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Clearing the air on equipment financing

Payment strategies and tactics don't have to be eclipsed in fog

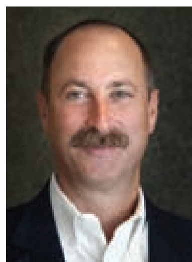
Exploring financing opportunities for capital equipment acquisition and choosing the right option for your facility can range from anywhere between a panacea and Pandora's box.

As a result, *Healthcare Purchasing News* Senior Editor Rick Dana Barlow posed a series of questions to Wynn Blieberg, vice president of sales and marketing at Olympus America Inc.'s Olympus Financial Services unit, Center Valley, PA, to help shed some light on an otherwise complicated and obscure process.

HPN: What types of equipment financing structures are available to healthcare facilities?

BLIEBERG: There are numerous types of equipment financing structures available, each with it's own compelling reason for use depending upon the type of equipment, degree of use, its technology lifecycle, the customer's tax and accounting situation and cash flow considerations. Olympus Financial Services offers a full array of financing options from the traditional capital and operating lease structures to sale-leasebacks as well as to our flagship product, the Olympus proprietary Cost Per Procedure (CPP). Various structures, such as deferred payments, interest only, skip, accelerated and declining payments as well as terms ranging from 12 months to 60 months are available for each of these financing products. Olympus is committed to providing customers with intelligent business solutions that meet their needs in today's economic environment and position them for a future with increased technological advancement and patient care considerations.

The CPP product is very unique to Olympus. Because of our long heritage in the healthcare field, Olympus possesses unique knowledge from which financial products and services are created to help our customers maximize success. By working closely with and listening carefully to our customers, Olympus can truly serve as a resource in helping facilities manage the costs of acquiring equipment. The CPP product addresses costs, technology lifecycles and use ramp-up issues associated with medical equipment, service, related devices and consumables. It is specifically geared to optimally manage cash flow, truly matching costs with use over the technological useful life of our medical equipment.


Wynn Blieberg, Olympus

What are the key differences between loans and leases and when does either make the most sense?

Leases can be very broadly defined as instruments where ownership is retained by the lessor from the perspective of any or all of attributes such as: Title, tax or accounting treatment depending upon the transaction structure. Loans are security agreements, conditional sale contracts, promissory notes or repayment instruments, where ownership in all respects resides with the customer (user). Traditionally, these require a down payment and repayment for a specified term.

Because each customer, facility and institution is unique, Olympus works exclusively with our customers to understand their needs and requirements, and then recommend the most favorable financing solution.

What are the differences between the following and when does either make the most sense?

•Capital (or $1 buy-out financing) versus Operating Leases: In the case of $1 buy-out leases, ownership for tax and accounting purposes is with the lessee, although in some cases title of the equipment remains with lessor for sale purposes, and passes to the customer at the end for $1. A capital lease may be structured with different end-of-term options specified. With operating leases, which practically always have a fair market value option, or in some cases no purchase option, ownership is retained in all respects by the lessor. Generally an operating lease will provide a lower payment because an assumption is made about the value of the equipment at the end of the term and factored in, resulting in a lower payment than a $1 buy-out lease payment. The designation of operating lease is really in the hands of the lessee's accountant based on tax and accounting tests that are applied.

• Fair Market Value Leasing versus Rental Agreements: A rental agreement is often preferred for a shorter term, or month-to-month agreement, and at a higher cost per month. It usually has no purchase option and is considered to be optimal only for very short-term needs because of the higher cost. Fair market value (FMV) leasing is a financing option in which the lease offers end of term options including the

right to purchase at a then fair market value, or the equipment may be returned, or the equipment lease payment may be renewed at a fair market renewal rate for a specified term or month-to-month at the same rate as the original lease payment. With FMV leases, many lenders require that all, and not less than all, of the assets be returned at the end of the term, re-leased or purchased at the then fair market value. Olympus Financial Services provides customers the flexibility to select various assets and choose to either return or re-lease some of these assets depending upon their needs and current considerations.

• **Fee-Per-Procedure versus Fee-Per-Click Lease:** While the CPP product is unique to Olympus, generally a fee-per-procedure type structure is an amount that is due for each procedure as reported under the terms of an agreement. Fee per click is electronic terminology and applied more to computer-type transactions. Fundamentally, both assign payments based on usage. The difference, however, lies in the numerous variables these products may have, leading to changes within the term of the agreement based on volume and other factors. The Olympus CPP has a rate fixed for the entire term with a definite start and end date and is balanced as a true-partnership with the healthcare provider to ensure use of product, fixed margins and capitated costs throughout the entire term of the agreement. In addition, adding equipment during the term can be done on a seamless basis allowing customers to continue to modify their equipment configurations and needs while maintaining an asset management strategy on an on-going basis.

Is it more economical/efficient to negotiate the equipment price separate from the service contract price? Why?

No, there really is no reason to separate the negotiation of these two prices, particularly in the case of Olympus Financial Services. We simply take the total cost of service contract and divide it by the number of months or total procedures in the agreement, charging no interest. The service price connection to the equipment is the amount of use and the resulting cost to service the equipment over the term. Healthcare organizations benefit from having their equipment and service payments all on one monthly invoice as it helps facilitate customer monitoring, tracking and cost accounting efficiencies.

What are some of the key misconceptions about equipment financing?

The objective of financing or leasing is to provide the optimal methodology to manage costs, technology life and use of equipment as the equipment is used and while it is offsetting revenue, income or a specific business benefit. Because the benefit of any acquisition is in its use, as opposed to its ownership, it is important that financing and leasing options be explored. Often leasing or financing options are overlooked simply because cash is available from a capital budget. In some cases 'cash' may be the best way to acquire, however, many times the cost of using capital from retained earnings is not the best financial recommendation. Other credit lines – especially revolving – are best used for short-term day-to-day working capital. So in addition to the fact that use of retained earnings for acquisitions can sometimes be more expensive, as opposed to an appropriate lease structure, the asset is on the books and the buyer will end up with a depreciation write down should the item need to be upgraded before its book life ends.

Here are two misconceptions.

Misconception No. 1: 'Leasing or Financing is always more expensive than paying cash.'

When dealing with advanced technology and equipment that constantly changes, there are hidden costs in purchasing these assets outright. If a facility wants to remain on the cutting edge and wants to upgrade their equipment to continuously make improvements that enhance human life and patient care, there are balance sheet considerations they must consider. For example, if the original equipment is replaced before it has been fully depreciated, the institution will have to write-off the remaining balance from their books. Off-balance sheet financing allows an institution to better tie its costs to the equipment's utilization.

Misconception No. 2: 'Our cost of funds are low, so we usually finance it through our bank.'

Some of the most successfully financial hospitals use off-balance sheet financing to keep their costs low. If structured correctly, leasing can be shown to be less expensive, and more efficient than using a bank line, when you consider utilization of the equipment and the effect of additional borrowing on the balance sheet.

What five tips would you give healthcare facilities exploring financing options?

Since not all lease offerings are alike and each organization is unique, we highly recommend and urge healthcare facilities to understand and explore all of their potential financial options, including that of Olympus Financial Services. At Olympus, customers have the ability speak to our financial experts who provide sound business counsel and recommendations based on decades of experience. We are fortunate to be able to offer this expertise nationwide. We understand that every customer's requirements differ. Thus, Olympus strives to develop sound relationships with our customers, rather than just transactions, so that we can be a resource and partner helping healthcare facilities achieve exceptional clinical and financial outcomes.

1. Know the 'utility time horizon' of a piece of equipment. If it's technology with a short-term life, you do not want to put those assets on a long-term financing agreement, such as a note or bond. You may get caught financing an obsolete piece of equipment over a long time period.
2. Maximize your gross margin on each case performed by exploring cost-per-procedure agreements. Such contracts are flexible and can help control costs by better identifying the component costs of what it takes to deliver a procedure.
3. Leverage your buying strength. Leverage the buying power of Master Financing and Volume Purchasing Agreements to keep your costs under control.
4. Beware of fees. When financing is being quoted, make sure you are comparing apples to apples, or like products. Some banks offer low rates, but you need to check the fine print. Some rates are not fixed for the term and may be floating rates. In some cases, if you want a rate fixed for the term you have to pay an additional fee. Banks may also require legal and filing fees to a loan, which can increase your cost as well as an up-front deposit or down payment.
5. Finance with entities that have experience lending on specific assets. HPN

For more information about Olympus and Olympus Financial Services please log on to www.olympusamerica.com/financialservices or contact Virginia Stockwin, senior marketing manager at virginia.stockwin@olympus.com.

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