



Bidding Suppliers

FINANCIAL MEASURES



The competitive bidding law and regulations specify that the Centers for Medicare & Medicaid Services (CMS) may not award a competitive bidding program contract to a supplier unless that supplier meets applicable financial standards. Applying financial standards to suppliers is needed to assess the expected quality of suppliers, estimate the total potential capacity of selected suppliers, and ensure that selected suppliers are able to continue to serve market demand for the duration of their contracts.

The [Request for Bids \(RFB\) Instructions](#) specifies the financial information used to evaluate suppliers' financial health. CMS uses the required tax and financial documents to calculate standard accounting ratios for each bidder.

The following financial ratios will be used for the DMEPOS Competitive Bidding Program Round 1 Recompete competition:

- **Return on Sales** = Net Income (Loss)/Annual Net Sales
- **Current Ratio** = Current Assets/Current Liabilities
- **Sales to Inventory** = Annual Net Sales/Inventory
- **Collection Period** = (Accounts Receivable/Annual Net Sales) x 360
- **Working Capital** = Current Assets – Current Liabilities
- **Accounts Payable to Sales** = Accounts Payable/Annual Net Sales
- **Debt to Equity** = Total Liabilities/Net Worth
- **Current Liabilities to Net Worth** = Current Liabilities/Net Worth
- **Quality of Earnings** = Cash Flow from Operations/(Net Income + Depreciation + Amortization)

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- **Operating Cash Flow to Sales** = Cash Flow from Operations/(Revenue – Adjustment to Revenue)

These ratios and the credit report and score are used to determine bidder compliance with financial standards.

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