Disclaimer

The information in this presentation is general in nature and has not been prepared for any one individual or organisation. The information should not be used or treated as professional advice and attendees should make their own enquiries and seek professional advice concerning their own personal circumstances before utilising any information provided in this presentation. All examples provided are for demonstration purposes only.
Introduction

— Partner of William Buck Chartered Accountants & Advisors

— National alliance of firms located throughout Australia and New Zealand

— Brisbane office located on Queen Street

— Work with clients all over Queensland including Gold Coast, Sunshine Coast, Far North Queensland etc.
How can your Advisors assist you with your goals?

A good accountant doesn’t just provide tax advice, they also provide advice on:

- Practice Structuring
- Valuations & Sales
- Strategic Planning
- Budgeting
- Practice Acquisition
- Business Planning
- Superannuation

A key service a good advisor offers is access to their network of other advisors who compliment their skills. For example; introductions to lawyers, fit out companies, financiers etc.
Topics for this Morning – Practice Profit Drivers

This morning we will be looking at:

- An analysis of revenue
- Setting expenses based on benchmarks
- Improving operational efficiency through the engagement of staff
- Practice valuations and the process of involved
Revenue in a Medical Practice

- Medicare rebates are frozen until July 2018

- The Medical Journal of Australia estimates that by this time, the freeze will be costing GPs around $384.32 per 100 patients or approximately $31,000 per year for a FTE doctor.

- Paradoxically, the Federal Health Department says that the number of doctors bulk billing is increasing and has increased since November 2013.

- So with revenue being such an important function of profit – how can practice profit be maintained?
Revenue Analysis

ABS Calculated growth in doctor to patient ratios over 10 years ending in 2011 as:

- For GPs, numbers grew by 18.8% to a ratio of 1 to 495 people
- For Specialists, the numbers grew by 38% to a ratio of 1 to 847 people

Increasing doctor numbers is a deliberate strategy based on supply v demand

With number increasing, the data shows doctors are choosing to differentiate themselves based on price.
The Harvard Business School teaches that services offered tend to fall into four main categories. This can be applied to most professional services organisations.

- Rocket Scientist
- Grey Hair
- Procedural
- Commodity Work

- Doctors are treating their services as a commodity
- Their marketing enhances this perception as well
Revenue Models – Time Based

Consider the following table based on time. Allowing for an 80 hour fortnight:

<table>
<thead>
<tr>
<th>Minutes in the Fortnight</th>
<th>4,800</th>
<th>4,800</th>
<th>4,800</th>
<th>4,800</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minutes per Consultation</td>
<td>8</td>
<td>10</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>Potential No of Consultations</td>
<td>600</td>
<td>480</td>
<td>400</td>
<td>320</td>
</tr>
<tr>
<td>Fee per Consultation</td>
<td>$37</td>
<td>$46</td>
<td>$55</td>
<td>$68</td>
</tr>
<tr>
<td>Patient Fee Revenue</td>
<td>$22,200</td>
<td>$22,080</td>
<td>$22,000</td>
<td>$21,760</td>
</tr>
<tr>
<td>Average Hourly Income</td>
<td>$278</td>
<td>$276</td>
<td>$275</td>
<td>$272</td>
</tr>
</tbody>
</table>
Revenue Model – Based on Patient Numbers

A model based on patient numbers would look at how many patients on average visit the practice each fortnight.

<table>
<thead>
<tr>
<th>Patients Seen in the Period</th>
<th>385</th>
<th>385</th>
<th>385</th>
<th>385</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minutes per Consult</td>
<td>8</td>
<td>10</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>Fee per Consultation</td>
<td>$37</td>
<td>$46</td>
<td>$55</td>
<td>$68</td>
</tr>
<tr>
<td>Patient Fee Revenue</td>
<td>$14,245</td>
<td>$17,710</td>
<td>$21,175</td>
<td>$26,180</td>
</tr>
<tr>
<td>Total Time Spent (in hours)</td>
<td>51</td>
<td>64</td>
<td>77</td>
<td>96</td>
</tr>
<tr>
<td>Average Hourly Income</td>
<td>$277</td>
<td>$276</td>
<td>$275</td>
<td>$272</td>
</tr>
</tbody>
</table>
Revenue Analysis

The most appropriate revenue model for your practice should be determined after a review of:

The style of medicine practiced by your doctors and discussions with your doctors regarding the models

Patient demographics;

Your marketing material and collateral

Potentially a survey of your patients to see what they would like.

In a specialist practice, the revenue generation is a function of time for the doctor or doctors undertaking the procedures. In these practices, the revenue will be based on the mix of consultations against procedural work.
Expenses Analysis

Expenses are generally much easier to estimate

Typically use last years as a guide but is this best practice

Better to use benchmark data for a third party check to see if your practice could operate more efficiently

Main Expenses are:
- Payments to Doctors
- Staff overheads and wages
- Rent
- Medical supplies
- Other overheads
Expenses by the Benchmark

In relation to costs;
Overhead non-doctor remuneration should be around 16% to 19%;
Rent on the premises should be 4% to 6%;
Medical supplies should be 2% to 2.5% of patient fees;
General business overheads should be around 5% to 7%

The overall net profit margin for such a practice will be anywhere from say 2% to round 7.5% of gross patient fees. The PIP and other subsidies can assist to increase profit.
Practice Expenses Impact on Performance

These benchmark figures do not take into account finance repayments. Therefore, if a practice is highly geared, the owners may find very little spare cash.

If the practice is not operating in a financially efficient manner, some resulting issues could be;

- Remuneration to incoming doctors may be set too high.
- Financing growth may become an issue.
- Reduced profitability results in a lower value on the practice than what could have otherwise have been achieved in a sale; and
- Ultimately the owner’s remuneration may need to be reduced to fund shortfalls.
**Improve efficiency by engaging your people**

The performance of your staff is a keen component to operational efficiency

Undertake a review of your existing performance

Review each division – develop a business plan for each unit

Look at current systems – engage with the staff – what can be improved.

Look at baby steps.

Importance of the gate keeper – reception.

Betty v Unknown
Achieve your goals by engaging with the staff

Examples on how this may be achieved include;

a. Regular staff meetings at which management’s goals and requirements are conveyed;

b. Discussion during a staff member’s performance review

c. Notices on a staff notice board

d. Emails to staff

e. Feedback and praise when a staff member’s performance is consistent with the goals of the practice
Most staff are employed under an award so this may need to be done with a bonus system.

The aligning of the goals of the business with the remuneration of the staff member is designed to channel and foster certain behaviors which ultimately will have a positive impact on the operations of the practice.

A salary bonus for a practice manager may include elements or KPIs concerning:

- Profitability
- Patient Satisfaction
- Practice Growth
- Achieve benchmarks
- Doctor retention
- Patient wait times
- Administrative compliance issues
- Attendance at training events

In this way, the actions of the practice manager should be focused on the areas which drive profit and value in the practice and success is shared between the employee and the practice owners.
In case you have been living under a rock – medical practices do have value and activity for the acquisition of practices both by corporates and individuals is high.

There can be a difference between value and sale price. Meaning that a corporate or competitor may pay a higher amount for the practice as it suits their purposes.

If you are looking to sell, having an understanding of the valuation process can be useful for your decision making.
Valuation Methodologies

Contrary to popular belief, there are numerous methods by which a practice could be valued, however, the most common and most appropriate, in most cases, is the capitalisation of future maintainable earnings (FME) approach.

Essentially this method considers the business as an investment asset. Simply put, the valuation calculation is based on determining an expected ongoing return from the business and then asking what would a reasonable person pay for that income stream – after due consideration of the risks of that business.
An appropriate FME is determined after considering;

Historical and Forecast operating results – a review of prior trading and expected trading provides a starting point for the calculation

Adjustments – adjustments are made for non-recurring or non-core business expenses

Adjustments – additional adjustments are made for one-of income items or the sales of assets

Depreciation – an allowance should be made for depreciation
Capitalisation Multiple

Once the FME is determined, the capitalisation multiple is applied to this amount to arrive at the calculated business value.

The multiple represents the rate of return a reasonable person would expect from the business taking into account the risks associated with the investment.

A common thing overlooked by the potential seller of a business is that the value is a function of both the FME and capitalisation rate. Focusing on just one of these will not provide the highest value in the sale.
Capitalisation Rates and FME working together

Example:
The profit of a business increases from $300k to $350k per annum.
The business multiple remains at 3.5 times.
The value increases from $1.05M to $1.225M or $175,000

Example:
The profit of a business increases from $300k to $350k per annum.
The business multiple also increases from 3.5 times to 3.8 times.
The value increases from $1.05M to $1.33M or $280,000
Many people think the cap rate for a medical practice is between 3 to 4 times earnings but can it be 5 times for a larger practice and much lower for small practices.

This means that on a profit of $200,000, the value ranges somewhere between $600k to $1M.

The cap rate is calculated after considering:

- Risk free rate (currently around 2.94%) – Govt bond rate
- Market risk premium – your asset is not as liquid as shares
- Industry risk rate (taken from the ASX)
- A size and business specific premium
Mitigate the risks of your practice by considering what you would be worried about if you were the purchaser:

Consider:

The lease for the premises – would you prefer a longer or shorter lease?

The equipment – would you prefer older or newer equipment?

Location – prominent position or a converted house in the back streets?

Location – co-located with other medical providers or on its own?

Location – tricky, minimum parking or abundant parking?

Doctors – Doctors who have been there for a longer time or short time?
Mitigate the risks of your practice by considering:

Staff – solid long term staff or high staff turnover in the business?

Staff – two owner doctors with a long loyal patient base or a diversified group of doctors working from the practice.

Patient base – high socio economic base or low?

Patient base – larger number of young families or young professionals?

*If you have considered the risks you can take steps to address them*
How do you keep track of the Records – Cloud Accounting

— “Cloud Accounting” is the utilisation of bookkeeping and accounting software in the internet “cloud” for the processing and recording of your business’ financial transactions.

— The development of cloud based accounting software represents the next generation of recording keeping technology and is a more efficient and innovative way to monitor and follow the financial performance of your business.
Cloud Accounting

Benefits:

— One data file
— Daily bank feeds to your accounting software
— Real time information

If you are a practice owner, you want to have the best tools and the most efficient methods used in your practice. Cloud accounting represents the most efficient way to record and operate the financial side of your business.
Questions