



Bariatric Surgery Market Overview

May 2022

Bariatric surgery is a growing option for adults suffering from the effects of obesity

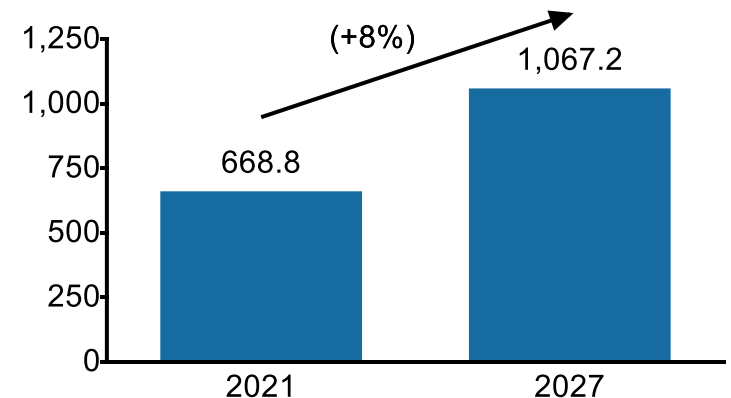
- Bariatric surgeries are used to help lose excess weight and reduce risk of life-threatening issues including: heart disease, stroke, high blood pressure, sleep apnea, type 2 diabetes, etc.
- Procedures are performed by bariatric surgeons in various hospital and medical clinics
- Such surgeries are typically last resorts after attempts at diet and exercise have been made
- One of two surgeries are typically performed:
 - **Sleeve gastrectomy:** removal of 80% of the stomach that holds less food
 - **Roux-en-Y gastric bypass:** decreases the amount of food the patient can eat by sealing off the top part of the stomach and is sewn directly into the middle of the small intestine
- Patients typically require:
 - BMI of 40 or higher, signaling extreme obesity
 - BMI 35-39.9 (obese) coupled with a serious weight-related health problem
 - In some cases those with BMI of 30-34 may qualify if they have a serious weight-related health problem

1. Source: Mordor Intelligence
2. Source: ASMBS
3. Source: Obesity Coverage
4. Source: Newswise

US Bariatric Surgery Market Stats

- **Market size¹ (2021):** \$668.8M
- **Procedures performed² (2019):** 256
- **Average surgery cost³:** \$23k
- **States with highest utilization of surgeries by eligible patients⁴:**
 - NJ – 10.4%, RI – 9.6%, DE – 9.2%

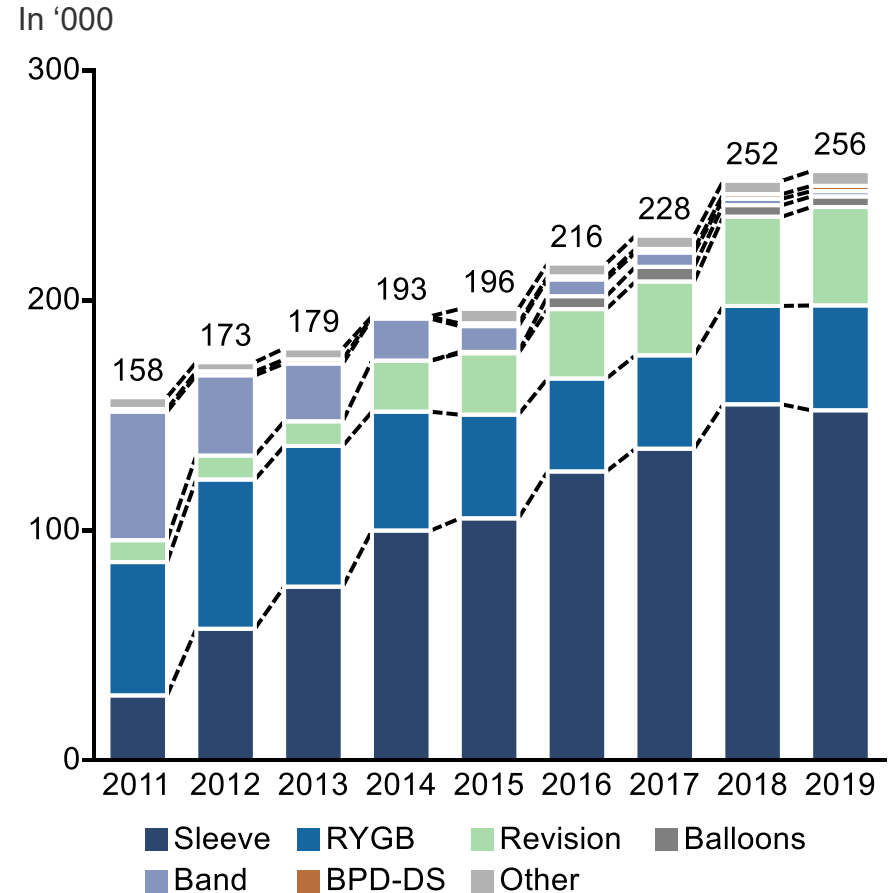
Market size in millions



Increasingly, the sleeve gastrectomy has become the surgery of choice, with alternative procedures emerging as well

- Bariatric surgeries performed has experienced healthy growth during the 2010s with number of surgeries being performed increasing at a CAGR of 6.2% in the US during the time period shown.
 - The largest driver of this growth comes from sleeve surgeries and revisions. Sleeve gastrectomy, as the most common bariatric surgery performed, has experienced strong CAGR of 23.5% during the period but experienced slowdown in 2019.
 - RYGB procedures have contributed most to contraction in the bariatric space, at a -3.0% CAGR, due to sleeve gastrectomy being easier, faster, and safer to perform
- An emerging procedure in the bariatric space is intragastric balloons. While not a surgical procedure, balloon procedures surfaced in 2015, peaking in 2017 and falling off since
 - Notably alternative procedures have been popping up over the last five years:
 - Gastric balloon
 - Endoscopy
 - Aspiration therapy
 - Gastric injections

No. of Bariatric Surgeries Performed in the US¹



1. Source: ASMBS

Market growth is being propelled by three structural tailwinds

Increasing prevalence of obesity and related complications

- 36.5% of adults in the US are obese with another ~33% classified as overweight.
- >280K people per year die in the US due to complications associated with obesity²
- The CDC estimates 37 million Americans live with diabetes (90-95% of whom have type 2 diabetes), with obesity being one of the major contributors³

Technology advancements in bariatric surgery

- Production of closure devices, used for reconnecting tissues and closing incisions, expected to grow as they are widely used in minimally invasive surgeries
 - These devices are found to be complicated, expensive, and may cause tissue trauma
- Remote delivery of patient care extends the reach of services to individuals after bariatric surgery and mitigate weight regain or impairment in quality of life

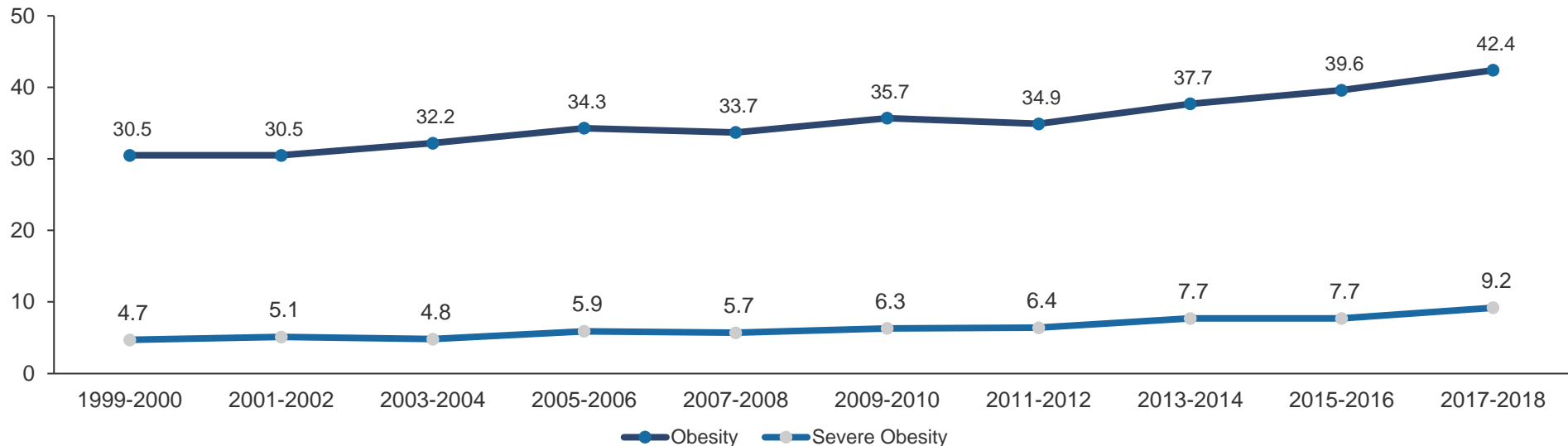
Regulatory and institutional support

- Increasing number of FDA approvals for bariatric surgery devices
- Medicare/Medicaid and private insurers increasingly covering surgeries
 - Weight loss surgery from the insurance perspective is considered “medically necessary” rather than cosmetic to decrease health risks associated with severe obesity

1. Source: Healthline
2. Source: JAMA Network
3. Source: CDC

A steady increase over several decades in the extremely obese population increases the population eligible for surgery

Prevalence of Obesity and Severe Obesity Among US Adults Aged 20+¹



- Over the time periods displayed in the above chart, obesity (BMI >30)² and severe obesity (BMI >40) has been on the rise among US adults.
- Growth of the “severely obese” population outpaced growth in the “obese” population, which increases the pool of adults eligible for bariatric surgery, as a high BMI is a requirement to receive surgery.

1. Source: NCHS. Note, that ages were adjusted age adjusted by the direct method to the 2000 U.S. Census population using the age groups 20–39, 40–59, and 60 and over
2. Note that the obese population also includes those who are severely obese


Regulatory changes have improved payor coverage of bariatric surgeries, but receiving eligibility can still be challenging

Policy changes beginning to support growth...

- Medicare and Medicaid cover some bariatric surgical procedures, like gastric bypass surgery and laparoscopic banding surgery, when patients meet certain conditions related to morbid obesity
 - Up until recently, Medicare had a clause stating that “obesity is not an illness” in their policy statement. This clause was recently deleted with the implication that obesity therefore must be considered an illness.
- Under the Affordable Care Act, some states require that health insurers selling plans in the marketplace or directly to individuals or small groups cover bariatric surgery
 - 23 states currently require all individual, family, and small group insurance plans to cover bariatric surgery

...however not all those eligible can access surgery

- A study by the University of Georgia found private insurance was associated with a greater frequency of bariatric surgery and lower cost of surgery than public insurance, despite the majority of obese people more likely to be on public
- Precertification approval by insurance companies (in which medical and dietary history is reviewed) is a complicated, long-term process
 - While the bariatric surgeries themselves are performed by surgeons, other professionals are typically involved prior to surgery including nutritionists and psychologists to make sure patients are physically and emotionally prepared to have weight loss surgery
- Some carriers may add “riders” which permit coverage but at a substantially increased cost to the insured, thereby passing this cost on to the consumer. This approach transfers the option of offering weight loss surgery coverage to the employer

 Limited M&A activity in the bariatric surgery space, but broader weight loss space has provided more opportunities

Target	Buyer	Date	Location	Details
Options Medical Weight Loss	Thurston Group	Nov '21	Naperville, IL	Provides customized weight loss programs, with guidance from board certified obesity medicine practitioners to patients throughout the country
Long Island Bariatrics	NYGB	Sep '21	Long Island, NY	Independent bariatric practice in Eastern LI
Grand Health Partners	DuneGlass Capital	Jan '20	Kentwood, MI	Bariatric and general surgery practice, which provides medical and surgical weight loss
SSJA Bariatric Management LLC (NYBG)	Sentinel Capital Partners	Aug '19	New York, NY	New York Bariatric Group is a provider of administrative support services to bariatric surgery offices in the New York area
BarioSurg Inc.	EnteroMedics Inc.	May '17	Lake Forest, CA	Sought to acquire Gastric Vest System product from BarioSurg Inc.
Quick Weight Loss Centers	Sentinel Capital Partners	Aug '16	New York, NY	Multistate health and wellness company that provides highly differentiated weight loss management services



Investment options in bariatrics are limited as majority of surgeries happen at hospitals, potential opportunities in other parts of value chain

Below are some of the major players in each space as we consider investment opportunities of similar business models that are outside the traditional hospital system

Bariatric surgery sites*

Non-hospital sites that perform bariatric surgery

Central California Surgery

NEW YORK BARIATRIC GROUP

CENTER FOR OBESITY SURGERY AND TREATMENT

NORTH FLORIDA REGIONAL HEALTHCARE

Equipment and devices*

Producers of equipment and devices that are used to perform bariatric surgery

ETHICON
a Johnson & Johnson company

Medtronic

BRAUN
SHARING EXPERTISE

apollo
endosurgery

Gastroenterology offices

Diagnose and treat problems in GI tract and liver but may not perform surgery

SOUTH EAST TEXAS GASTROENTEROLOGY ASSOCIATES, PA

birmingham gastroenterology

GANJ GASTROENTEROLOGY ASSOCIATES OF NEW JERSEY

GI Associates & Endoscopy Center

Psychology and nutritionist offices*

Psychology and diet specialists and consultants that focus on weight loss and obesity. These specialists can be used for surgery pre-approval

Central Florida Psychological Consultants, Inc.

RD NUTRITION CONSULTANTS

* Potential NBG focus areas

** Note: We would consider companies that lease products by these equipment producers



Case Study: SSJA Bariatric Management



Target

- **Name: SSJA Bariatric Management, LLC**
- A leading provider of administrative support services to bariatric surgery offices in the New York metropolitan area.
- Provides administrative services to 15 bariatric surgery offices in New York, New Jersey, and Connecticut that collectively operate as the New York Bariatric Group and employ bariatric surgeons, other specialists, and physician assistants.

Buyer

- **Name: Sentinel Capital Partners**
- Specializes in buying and building businesses at the lower end of the middle market in the US and Canada in partnership with management.
- Sentinel targets healthcare, aerospace and defense, business services, consumer, distribution, food and restaurants, franchising, healthcare, and industrial businesses.
- Invests in MBOs, recapitalizations, corporate divestitures, and going-private transactions of established businesses with EBITDA of up to \$65 million.

Deal Terms

- Stake acquired, transaction value, and other terms of the deal were not disclosed

Deal Objective

- **For SSJA:** The investment will help SSJA to expand its business geographically and extend its service offering into other markets.
- **For Sentinel:** This investment will complement other portfolio companies of Sentinel in healthcare sector. Additionally, the PE firm believes that it's a good investment as SSJA is an innovative, technology-enabled company with a robust marketing strategy and strong patient satisfaction scores at its affiliated practices.

 Please get in touch with us

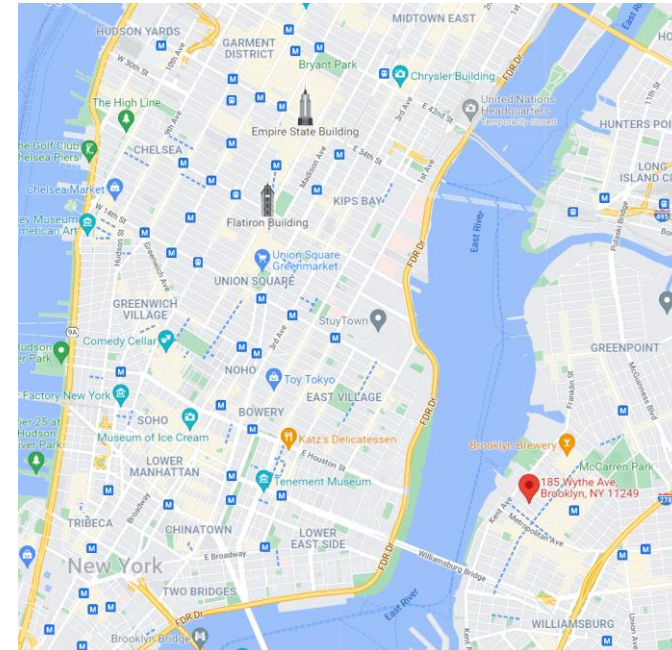
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Location



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