.