

# GE Healthcare Financial Services

## *“Financing Healthcare IT: An Industry Overview”*

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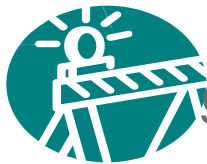
# Faster adoption of healthcare IT systems is good for everybody, but investment is hard to justify

## CURRENT ENVIRONMENT



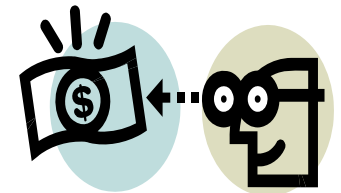
*Healthcare providers desire to invest in healthcare information technology systems to improve patient safety, reduce errors, and create efficiencies.*

*It is difficult to justify acquisition based on traditional return on investment analysis – many benefits are hard to measure – but, “it’s the right thing to do.”*



*Initial and ongoing costs of IT are the greatest barriers to healthcare IT adoption.*

*In the US, hospital healthcare IT spending as % of operating costs is not increasing and healthcare IT spending as a % of capital costs has actually decreased in the last 2 years.*



# Mid-size providers want financing for healthcare IT systems, however challenges are significant


## **BANKS LOOK FOR MULTIPLE WAYS TO GET LOANS REPAYED**

*Physician practices, clinics and small hospitals – who need financing for HIT – may not qualify*

**CASH FLOW:** *Stable, proven, sufficient cash flow*

 *Cash flow usually dependent on success of a few people (sometimes 1 or 2), which creates volatility*

**FINANCIAL STRENGTH:** *Owners' equity, cash reserves, diverse sources of revenue*

 *Smaller enterprises do not retain earnings to build equity*

- *Physicians are more apt to build personal wealth*
- *Hospitals often “invest” in providing care that may not increase revenues*

**COLLATERAL:** *Hard assets that can be converted to cash*

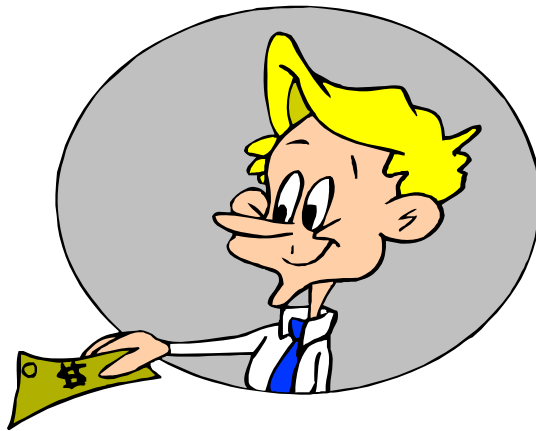
 *HIT systems have nominal collateral liquidation value, unlike real estate or equipment*

**PERSONAL OR CORP GUARANTEES:** *Owners pay if borrower cannot*

# How can we overcome the acquisition challenges?

## GUARANTEE PROGRAMS

- *Provides another payment source that the bank can rely on if the borrower can't pay*
- *Use existing guarantee platform to reduce cost & speed implementation (SBA in United States)*



## GOVERNMENT PAYMENTS

- *Encourage adoption & improve cash flow available to repay loans*
- *“Avenant 24” in France*
  - *Patient Medical File (DPM)*
  - *3% incentive payment*

# Another potential solution: Spread cost over time by removing barriers to leasing HCIT

## ***LEASE VERSUS BUY –HIT systems fit the profile***

**A lease provides a company use of an asset for a period of time without the burden of ownership**

***Protect against obsolescence: return at end-of-term***

- *Will I need to buy a different system in 3 years?*
  - ⇒ *The manufacturer has gone out of business*
  - ⇒ *Upgrades to the system are no longer available*
  - ⇒ *New systems offer interoperability with my partners*

***May be possible to account for cost as an operating lease: payments more closely matched to useful life & revenue, and***

***expensed through the P&L***

- ⇒ *Will the investment in HIT systems pass the capital acquisition ROI hurdles?*
- ⇒ *Should we buy the HIT system and use cash reserves?*

# A basic principle of leasing creates a major hurdle for leasing HIT in the U.S.:

## *A LESSOR CANNOT LEASE WHAT IT DOES NOT OWN*

### PROBLEM

Software license passes from manufacturer (or certified re-seller) to the end-user customer. A leasing company has no rights to the software, and therefore it has nothing to “lease” to the customer in terms of the software.



### SOLUTION – LICENSE/SUB-LICENSE

Lessor obtains consent to be in the chain of license from the vendor of each software component in the system so that Lessor can sub-license to the end-user customer

- The challenges of the “true lease for PACS”  
SOLUTION – LOAN FOR SOFTWARE & NON-LEASEABLE COSTS INCLUDED WITHIN THE LEASE

Create a Lease that contains a loan for the non-leaseable items. All software and costs that cannot be leased are financed as a loan.



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- We apply our world-renown financial expertise to the complex healthcare industry to help customers solve business challenges large and small.
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