MTI plans dual center/mobile future

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Combine the world's largest fleet of mobile MRI vans with a growing fixed-site imaging center business, stir in more than a pinch of U.S. health-care restructuring and leaven with cheap debt. Could this be a blue-ribbon recipe for approaching managed-care customers with imaging services?

That is the hope of mobile MRI giant Mobile Technology (MTI) of Los Angeles. As a prerequisite, however, MTI must trim its heavy debt load. Otherwise, its growth plans could fall flat.

MTI is highly leveraged, as are most of its mobile imaging competitors. The privately-held firm jumped to the top of the mobile pack five years ago with its acquisition of the MRI and CT fleet of previous industry leader, Mediq Mobile Services (SCAN 4/13/88).

MTI expanded its MRI fleet to 100 units two years ago with the purchase of mobile provider LINC Scientific Imaging from the LINC Group of Chicago (SCAN 12/12/90). The firm continues to operate over 100 MRI systems and almost 20 CT and lithotripsy machines, according to Joseph W. Cilorzo, president and CEO.

Unfortunately for MTI, demand for mobile MRI services leveled out after the company aggressively expanded its fleet. Many hospital customers worked up enough imaging business—with the help of their mobile provider—to justify purchasing a dedicated scanner.

MTI implemented a restructuring program in January to cut mobile operating costs and a strategic plan to capture business from customers opting for fixed sites (SCAN 1/27/93). Talks with lenders on debt restructuring, underway since last year, were accelerated.

MTI has met with each of its 15 lenders individually, and is now trying to work out an overall restructuring plan with them. Hopefully, this will be accomplished over the next two months, resulting in lower interest expense for the company, Cilorzo said.

"You can stand high leverage if the market is growing rapidly and you are paying down the debt. But when the market matures as quickly as mobile MR has matured, then that repayment and heavy interest payments get to be a problem. That is the problem we (mobile MRI firms) are all facing right now," he told SCAN.

Operational changes at MTI earlier this year reduced 120 positions and closed down four regional offices. Four regional vice presidents became two, while twelve district managers were added. The district managers operate out of their homes and on the road. Most staff cuts involved administrative overhead functions.

"The philosophy we have adopted is that those who are not selling something or not operating an MR system are part of the support structure. We want to have the most efficient and effective support structure. For MTI, that meant having a smaller one," Cilorzo said.

Sales representatives were cut as well, though. Part of the reduction involved reassigning territories with no existing business to sales representatives in more established areas, he said.

"Understanding the industry better now, we found that we couldn't afford this kind of (new territory) development," Cilorzo said.

Once its refinancing is worked out, MTI will be better placed to fund fixed-site joint ventures with existing mobile customers and also acquire established centers. Mobile services will likely remain about half of the company's service business over the long run.

MTI will not shrink its mobile fleet drastically, but some downsizing will occur over the next year. Several units under operating leases may be returned to the lessors, Cilorzo said. The bulk of MTI's fleet is owned by the company.

No mobile-van clients will be abandoned, he said, but the firm will work with hospitals to improve route efficiency. In some cases, scan volumes may not justify the number of van trips made to particular sites. Opportunities exist for route consolidation that should benefit both clients and MTI, he said.

Changes yet to be dealt out in the U.S. health-care system could turn up a wild card for mobile...
imaging, Cilorzo said. While mobile firms would not be wise to count on these changes, most are watching national developments with keen interest. If the Clinton administration clamps down on investments by hospitals with marginal demand for particular services, this could invigorate mobile imaging and shared services.

"It should revalidate the whole notion of the mobile business, which was and is still a sound concept. The problem is that there has been a lot of noneconomic buying of equipment," he said. Even assuming no change in the regulatory environment, mobile capability provides inherent advantages for a medical imaging firm. Mobile services offer added flexibility and market reach that could be key to winning large contracts with managed-care hospital groups, Cilorzo said. To accomplish this objective, however, MTI must combine mobile services with a solid regional fixed-site presence.

MTI will build its fixed site first through conversion of existing high-volume customers, he said. This strategy makes business sense for several reasons:

- Fixed-site partnerships will allow MTI to benefit when the overall volume of medical imaging increases. MRI procedures have been growing at a healthy 10% to 15% rate in the U.S., but mobile-only firms have not captured this growth;

- Long-standing business relationships are already in place that will allow MTI and its partners to move smoothly into a fixed-site business; and

- Referral histories are well known and likely to continue into the future, presenting less revenue uncertainty than is the case with acquisitions of existing physician-owned centers. "We have a good base of existing clients and their volumes are known. We don't have to worry about referral patterns post start-up," Cilorzo said. MTI converted two mobile customers to fixed-site last year but not as part of a comprehensive strategy, he said. A deliberate effort is now underway to develop long-range fixed-site contracts and equity investments in centers.

"Where economics are a bit of a stretch we would like to (convert clients to fixed-site) with existing equipment. Where economics warrant, we would do it with new equipment and invest with the hospital in bricks and mortar to accomplish that," he said. MTI expects to be the majority owner of most centers and, in some cases, will be sole owner, Cilorzo said. At a minimum, developing an imaging site would involve parking an existing mobile van at a hospital on a permanent basis.

Down the road, MTI expects to enter the market for center acquisitions. Once the company's balance sheet is firmed up, an initial public stock offering could offer alternative financing to support this drive, he said. Although MTI's existing fixed sites are in the northeast U.S., the company expects more center business to develop in the south and west, largely because of the greater prevalence of certificate-of-need restrictions in the northeast region, Cilorzo said. The southern U.S. offers potential for continued growth in mobile services as well as fixed sites, due to the rural nature of much of that market, he said.

Disclosures:


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