Neil Versel

From: "Neil Versel" <nversel@rcn.com>
To: "Neil Versel" <nversel@rcn.com>
Sent: Thursday, March 25, 2004 1:43 PM
Attach: @Top,Top1,TopLeft,Middle,Middle1,Bottom,x01,x02,x03,x04,x05,Frame1!Top_x.dat; @Top,Top1,TopLeft,Middle,Middle1,Bottom,x01,x02,x03,x04,x05,Frame1!TopLeft_x.dat; @Top,Top1,TopLeft,Middle,Middle1,Bottom,x01,x02,x03,x04,x05,Frame1!Middle_x.dat; imp.gif_client=ca-chicagosuntimes_468x150&event=noscript; @Top,Top1,TopLeft,Middle,Middle1,Bottom,x01,x02,x03,x04,x05,Frame1!x01_x.dat; @Top,Top1,TopLeft,Middle,Middle1,Bottom,x01,x02,x03,x04,x05,Frame1!x02_x.dat; @Top,Top1,TopLeft,Middle,Middle1,Bottom,x01,x02,x03,x04,x05,Frame1!x03_x.dat; @Top,Top1,TopLeft,Middle,Middle1,Bottom,x01,x02,x03,x04,x05,Frame1!x04_x.dat; @Top,Top1,TopLeft,Middle,Middle1,Bottom,x01,x02,x03,x04,x05,Frame1!x05_x.dat; @Top,Top1,TopLeft,Middle,Middle1,Bottom,x01,x02,x03,x04,x05,Frame1!Bottom_x.dat; @Top,Top1,TopLeft,Middle,Middle1,Bottom,x01,x02,x03,x04,x05,Frame1!Frame1_x.dat
Subject: Fw: From Thursday's Chicago Sun-Times

CHICAGO SUN-TIMES
suntimes.com

BUSINESS

GE unit poised to grow in health finance

February 19, 2004

BY NEIL VERSEL

Two years ago, Chicago lost yet another major corporate headquarters with General Electric Co.'s $5.3 billion purchase of diversified commercial lender Heller Financial Inc. Today, the resulting GE Healthcare Financial Services Inc. is emerging as a dominant player in the battered health care finance sector.

From spacious digs at 500 W. Monroe St., GE Healthcare Financial Services manages $12 billion in assets and more than $13 billion in committed capital, serving some 15,000 customers, primarily hospitals, standalone imaging and surgery centers, nursing homes and other health care facilities.

And most recently, the division made a bold entry into a new market segment by handing over $72.4 million in GE stock for HPSC Inc., an investment firm in Boston that specializes in lending to medical and dental practices. The deal was completed last month.

Now, in addition to financing pricey medical equipment, real estate, acquisitions, multimillion-dollar lines of credit and other big-ticket transactions, GE Healthcare Financial Services can compete for deals of $250,000 or less -- and promote other GE offerings to physicians.

"We're taking this entire basket of GE products to the doctor's office," said Gordon Olivant, GE Healthcare managing director of mergers and acquisitions. "Hopefully we will come to a point where the doctor will come to us when he needs a loan, a mortgage or a piece of new equipment. But if he buys a (product from GE Medical archrival) Siemens, we hope he comes to us to finance it."

William P. Danielczyk, chairman of Galen Capital Group, a middle-market merchant banking firm in McLean, Va., sees GE's aggressive new strategy as a plus for the industry. "By having a large player (like GE), it can be looked at in a very positive nature because they are filling the void," Danielczyk said, adding that many small venture lenders and others "offering equipment leasing, vendor financing and private financing have been sitting patiently on the sidelines like everyone else since late 2000."

But with GE stimulating interest, he said, "It allows other small companies to emerge in the industry and be players."

GE Healthcare has two things working heavily in its favor: gobs of money and support of upper management.

GE Healthcare Financial Services officially is a division of GE Commercial Finance, a $200 billion subsidiary of General Electric. Olivant says GE Commercial Finance is the largest non-bank finance company in the world.

GE Commercial Finance, formerly known as GE Capital, "is positioned to do anything they want in this business," said James Unland, president of Health Capital Group, a financial consultancy in Chicago.

Perhaps more importantly, GE Chairman and CEO Jeffrey R. Immelt had been president of GE Medical Systems before taking the reins of the parent company the same month GE closed on the Heller Financial purchase.

Olivant said Immelt gave his personal OK to the HPSC deal, a rare exception to the rule that mega-corporations do not give up stock when buying companies worth less than $100 million.

"Jeff had a singular focus on the health care industry," Olivant said, adding, "Health care is in our DNA."

Health care lending has been fragmented, presenting an opportunity for a giant like GE to unify various segments.

The same could be said for some of the specialty lenders. A lot of capital for day-to-day operations that otherwise would have gone to hospitals and private practices has dried up since late 2002, as two key health care financiers, National Century Financial Enterprises and DVI Inc., have imploded due to accounting scandals.

The NCFE collapse led to the bankruptcy of dozens of clients, including Doctors Community Healthcare Corp., the Scottsdale, Ariz.-based parent of Michael Reese Hospital and Medical Center, 2929 S. Ellis Ave.

GE Healthcare, fortified with the HPSC expertise in doctor and dentist lending, is moving to fill the void.

"I think that we have looked heavily at that segment of the market that had been served by DVI and NCFE," said Hospital Segment Manager Randy Fuller.

Meanwhile, the division is refining its focus on its historical market by participating with the Healthcare Financial Management Association, based in west suburban West-chester, and PricewaterhouseCoopers LLP in a series of studies examining the perilous finances of U.S. hospitals and how they hope to meet future demand for health services.

"We're not just peddling money. We're trying to be a thought leader in the industry," Olivant explained.

Many hospitals are looking to information technology to boost productivity, but lack the buying and financing expertise that has powered other business sectors from auto repair to consulting.

Hospitals and medical practices alike also are chasing additional revenue by building lucrative diagnostic imaging centers and facilities for outpatient surgery.

Although GE Healthcare currently does not underwrite hospital construction bonds, Unland suggested it could be headed in that direction. "It's obvious to me that GE Healthcare Financial Services is getting more interested in mainstream areas of lending," he said.

Neil Versel is a Chicago-based writer specializing in health care issues.