Category Development

Lenders bullish toward HME

By John Andrews Contributing Editor - **11.2007**

In what some might see as an ironic paradox of fortune, HME providers have greater financing opportunities today even though they face formidable challenges. Despite the potential difficulties posed by Medicare competitive bidding, the lending community is more bullish than ever toward the HME industry, financial observers say.

"Providers aren't really facing many challenges compared to five or six years ago," said Wallace Weeks, president of the Melbourne, Fla.-based Weeks Group. "At that time, banks were pulling back from the industry. They seem to have become comfortable again. Usually, when I find problems with credit and debt in a company, it's because they grew too fast or made some financial management mistake, not because the credit environment is harsh."

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Another part of the irony, says Bill Corcoran, an HME financial specialist, is that stringent payment policies have forced providers to become savvier with fiscal matters, casting them in a more favorable light with lenders.

"The higher reimbursement of yesterday allowed HME companies to operate less than optimally and they didn't understand their costs like they do today," said Corcoran, director of financial services for Elyria, Ohio-based Invacare. "When our team talks to customers, they now understand it's a different playing field. The game is changing so that they focus more on process management, understand the inefficiencies in their operations and cost structure, and what is impeding their ability to sustain their cash flow and improve profitability."

Rick Glass, president of Tarpon Springs, Fla.-based Steven Richards & Associates, adds that the looming Medicare changes are forcing providers to make difficult financial decisions.

"The biggest challenge to today's providers is growing their business and preparing for the reimbursement cuts coming along over the next couple of years," he said. "Providers have to prepare for not only the Medicare oxygen cap but also competitive bidding. This is causing new challenges such as choosing what products to offer and how to service their patients under the constant pressure of lower reimbursement rates. Depending on the impact of competitive bidding, some providers may choose not to offer certain product lines if they cannot provide them and still be profitable."

Saying 'Yes' to HME

Staggered cash flow, high days outstanding levels, heavy reliance on Medicare and overall financial fuzziness has made HME a less-than-desirable loan risk in the capital community over the years. But as tighter reimbursement policies have forced providers to either get a firm grip on their business affairs or cease operating, they have become more favorable candidates for loans and financing programs, said Wayne Bognar, director of financial services for Murrysville, Pa.-based Respironics.

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"What's interesting is that HME is a reimbursement-based business and financing is a way for us to help our customers grow their businesses and increase their profitability," he said. "Financing is a natural fit. We've looked at it from the standpoint that our market has a built-in reimbursement stream and we can take advantage of it. You don't buy a car with a single cash payment, so it makes sense to pay for products over their useful life."

A leasing or financing program that offers a capitated fixed monthly payment can give providers a clearer perspective on their costs and create a robust financial plan, Bognar said.

Financing options

Several manufacturers are offering "some very attractive terms" on credit for HME companies, Weeks observed. Member service organizations and factoring brokers are also inviting providers to inquire about their programs.

One thing to keep in mind when considering financing, Weeks advised, is that it isn't a short-term solution to a cash crunch.

"The object should be to have debt service on a schedule similar to the cash produced by the assets acquired," he said. "Therefore, it is best to use long-term financing instruments like a 24-month lease or term loans at a bank to finance equipment. Accounts receivable are best funded by revolving credit lines at a bank and inventory is best funded by trade credit."

Glass agrees that manufacturers are offering more innovative leasing programs and that they could serve as beneficial tools to help providers with their inventories. He cautions, however, that providers need to look closely at the details of these arrangements and select one only after considering all the potential ramifications.

"In many cases, manufacturers are offering lease terms on equipment purchases as low as zero percent over the term of the lease--this allows providers to better align their cash outlays for rental equipment with their future monthly cash collections," he said. "However, providers also need to be aware that these zero percent leases may result in a higher acquisition cost of the equipment than if they were buying these products for cash. A good strategy for providers is to first find out the lowest possible discount on the price of the equipment if paying cash and then evaluate financing alternatives from a bank. They can then compare the monthly costs of purchasing this equipment through a vendor lease or paying cash utilizing a line-of-credit or note from their bank."