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Checkup: key trends affecting business models and capital needs for healthcare providers

A rush to adopt and deploy digital health services. New policies to pay for a broader array of telehealth ambulatory services. Expected strong demand and expanded treatment for behavioral healthcare. Policies that move away from fee-for-service reimbursement and toward alternative payment models to drive lower-cost and higher-quality outcomes. Continued growth in home and community-based care. Further consolidation of hospitals and health systems.

Here are some key insights that are currently shaping the need for funding or creative loan structuring as organizations in this industry look for ways to adapt, expand and deliver more efficient models of patient care.



8 factors contributing to the need for funding

Technology upgrades

The increasing growth for telehealth, ambulatory services and value-based care are giving patients more control and more convenience for the type of care they receive as well as when and where they receive it. But it's also requiring healthcare payers and providers across the board to dig deeper into their pockets to make larger investments in the latest technology to create more vibrant virtual portals, develop data analytics, and find additional pathways to deliver more ambulatory services—outside of institutional-based care.

Consolidation opportunities/growth capital

More sophisticated systems for billing, claims, and payments management; advanced analytics to evaluate cost and quality performance, and electronic health records all lend themselves to greater efficiency. But they also require significant spend. Smaller practices and hospitals looking to keep up may have to explore opportunities to consolidate or join larger health systems that already have these advanced systems or the scale and resources to acquire them.

Healthcare entrepreneurs pursuing M&A strategies for physician practices, ambulatory centers, home agencies and other outpatient models need banking partners who understand the nuances of each business to develop creative capital solutions to support buy and build strategies.

Increased liquidity needs due to higher operating expenses and compressed census

The pandemic has exacerbated a national shortage of nurses and physicians forcing healthcare providers to pay even higher wages or contract with high-cost staffing agencies to find available professionals. Further, regulatory requirements for enhanced infection protocols along with clinical and cost reporting will likely constrain working capital liquidity. Also, the increased demand for home care, particularly with seniors who are leery of institutional settings, could drive inpatient acute care and long-term care providers to re-examine current liquidity needs until census normalizes.

Optimize cash flow

Heightened labor costs, compressed census, inflated healthcare premiums and potential workers comp claims coupled with reduced federal and state grant and Cares Act Stimulus can produce serious liquidity stress. Moreover, providers depending predominantly on government payment sources must contend with Medicare and Medicaid rate cuts, including Medicare Part A Trust Fund insolvency. To address the potential impact of the above factors on cash flow, securing (or expanding) a committed line of credit and prudent cash management policies can be essential to ensure adequate liquidity to ride out operating expense spikes and disruption in reimbursement from payers.

Growth opportunities

A number of factors are serving as catalysts for growth and expansion in the healthcare sector, including:

- Strategic alliances among physicians and hospital systems
- Expansion of behavioral health services for a wide range of mental health conditions and treatments
- Development and investment in ambulatory and urgent care centers
- Investment in telehealth and healthcare IT
- Using ESOP conversions to attract and retain new partners to physician groups

Urgent care centers and franchise concepts

Urgent care centers have become an alternative model to ER services largely because patients can receive the care they need quickly, at any hour, and at a lower cost than going to the hospital. With more volume flowing to these facilities, there's attractive potential to own one of these urgent care centers. With strategic locations near highly trafficked shopping centers, urgent care centers provide a model for entrepreneurs to have the appropriate technology and billing systems as well as overall operational support.

Looking for ways to smooth out cash flow

Healthcare operators, like at-home care providers, are dependent on income from Medicare Part A. But due to the program's ongoing insolvency issues, they may experience slower billing and lower reimbursement rates. To lessen the impact on cash flow, securing a line of credit can be essential to provide liquidity and smooth out cash flow while waiting for those slower reimbursements from the government or health insurers.

Expanding marketing

While marketing is part of normal budgeting, thinking strategically about managing a healthcare operation must now expand to include digital capabilities. That's because:

- Consumers now spend about **seven hours** per day online
- More than **60 percent** of consumers start their healthcare journey online, like running a search to explore providers, researching personal health insurance coverages and eligibility of HSA/FSA expenses before scheduling an appointment

As a result, making additional investments in marketing support can help:

- **Hone** messages about offering better patient care
- **Manage** and optimize websites, social media channels and online properties
- **Develop** mobile apps and more robust platforms, particularly to deliver growing telehealth services
- **Target** potential patients through digital tactics, like search marketing
- **Leverage** paid ads, video and email to engage, educate and communicate with audiences



How can a banker help?

Talking with your team of advisors can educate you on business solutions for your practice. Banks like Webster can provide:

- **A personalized and holistic approach.** Healthcare service providers need a team of advisors who truly understand and specialize across all subsectors within the healthcare industry. Having a dedicated team that is well-versed in your operational capabilities and knowledgeable about the regulatory environment and alternative payment systems is critical to achieving operational efficiencies and navigating the changing healthcare landscape.

- **Fraud prevention services.** The pandemic gave hackers a big opportunity to advance more destructive attacks and prey on the uncertainty and fears associated with COVID-19. With this huge uptick, fraud prevention is now a necessity to help operators:
 - **Protect** private patient information that's on shared virtual healthcare platforms
 - **Spot** internal and external control issues and payment abuses
 - **Educate** employees about cyber security and threats, such as phishing scams
- **Cash management services.** Having predictable streams of cash is vital to every business. So it's absolutely essential to make sure the right tools and processes are in place that not only help healthcare providers collect, manage and disburse funds using online and mobile banking platforms, but also help to optimize operations and reduce risk.

Case Study: South County Health

One of Rhode Island's most trusted healthcare partners

Offers best-in-class orthopedic services, which includes more than 15,000 robotic joint replacements.



SOUTH COUNTY
HEALTH

THE SITUATION:

- Seeking to create a center of excellence for complex orthopedic robotic surgery—and better serve the medical needs of patients in the community

THE NEED:

- Flexible funding to remodel and renovate an existing medical office building
- Integration of innovative technology and orthopedic advancements for patients

THE SOLUTION:

- Webster Bank provided long-term financing with a 17-year, \$11.2MM leasehold mortgage that would allow for the phased remodeling
- Webster Bank was selected based on their healthcare expertise, flexibility and competitive terms
- South County Health will use the funds to develop a state-of-the-art Center for Advanced Orthopedic Surgery

Today's healthcare landscape presents many opportunities for operations across different sectors. Use these insights to gain a deeper understanding of the trends and challenges and help shape the future of your organization.

Learn more about how your Webster banker can help you uncover efficiencies and realize healthcare financing opportunities for your unique situation, visit websterbank.com/commercial.

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