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Preparing for Today's Financing Labyrinth

By Steven R. Renard

By now, mostly everyone involved in Medicare imaging has lost several nights of sleep worrying about how the Deficit Reduction Act (DRA) will effect bottom-line performance of their businesses. Sustaining profitability will depend on a center's ability to increase its efficiencies. In some cases, this translates into investing in capital expenditures and new technology. Tomorrow's radiology centers will require equipment with greater throughput capabilities, more efficient front-end systems, and both electronic billing and record storage to assure clean claims and the capturing of additional revenue. Additionally, Picture Archiving and Communications Systems (PACS) will become a must in every center to increase productivity of the radiology staff.

But most companies are feeling like the survival mode is what's in fashion rather than shelling out capital to fuel growth. The quandary lies in how to fund new equipment and technology when finance companies are tightening their reins through lending restriction. Oftentimes, these lenders are deciding to completely eliminate themselves from medical financing. Much of the equipment required to operate successfully in today's changing imaging arena registers in the range of hundred of thousands of dollars, perhaps even millions, so paying cash isn't an option. Liberty Pacific Medical Management, an imaging management consultancy, sees a rising trend in clientele that are experiencing difficulty with financing options. This tends to stem from the nervousness lenders now are experiencing with their existing portfolios and the risk the DRA is imposing.

Hence, this conservative approach has forced many finance companies to review deals with a magnifying glass as opposed to rose-colored glasses. These lenders are presenting higher-than-usual interest rates with personal guarantees attached. They have become very particular, frequently choosing deals that include joint ventures with hospital systems or those with large, established radiology groups rather than smaller centers with a single radiologist or start-ups. It wasn't long ago that all one needed to launch a new center was start-up capital and a good business plan coupled with verified and confirmed referral sources. For vendors, this usually meant they could secure financing on the equipment they sold and the deals wouldn't be left alone to die in the finance department. Today, this is not the case as vendors and customers alike are seeing a sea change in the lending environment.

There are many ways to make the finance process easier for all parties, including center operators, vendors and lenders. Consider this:

• **Play the Field:** Always seek multiple finance proposals. Don't put all the eggs in one basket. It is in everyone's best interest – and the ultimate goal – to get the transaction funded. Also, OEMs with financing arms will often take riskier positions with their own equipment.

• **Practice makes Perfect:** It is a good idea to prescreen the finance package first among the lenders least likely to participate and afford them a chance to provide input. These lenders should be well established in the healthcare arena so they can offer constructive feedback on the business plan. It can always be modified and sent to the lenders who are more likely to complete the deal under the right terms.

• **Leveraging other Resources:** Equipment vendors should review packages and offer additional demographic or utilization data that may bolster the effectiveness of the business plan. Also, recruiting the expertise of a good consulting company that can source lenders and brokers and also build a solid business plan can be of considerable value.

• **Strength in numbers:** Potential reimbursement cuts equate to the need to create more volume. Be sure to share every available referral resource with the finance company, confirming their support either via teleconference or in print.

• **Risk Proof or Fool Proof?:** Ensure that the business plan outlines the specific risks of the deal. Business plans that are portrayed in a totally optimistic manner can raise BIG red flags. Finance companies have become very savvy and want to be sure that the borrower understands all industry risks associated with the plan. They are prepared to react appropriately to them, as necessary.

• **Build it and they will come:** In the past, business plans could survive based solely on demographics and competitive analysis. Today, they require much more including, among other facts, detailed financials, lists of referral sources and various ownership structuring.

• **Where's the Equity?:** An operator in an existing business should have enough equity in the deal in the form of accounts receivables and/or cash in the bank. While it may be hard to assess just how much this would total, a good benchmark is about 20% of the loan amount -- either in the form of cash, soft costs or the tenant improvements portion of the project.

• **Skin in the Game?** Lenders look for equity contributions to assure that borrowers are properly motivated. This is usually in cash contributions that have been put into the deal, personal guarantees and/or corporate guarantees. Most personal guarantees can make owners feel uneasy or oftentimes don't work within a corporation's structure. An alternative to consider might be to open a credit line to relieve the pressures of such guarantees.

• **Diversification:** A good business model should bring multiple referral sources to the table. Centers' focused solely on P.E.T. or cardiac CT that only possess two or three referral sources, generally die in the credit department. Conversely, a cardiac center that also performs general imaging increases its chances to secure funding. Bringing more than one partner to the deal helps strengthen the overall project and enhance the chances of success.

In conclusion, there are many high-risk lending institutions in the marketplace today. They have been created to solely fill a void left in the market from the DRA's. However, it is expensive and usually involves lending at higher interest rates and potentially taking an equity position in the imaging center. Be sure to structure a deal that not only meets short-term goals but also address the long-term needs and growth aspirations of the center.

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