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Skin Substitute Coverage: 2 Steps Back & 1 Step Forward

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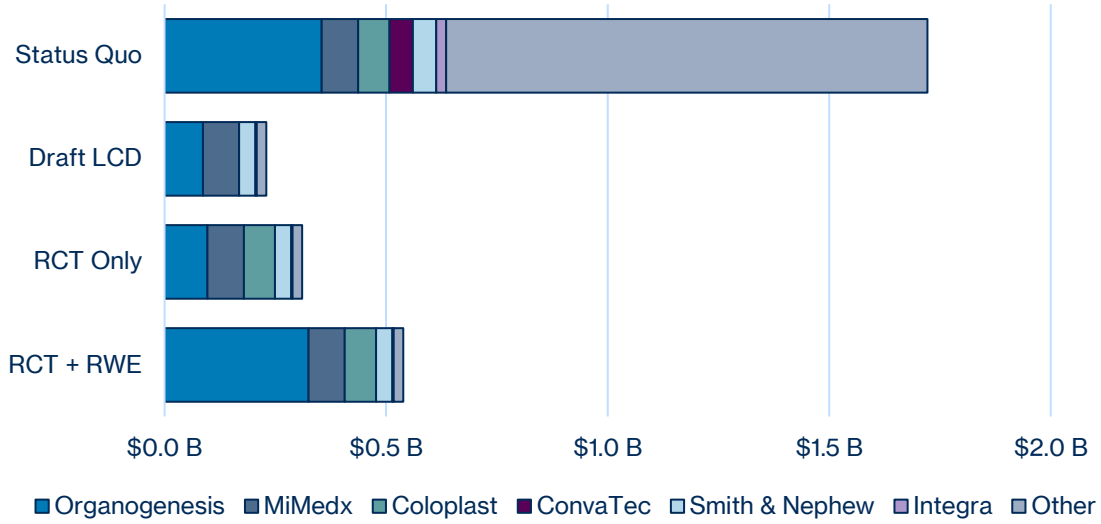
Amid ongoing questions as to how **Coloplast (COLOB.DC)**, **ConvaTec (CTEC.LN)**, **Organogenesis (ORGO)**, and others may be impacted by Medicare Administrative Contractors' (MACs) recent coordinated proposals to eliminate coverage for ~90% of skin substitute products used for diabetic foot ulcers / venous leg ulcers (DFUs / VLUs), last week's MAC open stakeholder meeting leaves us with the following impressions: 1) we would expect product-specific relief for COLOB.DC, but the odds are lower for CTEC.LN and ORGO; and 2) while we agree with the potential for market *share* gains outlined in these companies' 1Q24 earnings calls, this would likely be in the context of a dramatically reduced market *size*; as 3) the MACs – with the apparent backing of CMS – appear committed to new evidentiary standards through a final coverage policy we would expect in mid-Q4.

Skin Substitute LCD Outcome Scenarios



State of Play & the MAC / CMS Response

Recall that the April 25 draft local coverage determinations (LCDs) and associated billing articles took a product-by-product approach to coverage, evaluating the clinical literature available to comport with the newly proposed requirement that all skin substitutes "have quality supporting evidence to demonstrate the product's safety, effectiveness, and positive clinical outcomes in the function as a graft for DFU and/or VLU." Moreover, "predicate products" – e.g., those cleared by FDA based on their similarity to previously-approved grafts – "are not sufficient evidence for an individual product."

This approach is highly similar to the final LCDs from Novitas (32% of volumes), First Coast (12%), and CGS (2%) that were withdrawn late last summer, and while stakeholders had at the time cheered this reversal, the updated versions: A) now include the participation of all seven MACs, whose combined jurisdiction spans the entire U.S. Medicare fee-for-service (FFS) system; and B) is actually *more* restrictive, proposing to cover just 15 of 224 products (7%) compared to last year's 58 of 188 (31%), as shown in the comparison for relevant company products below:

COMPANY	PRODUCT	SEPT. 2023 FINAL LCD	APR. 2024 DRAFT LCD	CY22 FFS SPENDING	% CY22 REVENUE
Coloplast (COLOB.DC)	Kerecis Omega 3	Covered	Non-Covered	$71 M	2.1%
Convatec (CTEC.LN)	InnovaMatrix	Covered	Non-Covered	$37 M	1.8%
	Novafix	Non-Covered	Non-Covered	$16 M	0.8%
Organogenesis (ORGO)	Affinity	Non-Covered	Covered	$71 M	15.7%
	Apligraf	Covered	Covered	$15 M	3.3%
	Dermagraft	Covered	Covered	$931 K	0.2%
	PuraPly	Non-Covered	Non-Covered	$228 M	50.5%
	Novachor	Non-Covered	Non-Covered	$30 M	6.7%
	NuShield	Non-Covered	Non-Covered	$10 M	2.3%
	Cygnus	Non-Covered	Non-Covered	$3 M	0.7%

In apparent anticipation of the pushback they received at last week's open meeting, the MACs provided a defensively worded statement following the conclusion of all presentations that they noted had the support of each individual contractor *and* CMS itself, offering the following points:

- "Stakeholder input from the previous proposed LCD was strongly considered in the development of this proposal," and it "aligns with 4/5 of the societal guidelines" outlined in the release.
- "Since this is an evidence-based policy, all future evidence must be submitted through the LCD Reconsideration process," rather than merely updating covered billing codes through the associated coding articles, which likely entails a 4-6 month review time for each reconsideration and precludes multiple annual reviews.
- "Literature not included in the evidence review may be submitted during the open comment period for consideration," but it "must be published in a peer-reviewed journal," implying that the submission of non-published data will likely remain insufficient for coverage.
- "There are no pathways for [CMS/MAC] coverage based on FDA regulatory processes," and "the policy intentionally does not limit consideration for coverage to specific study designs [e.g., randomized clinical trials (RCTs)] to allow investigators multiple options." However, that being said, the covered policies chosen generally appeared to be selected based on RCTs, leaving some uncertainty about how products are really being evaluated.

While we suspect the MACs will offer some product-specific relief – such as COLOB.DC's Kerecis Omega 3 and ORGO's NuShield – in the final policy, while also providing greater clarity on the process / data standards for coverage (e.g., allowing *published* real world evidence (RWE) rather than only RCTs), we think the odds are against a wholesale reversal of this approach or abandonment similar to last summer.

This would imply a significant shrinking of the overall market that, while likely to produce market share gains for covered company products [*see Appendix*], would also be at the expense of non-coverage of material business lines, with ORGO perhaps the most notable example given PuraPly's significance.

MARKET *SIZE* ANALYSIS

COMPANY	STATUS QUO	DRAFT LCD	RCT ONLY	RWE
Organogenesis (ORGO)	--	-$268 M	-$258 M	-$30 M
MiMedx (MDXG)	--	-$393 K	-$393 K	-$393 K
Coloplast (COLOB.DC)	--	-$71 M	$0	$0
ConvaTec (CTEC.LN)	--	-$53 M	-$53 M	-$53 M
Smith & Nephew (SNN)	--	-$15 M	-$15 M	-$15 M
Integra (IART)	--	-$20 M	-$20 M	-$20 M
Other	--	-$1.1 B	-$1.1 B	-$1.1 B
TOTAL	**--**	**-$1.5 B**	**-$1.4 B**	**-$1.2 B**

MARKET *SHARE* ANALYSIS

COMPANY	STATUS QUO	DRAFT LCD	RCT ONLY	RCT + RWE
Organogenesis (ORGO)	20.6%	37.6%	31.2%	60.3%
MiMedx (MDXG)	4.8%	35.7%	26.4%	15.2%
Coloplast (COLOB.DC)	4.1%	0.0%	22.7%	13.1%
ConvaTec (CTEC.LN)	3.1%	0.0%	0.0%	0.0%
Smith & Nephew (SNN)	3.0%	16.0%	11.8%	6.8%
Integra (IART)	1.3%	1.3%	1.0%	0.6%
Other	63.1%	9.4%	6.9%	4.0%
TOTAL	**100%**	**100%**	**100%**	**100%**

We review the prospects for each of COLOB.DC, CTEC.LN, and ORGO in the final LCD below.

Coloplast: Greatest Likelihood of Relief

We view the company's Kerecis Omega 3 Wound product as likely to be changed from non-covered to covered due to the omission of relevant RCT data that we view as meeting the – admittedly vague – standards established under the draft LCD.

- That release included only a single RCT [Lullove (2021)] comparing Kerecis Omega 3 Wound + Standard of Care (SOC) to SOC alone, which the MACs criticized as having a "high risk of bias due to missing outcome data [10 of 49 (20%)], small sample size [N = 49], and short-term follow up [12 weeks]. Despite this, the abandoned Novitas / First Coast / CGS policy from last summer had left the product covered.
- As the company has noted, however, the evidentiary review for the new draft excluded a more recent RCT [Lantis (2023)] that has longer-term follow up [6-12 months], a larger sample size [N = 102], and a smaller overall proportion of excluded patient data [7 of 102 (7%)].
- Following the company's presentation of this data, the MAC administrator encouraged the submission of this study in writing, calling it valid and appropriate for consideration.

ConvaTec: Timeline Suggests 2025 Disruptions

The odds are likely against CTEC.LN's InnovaMatrix inclusion in the covered product list once the final policy is released. Despite the fact that it *had* been left covered in last summer's LCD, the only available evidence for it cited in the recent proposal is an historical review of the use of human amnion in plastic surgery, which is both not a clinical study nor relevant to DFU / VLU.

- The company argued at last week's open meeting that InnovaMatrix' FDA 510(k) clearance was based on a predicate that has had multiple clinical studies [**Smith & Nephew's (SNN)** Oasis Wound Matrix] but, as shown above, the MACs and CMS reiterate the draft's stipulation that "there are no pathways for coverage in the proposed LCD based on FDA regulatory processes."
- CTEC.LN also indicates that it is working on two clinical studies [*see here, here*] – one with 30 participants and the other with 37, both non-randomized – and that it expects to publish the results "later this year."
- With the LCD comment period ending June 8, as well as MAC / CMS instructions that "literature must be published in a peer-reviewed journal," the key question is whether this can happen in time and if non-randomized data on 30-37 participants will be sufficient, particularly given that these studies are smaller than the above *randomized* trial for Coloplast's Kerecis Omega 3 Wound that was itself found lacking due to its small sample size.
- This suggests the most likely scenario is that CTEC.LN will need to submit the data as a full LCD reconsideration, which will likely take 1-2 quarters for the MACs to accept and draft a proposal, followed by a 4-6 month review time, calling into question the ability of InnovaMatrix DFU / VLU sales to contribute to 2025 revenues.

Organogenesis: Coverage Consolidation Can Be Costly

We give no better than 50-50 odds to the final policy including the company's PuraPly product line for coverage, but we see better prospects for the less-material NuShield.

- ORGO also noted in its 1Q24 call that it has "a very strong RCT for NuShield…and we will have that publication ready for submission in our comments," going on to say that it has a "significant amount of real world data for PuraPly, some of which has not been seen by CMS."
- Similar to CTEC.LN above, however, the timing may be insufficient amid the June 8 close of the open comment period, with management concluding that it expects "to have compelling cases to present to the MACs to secure coverage for additional products later this year and into next year."
- Recall that last year's abandoned LCDs had also declined to cover PuraPly and Affinity, but only the latter has now been switched to covered status under the updated draft.
- This is despite the fact that PuraPly *does* have a fairly large real world study [N = 307], which the MACs characterized as having "promising results," but also found to be "limited by a lack of control arm, blinding, or randomization, short-term follow-up (4.5 months), and a high risk of bias."

- With two consecutive MAC evidence reviews finding the available PuraPly data insufficient, and with additional data publication seeming unlikely prior to June 8, we have limited confidence in the prospects of a MAC reversal.

APPENDIX: DRAFT LCD COVERED PRODUCTS

COMPANY	PRODUCT	SEPT. 2023 FINAL LCD	APR. 2024 DRAFT LCD	CY22 FFS SPENDING
MiMedx (MDXG)	Epifix	Covered	Covered	$75 M
MiMedx (MDXG)	Epicord	Covered	Covered	$7 M
Organogenesis (ORGO)	Affinity	Non-Covered	Covered	$71 M
Organogenesis (ORGO)	Apligraf	Covered	Covered	$15 M
Organogenesis (ORGO)	Dermagraft	Covered	Covered	$931 K
Smith & Nephew (SNN)	Grafix Stravix Prime	Covered	Covered	$36 M
Smith & Nephew (SNN)	Oasis Tri-Layer	Covered	Covered	$328 K
Smith & Nephew (SNN)	Oasis Wound Matrix	Covered	Covered	$699 K
Bioventus (BVS)	Theraskin	Covered	Covered	$12 M
MTF Biologics (private)	Flex, Allopath Allopatch Pliable, Matrix	Covered	Covered	$5 M
MTF Biologics (private)	Amnioband, Guardian	Covered	Covered	$2 M
Integra Lifesciences (IART)	PriMatrix	Covered	Covered	$2 M
Integra Lifesciences (IART)	Integra, Omniograft	Covered	Covered	$534 K
Stryker (SYK)	DermACELL	Covered	Covered	$2 M
Stryker (SYK)	Graftjacket	Covered	Covered	$673 K