vertical IQ

Physician Practices

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Table of Contents

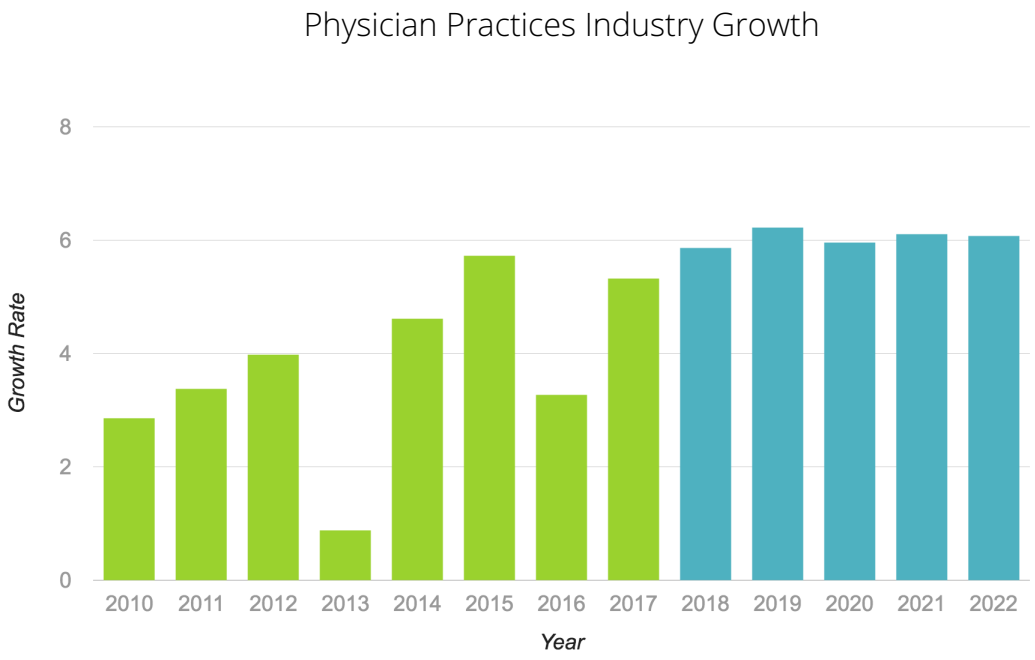
Industry Forecast and Structure

Industry Forecast

Sales for the US physician practices industry are forecast to grow at a 5.92% compounded annual rate from 2016 to 2022, faster than the growth of the overall economy.

Vertical IQ forecasts are based on the Inforum inter-industry economic model of the US economy. Inforum forecasts were prepared by the Interindustry Economic Research Fund, Inc.

Last Update: August 2018

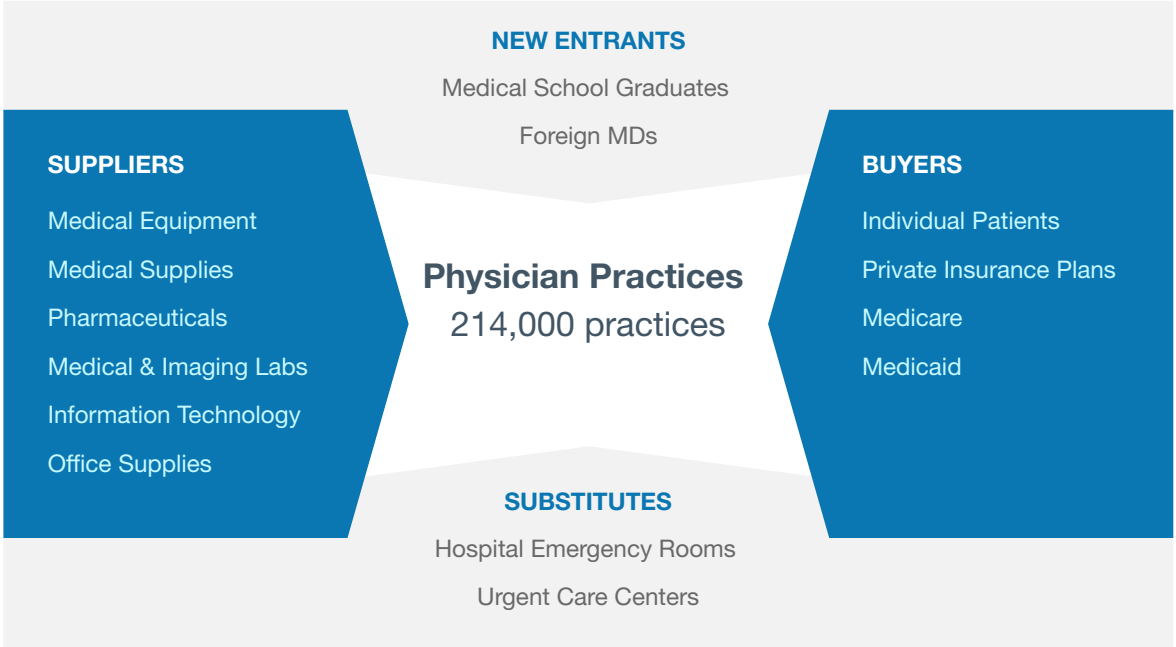


Industry Size and Structure

The typical physician practice has a single location, 15 employees, and about $3 million in annual revenue.

- There are over 214,000 physician practices in the US with about $494 billion in revenue and over 2.5 million employees.
- There are over 666,000 physicians working in office-based practices.
- Nearly 991 million patient visits are made annually to physician practices.
- The business structure of physician practices is 24% corporations, 47% S-corporations, 11% individual proprietorships, 8% partnerships, and 10% non-profits.
- There are two types of physicians - MD (Medical Doctor) and DO (Doctor of Osteopathic Medicine). Both are qualified to perform all types of treatment, including surgery, but DOs emphasize the body's musculoskeletal system, preventive medicine and holistic care.

- Education and training requirements for physicians include 4 years of undergraduate school, 4 years of medical school, and 3 to 8 years of internship and residency. There are 134 accredited medical schools in the US for MD degrees and 34 accredited schools for DO degrees.
- To practice medicine in the US, all physicians must pass either the United States Medical Licensing Exam (USMLE) for MDs or the Comprehensive Osteopathic Medical Licensing Exam (COMLEX) for DOs.
- 24% of physician practices are female-owned and 28% are minority-owned.

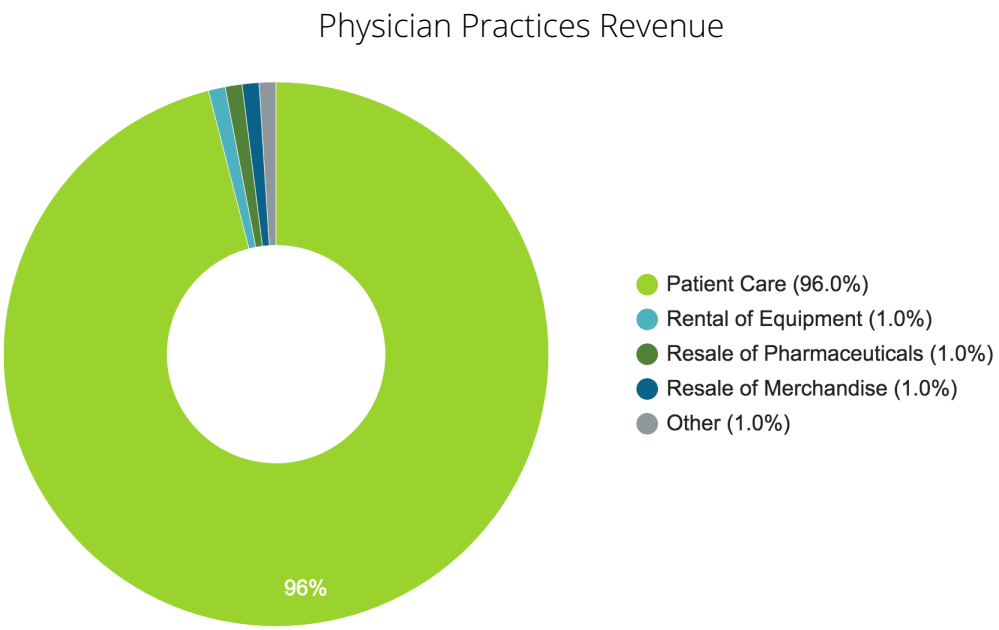


How Firms Operate

Products and Operations

Primary care physicians are responsible for monitoring an individual's overall medical care, performing physical exams, and treating minor illnesses. They refer patients with more serious conditions to specialists or to hospitals for more intensive care. Primary care practices include general and family practices, internal medicine, pediatrics, and obstetrics/gynecology. Specialty practices focus on a particular area of medical care and may also perform surgeries to treat problems. Specialists include allergists, cardiologists, dermatologists, gastroenterologists, general surgeons, ophthalmologists, orthopedists, psychiatrists and radiologists.

- Revenue for physician practices is dominated by fees for patient care (over 95%), supplemented by small amounts for resale of pharmaceuticals and other medical merchandise, as well as rental of medical equipment.
- About 20% of patient visits are to general and family physicians, about 73% to medical specialists, and 7% to surgical specialists.
- About 20% of patient visits are for preventive care.
- About 76.5% of visits involve discussing, ordering, supplying, or administering medications.



Physician practices vary in size from solo practitioners to large group practices with multiple locations and dozens of doctors. Regardless of size, all physician practices must perform common tasks: appointment scheduling, patient registration, clinical data collection, examination and treatment, patient check out, billing, accounting, supplies purchasing and management, and office management.

Upon arriving for an appointment, a patient checks in at the front desk and takes a seat in the waiting area. While they wait, their medical insurance information is confirmed and they may fill out a medical

history form, if they are a new patient, and a patient privacy consent form required by HIPAA. Many practices now make these forms available online and encourage patients to fill them before coming to the office. Some practices have implemented self-registration stations where patients check in and update forms online to reduce the burden on office staff.

While the patient waits, an exam room is prepared for them. A medical assistant or nurse then escorts the patient to the exam room and checks their temperature, blood pressure, and weight. These are added to their patient record, typically via a computer in the exam room, along with the answers to questions about their health and reasons for the visit.

The physician then arrives to exam the patient and performs any necessary treatments. The physician may order additional tests or prescribe medications for the patient. Blood or urine samples may be tested in-house or sent to a medical lab for analysis. The results and treatments are added to the patient's record, either through hand-written notes, dictation, or computer entry. This post-visit data entry is critical to ensure accurate recording of treatment codes for reimbursement from Medicare or private insurers.

Upon completion of the visit, the patient proceeds to check-out. Follow-up appointments may be scheduled and any patient co-pays are collected. A billing specialist will then process the visit record and file a claim for reimbursement from the patient's insurance company, Medicare, or Medicaid. The claim may be rejected or disputed and need to altered and resubmitted. Generally speaking, one biller can process and follow up on 10,000 claims a year.

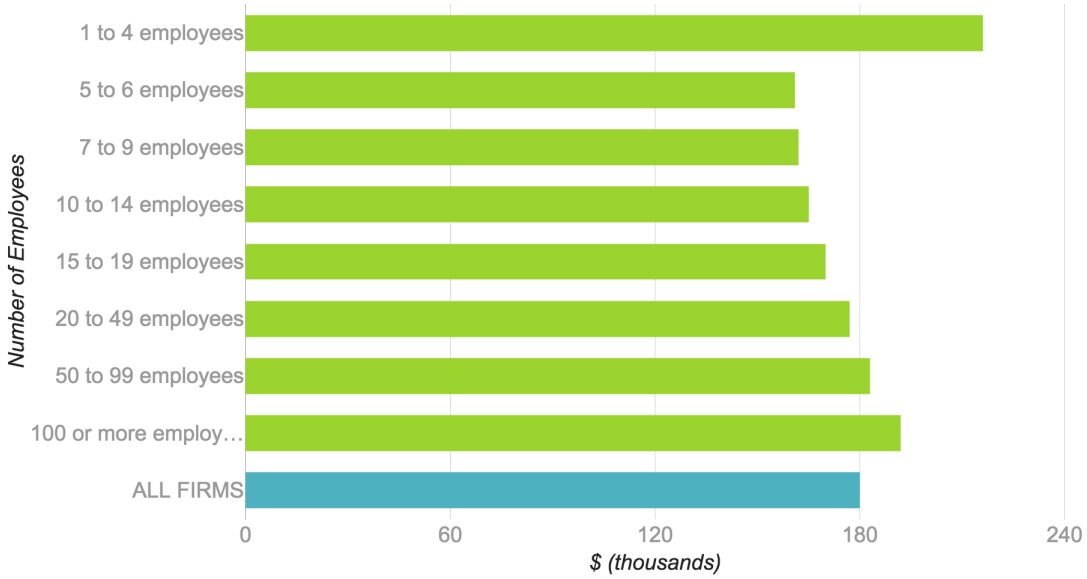
Besides physicians, a typical group practice will have a variety of staff positions. Physician Assistants (PAs) and Nurse Practitioners (NPs) perform many of the same tasks as physicians, but must operate under the supervision of an MD. These positions require advanced degrees and earn average salaries of about $100,000. Medical Assistants handle administrative tasks and perform routine clinical data collection, such as weight, temperature, and blood pressure measurements. They earn an average salary of about $33,500. Medical billing or coding specialists must understand the complexities of multiple reimbursement systems and also average about $38,000 in earnings.

Wages for physicians vary by type of practice, with specialists earning more than primary care physicians. Median wages in 2016 reported in the Bureau of Labor Statistics for physicians ranged from, $187,540 for Pediatricians to $265,990 for Anesthesiologists.

Many physician practices are implementing online portals to improve communication with patients. Patient portals can allow patients to review their medical records, ask questions of their provider, request prescription refills, schedule appointments, fill out forms, and pay bills.

Physical office size will vary with the size and type of practice. According to the Medical Group Management Association, the median space per FTE physician is about 2,132 square feet for family practices, 2,189 square feet for urology groups, 1,931 square feet for cardiology practices, and 2,749 for orthopedic surgery groups.

Revenue per Employee by Establishment Size



Profit Drivers

Increasing Physician Productivity

Making effective use of the physician's time is the key to seeing more patients, so practices typically delegate routine patient tests and data collection to medical assistants. Since the time required for a patient visit varies with the complexity of their condition, "relative value units" (RVUs) per physician are often used to measure productivity. RVUs are used by Medicare as a measure of physician work in determining reimbursement for treatments. Practices strive for physician-related RVUs per FTE Physician of 10,000 or higher. Higher RVU rates are achieved by efficient physician scheduling and by ensuring that all treatment provided in each patient visit is tracked and coded for billing purposes.

Achieving A High Net Collection Rate

Net collections are the amounts practices collect after allowing for payer contract adjustments. Better performing practices achieve a net collection rate of 100%. This requires a strong understanding of payer reimbursement rules and prompt follow-up on coding errors or disputes.

Maintaining Low Overhead

Physician practices must balance physician productivity and patient satisfaction with the cost of support staff and other operating expenses. Most measure their overall efficiency by their "total overhead rate", or ratio of operating expenses (support staff, rent, supplies, insurance, etc.) to revenues. Industry benchmarks for total overhead rate are 45-60% for primary care practices, 40-50% for specialists, and 30-40% for surgeons.

Maintaining A Large Patient Base

Practices can only be efficient if they have sufficient demand to fully use their staff and facility capacity. Being in multiple insurance company networks can provide access to more potential patients, but adds

complexity to the billing process. Primary care practices rely primarily on referrals from existing patients to attract new patients, while specialty practices cultivate referrals from other physicians. Many practices are increasing use of the Internet to communicate with both new and existing patients.

Key Physician Metrics:

Net Revenue per Physician $600,000 -$900,000
Total Overhead Rate:
Primary care 45-60%
Specialists 40-50%
Surgeons 30-40%
Physician RVUs per Physician: 10,000 -12,000
Support Staff per Physician: 5-6
A/R Over 120 Days Old: 15-19%

Best Practices

General Operations

- A survey by the Medical Group Management Association found practices that were financially healthier and designated as "better performers" were more likely to pay close attention to patient flow.
- Better-performing medical practices use formal patient satisfaction surveys to measure how well they are doing.
- Investing in staff by providing training on an annual basis

Billing and Collections

- Making payment expectations clear before services are rendered-on the website, by phone and at the front desk. Many practices don't achieve desired co-pay levels because they don't ask for payment at the time of treatment. Offices that make their policies clear report a 65 percent improvement in co-payment collection, compared to those that don't.
- Better-performing practices have a lower percentage of their total accounts receivable in the 120-plus-day category than their counterparts.
- Though the process is labor intensive, regular internal billing audits can help improve both cash flow and compliance within the practice.
- Implemting electronic claims submission and electronic remittance auto-posting to take advantage of time savings and efficient payer processing.
- Best practices achieve an overall claims denial rate of 3-5% and a denial rate for electronic claims of less than 1%
- Best practices encourage staff to turn around appeals of denials in 48 hours or less
- Larger practices organize billing specialists by payer

Use of Technology

- With the exception of multispecialty practices, better-performing practices spent more on information technology operating expenses than their counterparts.

Working Capital

Sell and invoice

Primary care practices acquire new patients through referrals from existing patients, advertising, and by being on the "preferred provider" lists of insurance plans. Specialty practices rely on referrals from primary care practices, along with patient referrals, advertising, and preferred provider listings.

Primary care practices derive nearly all their revenue from office-based patient visits, while specialty practices may also have revenue from surgical procedures. Many larger practices supplement office and surgical revenue with ancillary services, such as physical therapy services, laser treatments, or in-house x-rays and MRIs.

About 46% of patient visits are paid for by private insurance plans, while Medicare or Medicaid pay for over 34% of visits. The remainder are either self-pay by the patient or no-charge charity work. The Medicare portion of payments can vary widely by specialty and procedure. Patients with private insurance are often responsible for a co-pay or deductible amount. Patient payments average nearly 25% of practice revenue. Physician practices primarily use electronic submission for their claims.

Collect

Collections average about 17 to 23 days, but typically 15-19% of receivables are over 120 days. Adjustments are made to gross billings in order to comply with rules of third party payer contracts. Net payments from insurers are typically only 25-30% of gross billings. Payment from private insurance companies or Medicare/Medicaid may be delayed or denied due to errors in coding or patient information. The AMA reports that the claims processing error rate for commercial insurers dropped from nearly 20% in 2010 to just over 7% in 2013 (the newest data available). Practices usually accept credit or debit cards for patient payments, and may also offer third-party financing for large bills.

Manage Cash

Physician practices average about $245,000 a month in revenue, but this figure is much higher for larger group practices. Net revenue per physician averages $50,000 to 75,000 per month. Delays in reimbursement from third-party payers may cause temporary cash shortfalls. An average of 5-10% of the reimbursement claims submitted to health insurers by physicians are denied, according to the American Academy of Family Physicians. The most common reason for non-payment is deductible requirements that shifted payment responsibility to the patient.

Pay

Payroll is the largest expense and averages about 46-47% of revenue. Rent averages 4-5% of revenue. Other expenses include medical supplies, lab fees, malpractice insurance, and general office supplies.

Report

Most physician practices have implemented practice management software to automate patient scheduling, billing, and accounting functions. Key metrics include net revenue per physician, RVUs per

physician, total overhead rate, number of office visits and surgical cases, mix of payers, net collection rate, and accounts receivable over 120 days old. Operating margins average 5-6% of sales.

Cash Management Challenges

Complex Insurance Claims

The complexity of reimbursement rules for private insurers and Medicare/Medicaid requires physician practices to hire billing specialists or outsource billing to a clearinghouse. The Medicare billing system ICD-9 contained codes for 14,000 diagnoses and 4,000 procedures, but an updated code list, ICD-10, was issued in October 2013 and significantly increased the number of diagnostic codes to 68,000 and procedure codes to over 72,000. Accurate coding is critical to avoiding claims denials and getting full value for work done by physicians. Insurers have different policies regarding which procedures require pre-approvals. One study reported that billing and insurance-related functions consume as much as 14 percent of medical group revenue.

Higher Patient Collections

As health coverage changes, patients are becoming responsible for a higher percentage of physician practice fees. As employers look to slow the growth in healthcare costs, they are asking employees to pay more through higher co-pays and deductibles. The number of people enrolled in high-deductible health plans has tripled over the past three years. Higher patient fees can be a problem for physician practices, as studies have shown that, on average, they only collect 60% of patient co-pays.

Capital Financing

Physician practices require medical equipment to diagnose and treat patients. This equipment, particularly for specialty practices, can be expensive. Practices must also invest in office fixtures and furniture, and information systems to operate effectively. Some practices may choose to own, rather than rent, their office space.

The cost of starting a new medical practice varies by the type of practice, but typically requires an investment of $200,000 to $300,000. Investments include furniture for patient waiting areas and staff office areas; outfitting exam rooms with beds, equipment, storage fixtures, and sinks; and computer hardware and software systems. Primary care practices generally have fewer medical equipment needs than specialty practices, though OB/GYN practices need ultrasound and other fetal monitoring devices. Outfitting an exam room for a family practice typically costs $5,000 - $6,000. Specialty practices require more in-depth and expensive diagnostic equipment, such as imaging systems, fluoroscopy equipment, and therapeutic lasers.

Information system investments include practice management software for automating patient scheduling, billing, accounting, and reporting functions. Practices are also investing in electronic health record (EHR) systems to track patient history and treatment data. The federal government is encouraging adoption of EHR systems by providing higher Medicare reimbursement rates for practices that achieve “meaningful use” of an EHR system over the next few years. Both practice management systems and EHR systems are now available via the Internet in “Software as a Service” (SaaS) versions that eliminate the need for physician practices to purchase and manage computer servers.

Rent for physician practices averages 4-5% of revenue. National averages vary greatly by regions but the overall average rent for medical office buildings is around $22 per square foot. Some practices may choose to own their office space. A group of physicians may purchase a medical office building as an investment for retirement and lease it back to the practice.

Practices lease or finance purchases of expensive medical equipment to match monthly costs with cash flow. Loans of 5-7 years from banks, third-party lenders, or equipment suppliers are typically used to finance equipment purchases. Computer hardware and software are typically leased, since they have a shorter useful life and require regular upgrades.

Examples of Equipment Purchases

Digital Imaging (X-ray) System

$35,000

Creates electronic x-ray image without film for viewing on computer and inclusion in patient’s electronic record

Digital Physicians Scale

$400 - $1,500

Scale for measuring patient's weight, may also include rod for height measurement

Fetal Monitor

$4,000 - $8,000

Monitors the heart rate of the fetus

Fluoroscope

$40,000 - $80,000

X-ray technique that provides real-time moving images of the internal structures of a patient

Examination Table

$1,000 - $10,000

Reclining table with power controls for patient exams

Autoclave Sterilizer

$1,500 - $7,000

Uses steam to clean and sterilize instruments for reuse. Models adjust cycle time and automatically dry instruments after cleaning

Electrocardiograph

$2,000 - $4,000

Device used to measure and detect abnormal heart rhythms

Risks to Watch Out For

Business Failure and Merger Rate

Physician Practices Fail or Merge more frequently

The business failure and merger rate for physician practices from the end of 2016 to the end of 2017 was 25.85%, higher than than the average for all US businesses, according to data from Bizminer. "Business failures and mergers" include those firms that ceased operations during the time period, as well as firms that ceased being independent entities due to merger or acquisition.

Industry Risks

Uncertain Impact of Healthcare Reform

Primary care physicians are expected to play a central role in healthcare reform, as calls for repeal of the Affordable Care Act continue. The American Academy of Family Physicians supported the original act, but expressed concerns that it "might not accommodate privately owned, small and medium-sized physician practices." The Act's provisions were gradually phased in. Potential revision or replacement of the healthcare legislation could impact physicians.

Lower Reimbursement Rates

Since only about 9% of patient visits are self-pay, physician practices are highly dependent on reimbursements from private insurance companies, Medicare, and Medicaid. To contain rising healthcare costs, these payers have been reducing reimbursement rates for medical services and exploring alternatives to the current "fee for service" reimbursement model. The Affordable Care Act calls for "bundled payments" that pay a flat rate for an "episode of care" that is divided among hospitals, physicians, and other care providers.

Competition for Skilled Staff

Many physician practices have expanded the role of physician assistants, nurse practitioners, and nurses in order to maximize the number of patients seen by their practice and lower the cost per patient visit. Demand for these positions is expected to exceed supply in the coming years, creating competition for hiring and driving up wages. Wages for non-supervisory staff in physician offices rose 14.6% between 2012 and 2017 and jobs for physician assistants and nurses in physician offices are projected to grow by 37% and 36%, respectively, from 2016 to 2026.

Adapting to Changing Standards

Physician practices adapted to changing regulations as the Affordable Care Act was implemented. They also face near-term regulatory changes in Medicare billing and payments. A new version (5010) of the X12 standard for electronic claims submission went into effect on January 1, 2012 and requires over 1,300 modifications to existing systems. Medicare billing codes changed from the ICD-9 to ICD-10 standards on October 1, 2013, and practices were required to be compliant by October 1, 2015. ICD-10

increases the number of diagnoses from 13,000 to more than 68,000 and the number of procedures from 4,000 to 72,589. Practices need to make sure their billing software is ready for new standards or they face disruptions in their cash flow. Complying with mandates adds cost to physician practices at a time when they are under pressure to reduce costs.

High Liability Costs

Malpractice insurance rates vary by State and by type of medical practice, with OB/GYNs facing the highest rates due to the large damages awarded when an infant is harmed at birth. In a high rate state like Florida, liability coverage for an OB/GYN ranges from $100,000 to $200,000 per year. The high cost of malpractice insurance is forcing some solo physicians and small practices to join larger group practices to share risk and costs.

Demand Dependent on Economy

Many physician practices experienced a decline in revenue during the recent recession. During weak economic conditions, patients postpone discretionary treatments. Since health insurance is typically tied to a job, high unemployment can reduce insurance coverage of patients.

Company Risks

Management Skills

Physicians usually lack formal business training and small practices cannot afford a professional practice administrator. As a result, they may face challenges in dealing with personnel issues and the financial management of the practice. Practices required savvy leadership to implement changes in how they operated due to the Affordable Care Act.

High Staff Turnover

Increasing competition for skilled staff, such as physician assistants and nurses, can lead to high turnover at poorly managed practices. Due to high demand, dissatisfied staff can easily find jobs elsewhere. Besides hurting morale and patient satisfaction, high turnover costs the practice in additional recruiting and hiring fees.

Poorly Implemented EHR System

Practices have implemented electronic health record (EHR) systems to take advantage of federal incentives and improve productivity. Practices that weren't prepared to change their procedures or didn't invest adequate staff time in the implementation process risked a poorly functioning EHR system. A poorly implemented system can result in extra cost, patient dissatisfaction, lower productivity, and lower staff morale.

Unclear Exit Strategy

Physicians in group practices often lack a clearly defined strategy for how partners will exit from the practice and how new partners are added. How such transitions will be handled should be documented in writing in the partnership agreement or by-laws for the practice.

Industry Trends

Growth in Demand

The aging of the US population will drive growth in demand for physician services, both primary care specialty practices. The number of adults over age 65 is projected to account for over 15% of the US population by 2020, an increase of about 35% over a decade. Elderly adults average over 7 doctor visits per year, about 3 times the rate of adults under age 45. Healthcare reform will also drive demand for primary care physicians as more people obtain insurance coverage.

Rising Cost of Healthcare

Spending on healthcare in the US has been rising faster than the overall economy since the 1960s and is now over $10,000 per year for each US resident. The Centers for Medicare and Medicaid Services projects that spending will rise to over $16,000 per resident by 2026 and account for nearly 20% of GDP. Since physician and clinical services is the second largest category of healthcare spending (after hospital care), attempts to reduce the growth in spending will likely have financial impacts on physician practices.

Shift Away from Small Practices

Increasingly, physicians are opting to become partners or employees of group practices. Group practices can more easily afford expensive medical equipment, share support staff, afford malpractice insurance, and provide more regular hours and time-off than solo or two-physician practices. Reduced reimbursement rates also affect solo practices more severely, as they can't shift patient care to less expensive assistants.

Hospital Affiliations

The past few years has seen an increase in hospitals purchasing physician practices to grow their revenues and medical staff. This trend has been spurred by late 2007 changes in federal law that put an end to joint ventures between hospitals and physicians to own and operate medical facilities. Rather than compete with physician practices for outpatient services, some hospitals are acquiring them. For physicians, becoming a hospital employee can provide more stable work hours, less administrative work, less worry about practice expenses, and a salary that isn't dependent on reimbursement rates.

Patient-Centered Medical Homes

The Patient-Centered Medical Home (PCMH) is a program for improving primary care from the National Center for Quality Assurance (NCQA). It provides a set of standards and criteria focused on organizing care around patients, working in teams, and coordinating and tracking care over time. The PCMH standards also incorporate the use of health information technology as well as best practices to improve the quality of care. Both private insurers and Medicare have provided reimbursement incentives for practices that adopt PCMH standards and over 14,000 practices had achieved PCMH Recognition by May 2018. In June 2016, a new version of the standards was released: PCMH 2017.

Health Information Exchanges

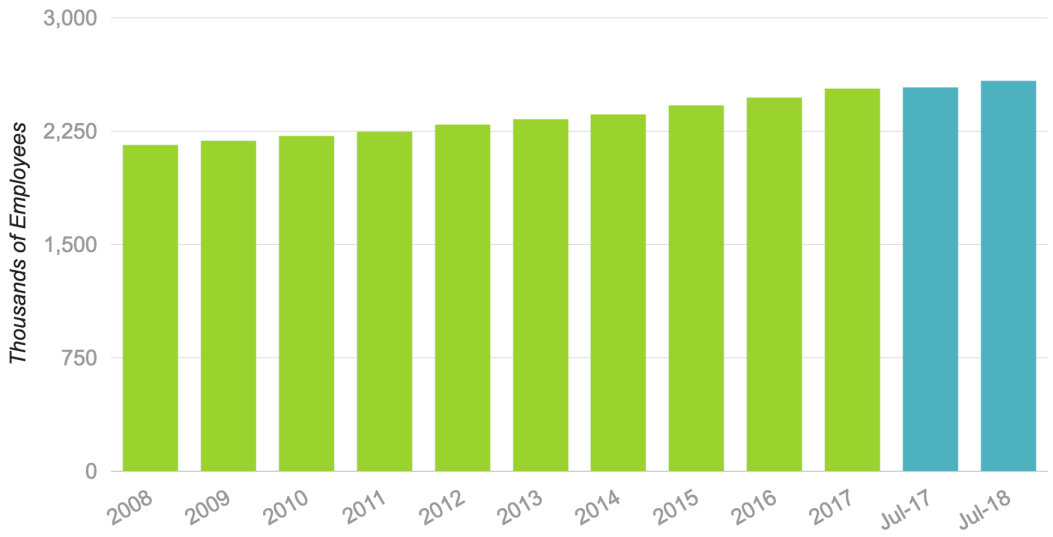
With the help of $564 million in federal stimulus funds, states have set up Health Information Exchanges (HIEs). These State-sponsored exchanges allow physicians with Electronic Health Record (EHR) systems to get access to hospital, lab, and imaging data without investing in data interfaces. While the initial emphasis of HIEs was on sharing data between hospitals and physicians, they also support exchanging care summaries between primary care physicians and specialists, even if they are using different EHR systems.

Employment and Wage Trends

Employment by physician practices increases

Overall employment by physician practices changed 1.7% in July compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

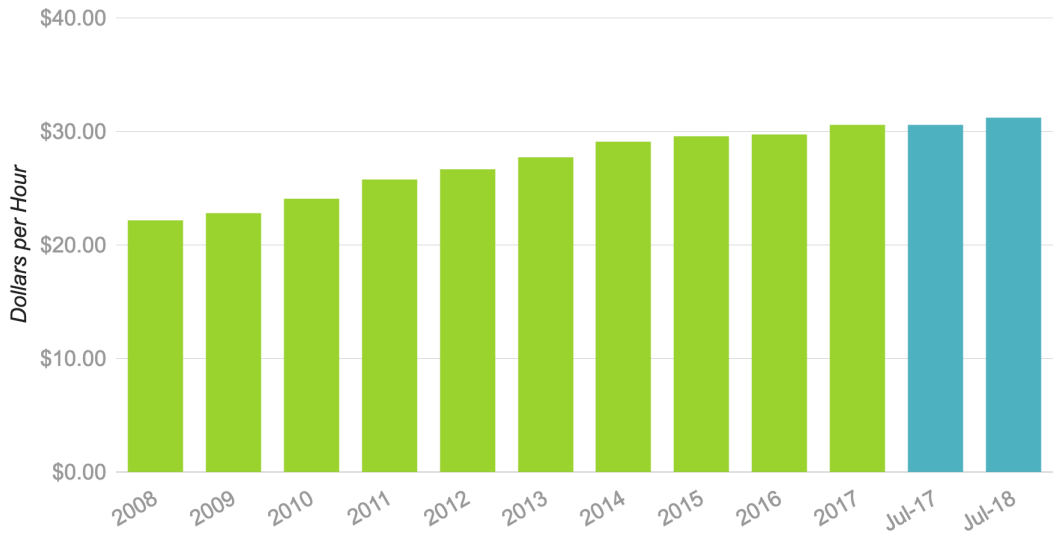
Physician Practices Employment



Wages at physician practices rise

Average wages for nonsupervisory employees at physician practices were $31.20 per hour in July, a 2.0% change compared to a year ago.

Average Wages for Nonsupervisory Employees



Quarterly Insight

Third Quarter 2018

More Practices Try Concierge Medicine

Concierge medicine is gaining traction with physician practices and some patients. Physicians charge an annual fee to each patient in their practice. Fees can range from hundreds to tens of thousands of dollars. Patients get 24-hour access to their physician, including last-minute appointments and answers to medical questions. Patients also get more personalized visits that may last an hour. Industry experts say that concierge medicine can decrease the number of patients a physician needs to see in order to make a living and remove the burden of insurance provider and managed care reimbursement processes.

Second Quarter 2018

Paying Physicians More

As competitive pressure in the healthcare industry rises, practices are paying physicians better salaries and giving more perks to retain existing staff and attract new hires. A recent survey by Merritt Hawkins reveals that 76% of physicians who are finishing residency receive 50 or more recruitment offers on average – about 55% receive over 100 offers. In addition, about 13% of primary care physicians relocate each year. Aside from salary, physician practices are paying perks include signing bonuses, moving allowances, insurance coverage (health, malpractice and disability), stipends for continuing education, education loan forgiveness, flexible schedules, and reduced number of patient visits per hour.

First Quarter 2018

Practices Flooded During Flu Season

Physician practices are seeing an influx of patients seeking diagnosis and treatment for flu. The CDC estimates about 34 million flu cases will emerge this season, resulting in approximately 50,000 deaths. Some practices are experiencing short supplies of tests to identify the flu and medications to treat it. The flu vaccine is effective in preventing about one-third of flu cases, but the most virulent strain is largely resistant. Practices that can't handle the spike in caseload may lose patients to urgent care centers with shorter wait times.

Fourth Quarter 2017

PRACTICES OPEN TESTING LABS

The rise in opioid use and demand for testing is driving some physician practices to open their own urine testing labs. Medicare alone paid an estimated $8.5 billion for nearly 20 million drug tests in 2014,

up from less than 1 million tests in 2009, according to Codemap and Bloomberg. The steep rise in testing is driven by physicians monitoring patient intake of prescribed painkillers and to catch the use of illegal or nonprescribed opioids and other medication to identify addiction risk early.

Third Quarter 2017

ADDING MENTAL HEALTH SERVICES

Primary care physicians are often the first medical professionals to identify, diagnose and initially treat patients for mental health conditions. However, research indicates that few patients follow their primary care physicians' recommendations to seek counseling, due to concern over availability, schedules, shame, and financial burden. About 18% of the adult population suffers from mental illness, primarily anxiety and depressive disorders. Physician practices are beginning to see the value in adding an onsite counselor that is convenient for patients to see and increases the likelihood of advanced treatment.

Second Quarter 2017

WHAT PATIENTS SEEK IN A NEW DOCTOR

A recent survey by Weatherby Healthcare uncovers what healthcare consumers want when choosing a primary care physician. Insurance plays a major role in initial visits as healthcare consumers tend to look at in-network providers first, due to lower cost. Recommendations from friends and family, and convenience were the second most common way to initially chose a physician. After the first visit, patients primarily want to feel comfortable and trust in the expertise of the physician and staff. Patients also want a physician with a clean record (without malpractice, sanctions or board action), experience, and good education. On average, 44% of surveyed consumers had visited the same doctor for five years or more and 75% were satisfied.

First Quarter 2017

PHYSICIANS DROPPED FROM MEDICAID

An estimated 65,000 healthcare providers were dropped from Medicaid at the start of 2017, according to Modern Healthcare. Physicians that enrolled with Medicaid before March 25, 2011 were required to revalidate their participation with the Centers for Medicare and Medicaid Services (CMS) by September 25, 2016 to remain eligible for reimbursement. The revalidation provision of the Affordable Care Act was intended to curb fraud, waste and abuse. Some physicians became aware when claims are denied, but others dropped out of the Medicaid system, due to low reimbursement rates (often 60% of the Medicare reimbursement rate for the same medical service).

Fourth Quarter 2016

OB/GYN TOOLS FOR PREVENTING DEATHS

In the U.S., about 24 of every 100,000 pregnancies ends with the mother dying. The leading causes are cardiac events, drug abuse, and hypertensive disorders (high blood pressure). A disproportionately high percentage (29%) of deaths occurs in African-American women who are also more likely to suffer from heart disease, high blood pressure, diabetes and obesity. OB/GYN offices and other healthcare providers are working to raise awareness of these treatable chronic conditions and the risks for pregnant women and those considering pregnancy. The AIM (Alliance for Innovation on Maternal Health) is a collaboration of physicians, nurses, midwives, hospitals, government agencies, healthcare associations, and others working to educate women on prenatal healthcare.

Third Quarter 2016

STRONG DEMAND FOR LIP AUGMENTATION

Plastic surgeons are experiencing growth in the number of clients seeking lip augmentation. A record number of procedures were performed in 2015, boosting it to the second-fastest growing procedure for the industry. About 27,450 lip augmentation procedures were performed on both men and women. The "selfie" culture is helping to drive demand as people constantly view photos of themselves. Injections must be redone every few months,creating reoccurring revenue. Implants have a higher upfront cost but are along term solution, and can be removed. Lip reduction procedures are also in higher demand, up 34% in 2015 from two years earlier.

Second Quarter 2016

Leveraging CPT Frequency Reporting

Physicians offices can use CPT frequency reports to identify which codes are used by their physicians and the frequency. Currently, about 95% of revenue is derived from fees for services that are coded and paid by insurers or out of pocket by patients. Optimizing the use of codes is important for maximizing revenue. Physicians, even within the same practice, may code their services differently or neglect to include appropriate codes, but benchmarking can reveal where revenue is gained or lost via coding. While practices are preparing for the switch to value-based payments, they should continue to maximize revenue under their current fee for service model.

First Quarter 2016

Raising Awareness of Zika Virus

Physicians are preparing for the potential spread of the Zika virus in the U.S. Obstetricians and pediatricians may be most impacted, as the virus carries increased risk of infants born with microcephaly – a neuro-developmental disorder resulting in an abnormally small head. Babies born with the disorder often have developmental delays, intellectual disability, seizures, difficulty swallowing, hearing loss and vision problems. Educating mothers early in their pregnancy on the risk of contracting Zika (primarily via mosquito bite) may help to prevent adverse impact on their unborn children. There is currently no vaccine for the virus, but physicians can test patients for the presence of Zika.

Fourth Quarter 2015

Common Aesthetic Procedures for Men

Plastic surgeons are seeing increased demand from men for aesthetic procedures. This is due in part to more women having treatments and their husbands' wanting to look younger too. People in general are living longer and want to look youthful longer. For men, the top procedures include eyelid rejuvenation, neck lifts, nose jobs, chin augmentation, liposuction, and breast reduction. The industry is poised for growth as the large Baby Boomer generation ages and social taboos over the self-indulgence of plastic surgery fade.

Third Quarter 2015

Physicians Unhappy with EHR

Physicians are increasingly unhappy with their electronic health record (EHR) systems. According to a survey by the American Medical Association, about 34% were "satisfied" or "very satisfied" with their EHR systems in 2014, down from 62% in 2010. Physicians may improve their experience by customizing their out-of-the-box EHR systems to their needs, as well as participating in user training sessions to better familiarize themselves with the software. EHRs play a critical role in the upcoming transition from ICD-9 to ICD-10 coding for medical billing. EHRs provide more structured data management than paper records, but require data to be input correctly.

Second Quarter 2015

Physicians Benefit from SGR Repeal

In April 2015, the Senate voted to repeal the Medicare Sustainable Growth Rate (SGR) and President Obama signed a $145 billion healthcare reform package that will aid in implementing new care models designed to improve quality of care and lower costs. The SGR formula for determining physician reimbursements through Medicare was enacted in 1997 but has not kept up with the growth in physician costs and Congress has spent over $170 billion to cover the shortfall in reimbursements since 2000. Under the new formula, physicians will receive a 0.5% increase in reimbursements through 2019 and then rates will steady through 2025 as a Merit-Based Incentive Payment System (MIPS) takes effect. With MIPS, physicians will be rated on a 1-100 scale and receive additional reimbursements for providing superior services and patient outcomes. Conversely, physicians with low ratings will be penalized with reimbursement reductions.

First Quarter 2015

Dawn of Concierge Medicine

Nationwide, physicians are beginning to offer patients an alternative to rapidly rising health insurance premiums, while also sidestepping reimbursement pitfalls under the Affordable Care Act. Under the concierge medicine model, patients purchase a membership for a flat fee from the physician, who does

not accept third-party insurance plans. The physician doesn't have to negotiate prices with insurers and wait for reimbursement. The patient pays less and directly to the physician. Physicians also don't have to meet government-set standards of care. In 2014, about 20% of physicians have either instituted or plan to institute a concierge model in the next few years, according to a survey by the Physicians Foundation.

Fourth Quarter 2014

Procedures Deemed Safe for Elderly

A new study reveals that the rate of complications for plastic surgery procedures does not increase significantly as patients age. Patients aged 40 have a 1.84% risk of medical complications from cosmetic procedures, compared to 1.94% for 70 year olds and 2.2% for those 80 or older. Common conditions, such as obesity and diabetes, were also not found to increase complication rates in older patients. As the Baby Boomer generation wages battle against aging, plastic surgeons are well positioned with these types of findings to ease patients' concerns and potentially perform more procedures.

Third Quarter 2014

Procedure Demand Linked to Economic Conditions

A recent study by the American Society of Plastic Surgeons (ASPS) found that the types of procedures patients undergo may have ties to economic conditions and perception of personal wealth. The study found that revenue from invasive and costly cosmetic surgery procedures, such as breast augmentation and facelifts, tends to increase and decrease along with the stock market and employment levels. Revenue from minimally invasive procedures, such as botox and soft tissue fillers, tends to rise and fall with microeconomic trends like disposable income and home prices. ASPS recommends plastic surgeons provide a mix of surgical and minimally invasive aesthetic procedures to better withstand economic fluctuations and reduce risk.

Second Quarter 2014

Rising Demand for "Mommy Makeovers"

Plastic surgeons are seeing an increase in the number of women with children opting for cosmetic procedures. Common procedures include breast enhancement and body contouring (tummy tucks). Patients are also opting for multiple procedures at the same time. Benefits of having multiple procedures at the same time include a single recovery period that is less disruptive to a mother's busy schedule, lower cost (single OR and anesthetic fees, and multiple-procedure discounts), better and quicker overall results.

First Quarter 2014

Mixed Use of EHR

Overall, the use of electronic health records (EHR) is on the rise among physicians, but is uneven across geography and practice size, according to studies by the National Center for Health Statistics and the Commonwealth Fund. The percentage of practices with an EHR system was lowest in New Jersey (21%) and highest in North Dakota (83%); the national average was 48%. In terms of practice size, about 50% of physicians in solo practices use EHR compared to 90% of physicians in large practices with 20 or more physicians. Physicians in solo and small practices are more likely to use EHR if they are part of a resources-sharing arrangement with other practices. Only 13% of office-based physicians intended to participate in the government's Meaningful Use program (which helps to offset the cost of acquiring an EHR system) and had EHR systems able to support requirements for the second phase (MU2) of the program.

Fourth Quarter 2013

Marketing the Practice in 2014

In order to attract ideal patients to their practice, physicians should consider their approach to marketing and potentially hire an in-house marketing professional. A good marketer can double or triple a practice's business and raise awareness of ancillary services, which helps to boost revenue and patient base. Marketing for a physician practice is different than many other types of industries, so hiring a marketer with medical knowledge and practice marketing experience is a plus. However, training courses are available to get marketers with limited or no knowledge of promoting physician practices up to speed. Marketers typically earn about $45,000 - $50,000 plus benefits, but if that cost is not in the budget, practices can train office managers and nursing staff to market during slow times. Practices often compensate these existing staff members via bonuses for each new patient referral or new referring doctor.

Third Quarter 2013

Cost Savings of EHR

A study by the University of Michigan found that the use of electronic health records reduced the cost of doctor visits and lab services by almost 3%. This is an indicator that adoption of electronic health records may be able to slow the rising cost of healthcare and make physician services and lab work more affordable. Switching to electronic health records is costly upfront due to the labor required to input patient data into the electronic system. However, offices benefit from lower cost in the future in terms of file storage, processing, and sharing of patient data.

Second Quarter 2013

Focus on Dementia Detection

Physicians are expected to increase screening and offer follow-up care for patients at risk of dementia, due in part to healthcare reform. Under the Affordable Care Act, Medicare will cover patients' annual wellness visits that include detection of cognitive impairment or a measurable loss in memory.

Previously, dementia screening was not routine in physician checkups, mainly because little can be done in terms of medical treatment for the condition. Physicians may also have to alter the medication regimens of patients diagnosed with dementia, because some drugs have been found to worsen the condition. The Alzheimer's Association anticipates the number of annual dementia cases will double by 2050 as the population of older adults increases.

First Quarter 2013

Higher Medicaid Payments

A variety of physicians will see their reimbursements for select medical services increase in 2013 and 2014 under the Affordable Care Act. Physicians will qualify for the rate increase based on their board certification and claims history. Subspecialties will qualify if they are board certified in an eligible specialty or subspecialty and/or at least 60% of their previous year's Medicaid claims were for E&M (evaluation and management) or vaccination codes specified under the rule. Qualifying subspecialties fall under family medicine (5 subspecialties), internal medicine (20 subspecialties), and pediatrics (18 subspecialties).

Web Links

AAP News

News magazine of the American Academy of Pediatrics

Agency for Healthcare Research and Quality

Research site for the U.S. Department of Health & Human Services

American Academy of Family Physicians

News and education focused on family practices

American Congress of Obstetricians and Gynecologists

News and education focused on OB/GYN practices

American Medical Association

News and education from trade association for physicians

Medical Group Management Association

Research and education from association of practice administrators

Modern Healthcare

News and business issues for physician executives

National Center for Health Statistics

Statistics on all aspects of U.S. healthcare

Physicians Practice

Advice and tools for managing a medical practice

Business Valuation

This data on business valuations is supplied by Pratt's Stats, an online database with the most complete financial details on over 27,000 acquired private companies. The graphs show the distribution of transactions for various values of each of the following metrics:

- Selling Price to Sales
- Selling Price to Gross Profits
- Selling Price to EBITDA
- Selling Price to EBIT

At the bottom of each graph, the number of transactions, minimum value, maximum value, mean value, and median value are displayed. Click on the metric below to display the corresponding graph:

- Price to Sales
- Price to Gross Profits
- Price to EBITDA
- Price to EBIT

Count: 70	**Min:** 0.05	**Max:** 2.24	**Mean:** 0.55	**Median:** 0.44

Price to Sales = Selling Price/Net Sales
Date range: 04/01/2007 - 02/24/2017

Count: 70	**Min:** 0.1	**Max:** 9.0	**Mean:** 0.99	**Median:** 0.5

Price to Gross Profit = Selling Price/Gross Profit
Date range: 04/01/2007 - 02/24/2017

Count: 53	**Min:** 0.3	**Max:** 227.9	**Mean:** 14.3	**Median:** 3.5

Price to EBITDA = Selling Price/Operating Profit + Depreciation & Amortization
Date range: 04/01/2007 - 02/24/2017

Count: 57	**Min:** 0.3	**Max:** 25714.3	**Mean:** 468.15	**Median:** 3.5

Price to EBIT = Selling Price/Operating Profit
Date range: 04/01/2007 - 02/24/2017

Selling Price, also known as MVIC (Market Value of Invested Capital) is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer. The MVIC price includes the noncompete value and the assumption of interest-bearing liabilities and excludes (1) the real estate value and (2) any earnouts (because they have not yet been earned, and they may not be earned) and (3) the employment/consulting agreement values. In an Asset Sale, the assumption is that all or substantially all operating assets are transferred in the sale. In an Asset Sale, the MVIC may or may not include all current assets, non-current assets and current liabilities (liabilities are typically not transferred in an asset sale).

Source: *Pratt's Stats* 2017 (Portland, OR; Business Valuation Resources LLC). Used with permission.

Pratt's Stats is available at http://www.bvresources.com/prattsstats

Just the Numbers

Financial Summary

Cash Intensity

7.72% Cash to Total Assets (%)

4th quartile

Inventory Intensity

10.3 Days Inventory

4th quartile

Labor Intensity

28.89% Salaries/Wages to Sales (%)

1st quartile

Profitability

5.04% Operating Income to Sales (%)

3rd quartile

Capital Intensity

31.9% Net Fixed Assets to Total Assets (%)

2nd quartile

Industry Financial Benchmarks

Here are typical financial statements for physician practices.

This data is supplied by BizMiner, a leading supplier of industry analytical statistics to the financial sector, accounting and business valuation communities. BizMiner content includes financial and market reports on more than 9000 industry segments at national and local levels. Learn more about BizMiner

products or review BizMiner data sources.

Need more detailed financial benchmark data for your client or prospect? BizMiner can break down this industry data by specific industry segments, size of business, or geographic market. These more detailed reports are available for as little as $79. To learn more or order a report, click here.

Show data for: Industry-wide

Physician Practices Financial Ratios
Size: industry-wide

MEASURE	2015	2016	2017
Current Ratio	1.37	1.37	1.33
Quick Ratio	1.08	1.09	1.06
Days Inventory	10.34	8.47	10.30
Days Receivables	22.85	16.93	19.20
Days Payables	54.60	40.10	46.60
Pre-tax Return on Revenue	7.92%	7.92%	6.31%
Pre-tax Return on Assets	27.36%	38.10%	26.57%
Pre-tax Return on Net Worth	82.33%	113.90%	79.26%
Interest Coverage	11.22	11.2	8.56
Current Liabilities to Net Worth	0.82	0.83	0.84
Long Term Liabilities to Net Worth	1.19	1.16	1.14
Total Liabilities to Net Worth	2.01	1.99	1.98
Number of Firms Analyzed	18,994	21,836	25,110

Physician Practices Income Statement
Size: industry-wide

ITEM	2015	2016	2017
Revenue	100%	100%	100%
Cost of Sales	7.27%	6.95%	6.78%
Gross Margin	92.73%	93.05%	93.22%
Officers Compensation	18.02%	18.91%	19.63%
Salaries-Wages	28.81%	28.49%	28.89%
Rent	4.52%	4.60%	4.73%
Taxes Paid	2.92%	2.94%	3.00%
Advertising	0.58%	0.59%	0.61%
Benefits-Pensions	5.38%	5.43%	5.55%
Repairs	0.74%	0.74%	0.75%
Bad Debt	0.17%	0.15%	0.14%
Other SG&A Expenses	25.04%	25.03%	25.37%
EBITDA	6.55%	6.17%	4.55%
Amortization-Depreciation	1.20%	1.13%	1.11%
Operating Expenses	87.38%	88.01%	89.78%
Operating Income	5.35%	5.04%	3.44%
Interest Income	0.15%	0.12%	0.10%
Interest Expense	0.58%	0.55%	0.53%
Other Income	3.00%	3.31%	3.30%
Pre-tax Net Profit	7.92%	7.92%	6.31%
Income Tax	2.37%	2.36%	1.70%
After Tax Net Profit	5.55%	5.56%	4.61%
Number of Firms Analyzed	18,994	21,836	25,110

Physician Practices Balance Sheet
Size: industry-wide

ASSETS	2015	2016	2017
Cash	7.84%	7.86%	7.72%
Receivables	21.63%	22.32%	22.14%
Inventory	0.71%	0.78%	0.80%
Other Current Assets	6.99%	7.03%	6.90%
Total Current Assets	37.17%	37.99%	37.56%
Net Fixed Assets	32.68%	31.9%	31.86%
Other Non-Current Assets	30.15%	30.11%	30.58%
Total Assets	100.00%	100.00%	100.00%
Liabilities			
Accounts Payable	3.76%	3.68%	3.64%
Loans/Notes Payable	5.65%	5.94%	5.98%
Other Current Liabilities	17.77%	18.06%	18.60%
Total Current Liabilities	27.18%	27.68%	28.22%
Total Long Term Liabilities	39.59%	38.87%	38.25%
Total Liabilities	66.77%	66.55%	66.47%
Net Worth	33.23%	33.45%	33.53%
Total Liabilities & Net Worth	100%	100%	100%
Number of Firms Analyzed	18,994	21,836	25,110