

# HME News

THE BUSINESS NEWSPAPER FOR HOME MEDICAL EQUIPMENT PROVIDERS

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## ***Don't bet against Independents***

*By Rick Glass*

As consolidation of the HME industry nears the end of its second decade with barely a pause, is the end game finally in sight? Apria, Lincare and Rotech have combined revenues of \$2.8 billion. The 10 largest providers comprise 25 to 30% of the market and include such well-capitalized players as Praxair, Air Products and Walgreens. Is it possible that three of these hungry players (or some others not yet in the game) will gobble up 50% of the business in the next five years? I am sure the buyers would like to think so, but I say no way.

Despite the growth of large HMOs, patient care and referrals are still largely local matters and HME is still a service business. Market share is won and lost, market by market, referral by referral, based on service and personal relationships. Smaller independent companies have an advantage. In this atmosphere. They tend to have deeper, longer relationships with referral sources. And they move quickly to implement new service strategies and change to new and improved products without waiting for corporate approval.

Buying the competition isn't that hard but keeping and growing the acquired business is a different story. How many times have we seen this happen? An HME is acquired and a couple of people are let go, a few things are changed. A new competitor springs up, eager to hire a couple of those let go, try a new twist on providing better patient care or exploit their relationships with referral sources.

And, when the targets get larger, the job gets even harder. Remember the Abbey and Homedco merger to form Apria? It was six years and \$200 million of losses later before Apria's revenues returned to pre-merger levels.

In closing, there is only one way that I can imagine three companies controlling 50% of the HME industry. The change would be driven by a massive increase in managed care and a change in Medicare to competitive bidding on an exclusive basis across large regional areas (similar to VA contracts, as opposed to the recent Medicare pilot projects). This type of reimbursement set up would tip the balance in favor of the largest companies. This is a possibility, but at SRA we are seeing more startups than we have seen in many years. And this time many of them are more experienced and savvy in business, often trained by the consolidators they used to work for. I wouldn't bet against their success.

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