

How IntraLase Technology is Impacting the Refractive Practice

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One year ago, SM² Consulting conducted a survey of IntraLase® (IntraLase Corp., Irvine, CA) customers to understand the impact of their laser technology on procedure volumes and pricing. Results indicated that through March of 2003, IntraLase customers were outperforming industry averages for procedure volume and pricing and had demonstrated an improvement over their own performance prior to acquiring IntraLase technology.

Since that time there have been several significant changes among the IntraLase customer base and the industry as a whole:

- ▶ IntraLase's customer base in the US has nearly tripled to over 100 installations.
- ▶ The average collected fee among IntraLase customers has increased over \$400 per eye since commercial availability in 2002.
- ▶ IntraLase customers, as a group, have significantly increased their own refractive revenue, up nearly 40% from comparable averages prior to acquiring the technology.
- ▶ Customized ablation treatment is now widely available and is being utilized in conjunction with IntraLase technology to further optimize results.
- ▶ Consumer confidence has increased, and the refractive industry is regaining momentum.

Given the significantly larger customer base and increasing market share of IntraLase as a percentage of total industry procedures, this year's survey of IntraLase customers also addressed patient education and the relative value of both IntraLase and custom technologies to the practice. This report highlights aggregated responses from customers on procedure volume and pricing, with additional data presented assessing how IntraLase technology is affecting the refractive practice at key milestones in the patient decision-making process.

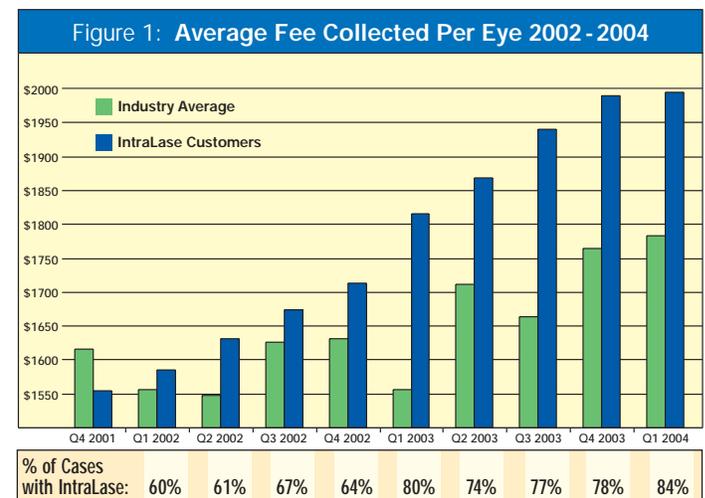
Methodology

64 IntraLase customers completed surveys with data for this research. The survey was sent by e-mail and could be completed online or via fax. Nearly half (31/64) of the practices are single surgeon, and refractive surgery typically comprises 65% of overall revenue. Customers responding to this survey have been using IntraLase for a mean period of 12 months (range: 3 to 27) and account for approximately 80% of the 150,000 procedures performed to date on this platform. Thus,

results from this survey sample are indicative of the entire customer base.

Purchase Decisions: Price and Procedure Volumes

The average collected fee per eye for IntraLase customers as a group has been increasing steadily since the commercial launch of the technology in Q1 2002 (see figure 1). By Q1 2004, this amounted to \$1,995 per eye, a difference of over \$200 compared to current industry averages. Since custom treatment is also a contributing factor to increased fees, more in-



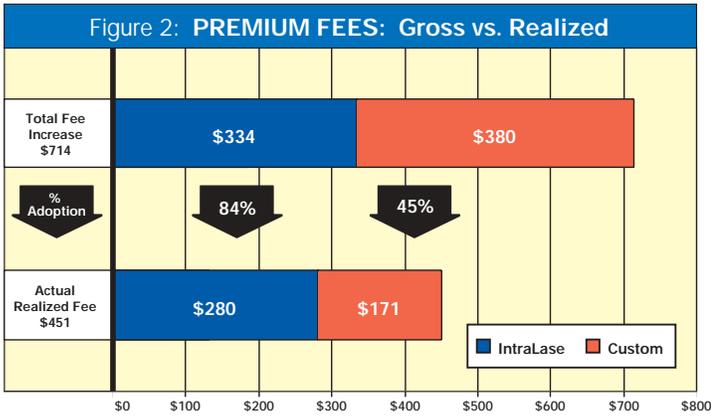
depth analysis was done to determine the component value of IntraLase technology to the overall procedure fee. Two data points were analyzed in combination: increases in fees charged to patients, and the adoption of the technology as a percentage of total procedures.

Fee Schedules

92% of IntraLase customers (59 of 64) raised their fees in one of three ways: a change in their list price, a separate add-on fee for technology, or a reduction in the discount they had been giving to patients. For IntraLase technology and customized treatment, the average fee increase reported was \$334 per eye. When asked about future plans to increase prices, 21% of respondents indicated they are planning to increase their fees during the next 12 months by an average of \$178 per eye.

Impact on average collected fees

Total fee increases, including custom treatment, currently average \$714 per eye. Although custom comprises a higher percentage of the overall fee increase, an analysis of the adoption

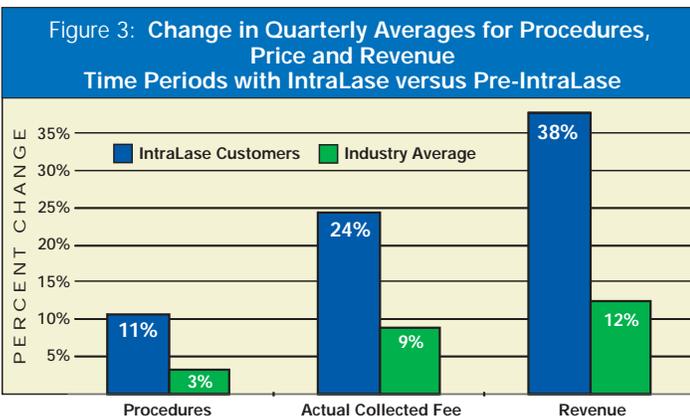


rates tells a different story. IntraLase customers use IntraLase technology an average of 84% of total cases while custom is being used on 45% of cases, affecting the actual amount each contributes to the fee increases being seen by practices. As shown in Figure 2, the impact when spread across all LASIK revenue for the practice indicates that IntraLase is contributing more per eye than custom.

About half of those surveyed are using IntraLase on virtually all cases, meaning that their actual collected fee would on average more closely resemble the \$334 amount per eye. Notably, these key data points have remained consistent: In 2003, fee increase averaged \$338 per eye, the adoption rate was 85%, and revenue across all eyes was up \$287. This year-to-year consistency demonstrates that IntraLase technology is maintaining its premium price points and has not been subject to cannibalization following to the introduction of custom treatments.

Impact on Procedure Volume and Revenue

IntraLase customers have seen a dramatic increase in LASIK revenue when comparing their average procedure volume and pricing both before and after acquiring the technology. Figure 3 shows the change across all IntraLase customers surveyed, using historical data from quarterly periods both before and after acquiring the technology. An average was created that accounts for seasonality by using 4 quarters of consecutive data: the most recent 4 quar-



ters (Q2 2003 to Q1 2004) represent the “after” period, while the “before” period averages data from the 4 quarters immediately prior to incorporating the technology. The typical customer has seen an 11% increase in procedure volume, 24% increase in collected fees per eye, and 38% increase in revenue.

Using comparable time periods, the industry saw a 3% increase in procedure volume, 9% increase in average collected fee per eye, and 12% increase in revenue for each laser center. The baseline used for the industry was the average of the four quarters immediately preceding the approval of custom ablation (Q2 2002 to Q1 2003); this was a conservative model that represents a “best case” improvement for the industry.

Purchase Consideration: Closure Rates and Choice of Technology

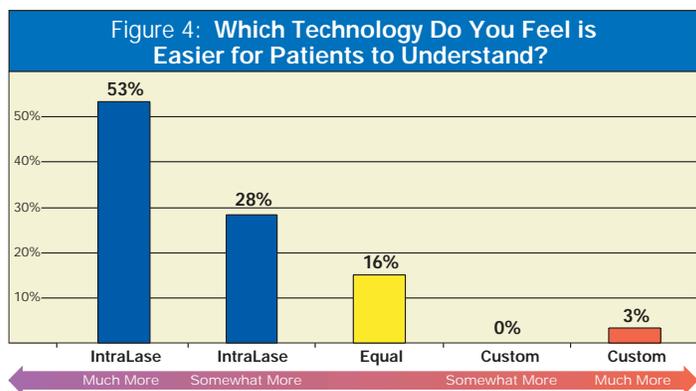
IntraLase customers were asked to assess the impact of IntraLase technology on their closure rates, defined as the percentage of eligible patients that proceed from a consultation to surgery. In 2003, one-third of the customers indicated that their closure rates had improved by an average of 11 points, increasing from 64% to 75%. In 2004, one-half of customers (48%) indicate that IntraLase technology has enhanced their closure rate, changing from 64% prior to acquiring the technology to 77%. For these customers, this means that on average an additional 13 patients for every 100 consultations are moving forward to have refractive surgery.

The fact that the customer base is evenly split in their assessment of closure rates may be related to a similar finding when it comes to allowing patients to choose technology: About half of practices allow patients the option to choose IntraLase or a traditional microkeratome to begin the procedure (compared to about one-third a year ago). Reasons for allowing choice include tiered pricing schedules and the desire not to alienate cost-conscious candidates. Nonetheless, when given a choice 78% of patients are choosing to pay more to be treated with IntraLase (range: 10% to 100%), up from 67% a year ago.

Interest in Technology: Patient Communication

Prior to consultation, prospective refractive surgery candidates are generally in contact with office staff via telephone, an educational seminar, or during a routine eye exam. It is during these interactions that staff and doctors have the opportunity to describe the procedures and the technology involved as a means of educating patients. Since all IntraLase customers offer customized ablation, they were asked to compare the ease with which prospective patients understand the benefits of each technology.

81% of respondents indicated that patients tend to understand



IntraLase much more easily or somewhat more easily than custom, while 3% of customers reported that custom is much more easily understood than IntraLase; 16% of customers indicated that both IntraLase and custom are equally understood by patients (see Figure 4). Comments from survey respondents confirm last year’s finding that patients are attracted to the concept of no blade being used in the procedure and the reduced potential for complication from the traditional microkeratome.

Discussion

The data on procedure pricing and volume by IntraLase customers clearly indicate that the technology is gaining acceptance in the refractive marketplace among both surgeons and consumers. The ability to create lamellar flaps via laser and without a blade has moved beyond a novelty or niche status that is limited to the top practices and their “innovator” surgeons who will be the first to use a new technology.

2003 has marked the year where IntraLase technology successfully crossed over to the next group of surgeons who are “early adopters;” along with the innovators they account for up to 15% of overall LASIK surgical volume.

Why is this adoption happening? A review of survey comments and customer interviews leads to several conclusions:

1. Differentiation - IntraLase allows surgeons who want to be premium providers to offer a premium product. This differentiation applies to clinical as well as business aspects of the refractive offering; most customers echo the sentiment that the technology has “raised the bar” in their practice. This is consistent with an innate desire among surgeons to continually improve their outcomes. Improved outcomes lead to more satisfied patients, which over time should create more patient referrals.

2. Patient acceptance - Research indicates that many consumers believe LASIK has always been “all laser”, requiring IntraLase customers to educate their marketplaces about the technology. Once accomplished, however, patients seem to quickly appreciate and prefer a procedure that avoids placing a

blade on their eye. One practice summed it up this way: “IntraLase adds a trust value that was missing from our offering.”

3. Profitability - Last year’s survey concluded that adding IntraLase was breakeven or better financially. This year, with a much larger customer base and many more data points, it is safe to say that the “all laser” approach is generating incremental profitability to the practice on a per-case basis (see Figure 5).

Will IntraLase grow procedure volume? This year’s survey asked that question directly of customers. 70% (41 of 59 who responded) indicate that it has increased business an average of 29%, while the remaining 30% say there has been no measurable increase. These responses closely mirror the quantitative data in Figure 3 that show procedure volume has increased 11% and revenue is up 38% for IntraLase customers.

Figure 5: IntraLase Replacing Blade Incremental Profitability Per Eye
Based on Q1 2004 data from 64 IntraLase Customers

| | |
|--|--------------|
| Average Fee Increase | \$334 |
| less: | |
| Laser, service and procedure fees amortized over 36 months | -\$213 |
| Blade and keratome savings per case amortized over 36 months | \$34 |
| Gross Profit Per Eye | \$155 |
| Breakeven analysis: < 60 eyes per month | |

Summary

The results achieved in the past year by IntraLase and its customers are impressive and in line with reasonable expectations about the time it takes for a new technology to be adopted by both surgeons and patients. This survey has shown that IntraLase technology is having a meaningful impact for customers who have acquired it. This impact is not automatic; like any successful business, it requires dedication and investment to make it successful. But to date, customers are satisfied with the contribution the technology is making to their practice. In the launch of the excimer laser, there was an incubation period for several years before enough lasers, surgeons, and treated patients were in place to allow for strong growth of the category. A similar pattern seems to be emerging with IntraLase technology. We look forward to monitoring future progress of this technology in the refractive marketplace.

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