vertical IQ

Physician Practices

NAICS: 621111
SIC: 8011

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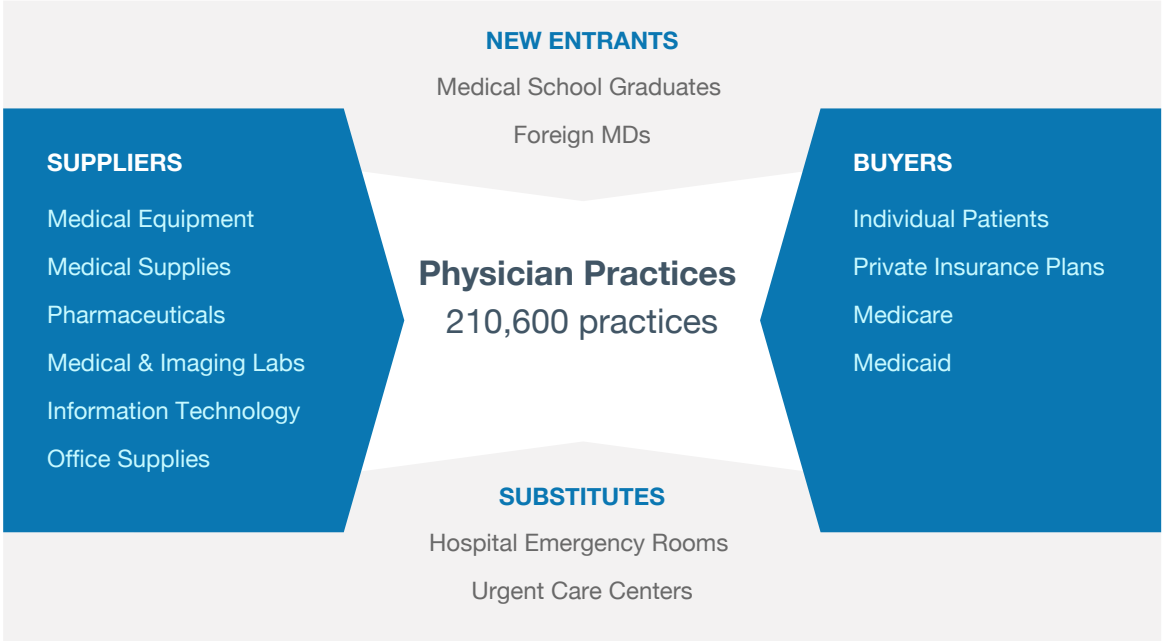
Coronavirus Update

Feb 1, 2022 -- Vaccine Mandate Stands

- The US Supreme Court allowed a vaccine mandate to stand for medical facilities that take Medicare or Medicaid payments. "We agree with the Government that the [Health and Human Services] Secretary's rule falls within the authorities that Congress has conferred upon him," said the majority, writing that the rule "fits neatly within the language of the statute. After all, ensuring that providers take steps to avoid transmitting a dangerous virus to their patients is consistent with the fundamental principle of the medical profession: first, do no harm."
- Medical experts warn that the 2021-22 flu season could be particularly severe, renewing fears of a potential "twindemic" with COVID-19 still spreading. Health officials are urging the public to get vaccinated against the flu as soon as possible. There may be more unknown factors than ever before, according to Dr. Bill Miller, senior associate dean of research and professor of epidemiology at Ohio State University's College of Public Health. The continuing COVID-19 pandemic is to blame, he added. Many experts say that the flu was essentially squashed during the 2020-21 flu season by masking and social distancing mandated to prevent the spread of the coronavirus.
- The Department of Health and Human Services released in January more than $2 billion in Provider Relief Fund payments to 7,600 provider organizations facing financial shortcomings due to the COVID-19 pandemic. The money follows a December distribution of nearly $9 billion, with both falling under $17 billion fourth phase of the Health Resources and Services Administration's (HRSA's) relief program. In total, the federal government has distributed Phase 4 payments to over 74,000 providers across the US and its territories since December 2021, according to the agencies. These relief payments are also accompanied by $7.5 billion HRSA funds distributed to more than 43,000 rural providers since December 2021 as part of the American Rescue Plan.
- The US Department of Health and Human Services (HHS) created an application portal for the Future Provider Relief Fund after America's Physician Groups, an industry association representing physician practices, asked members of the US Congress in mid-2021 to increase distributions to physician practices struggling with the financial consequences of the COVID-19 pandemic. Some $9 billion distributed in December was part of a $25 billion funding allocation, leaving $16.5 billion to be distributed. The Fund was created via the CARES pandemic relief legislation passed in early 2020 to provide direct payments to healthcare providers experiencing lost revenues and added costs because of the pandemic.
- Health insurance firms are sending mixed signals regarding payment for telehealth services, according to the nj.com news site. Some are rolling back liberal telehealth reimbursement policies that they launched at the start of the pandemic. UnitedHealth Group, Anthem, Cigna, and CVS Health all have increased some copays and adopted other rules that might cause some patients to delay or avoid telehealth visits unrelated to COVID-19. They also have imposed an array of deadlines, reimbursements and out-of-pocket expenses for telehealth, depending on the insurance plan. Countermeasures may already be under consideration. "Telemedicine has been a huge success. It's not going away," said Larry Downs, chief executive of the Medical Society of New Jersey, the state's largest organization of physicians. "We think that it will be a permanent thing. The discussion and dialogue now is how do we finance it appropriately and ensure people have access."
- The American College of Physicians (ACP) is asking health insurers to keep COVID-19 flexibilities in effect after the pandemic has passed, and has made several recommendations. The industry advocacy group recommends extending telehealth and telephone flexibilities paid at the same rate as in-person services regardless of platform. ACP also would like direct financial support including reimbursing waived patient cost-sharing responsibilities and direct payment relief payments. The development of more alternative payment models that move away from inconsistent fee-for-service, especially those offering fixed, periodic, prospective payments, has been recommended, and ACP wants health insurers to extend and expand current administrative flexibilities, including broad reprieves from prior authorization requirements, which take time and resources away from patient care.

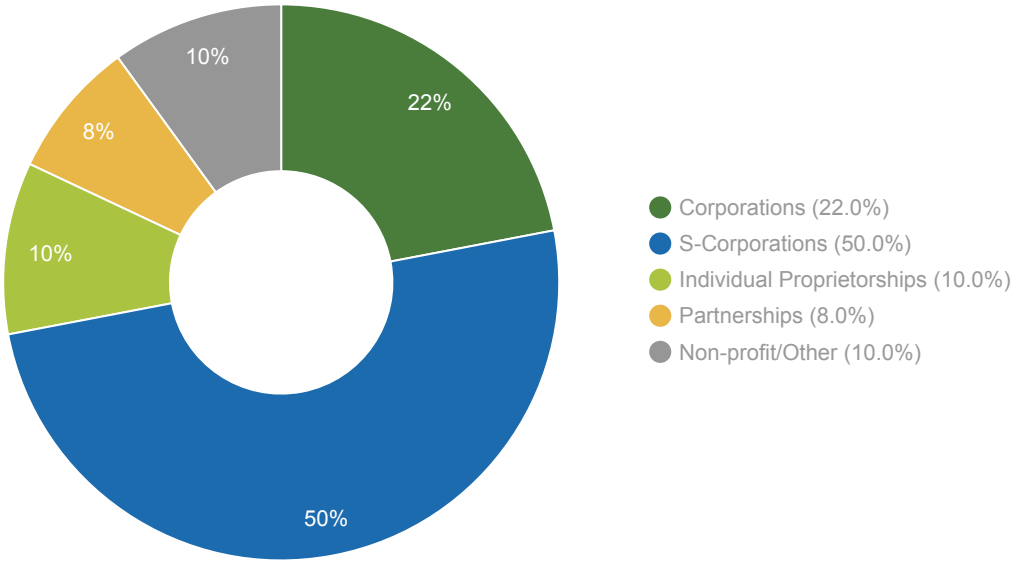
Industry Structure



The typical physician practice has a single location, 16 employees, and about $3.2 million in annual revenue.

- There are over 210,600 physician practices in the US with about $504 billion in revenue and over 2.5 million employees.
- There are over 461,000 physicians working in office-based practices.
- Over 860 million patient visits are made annually to physician practices.
- 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.

Industry Demographics



Source: US Census Bureau

Female Owned

24.0%

Minority Owned

28.0%

Veteran Owned

11.2%

Source: Census Bureau

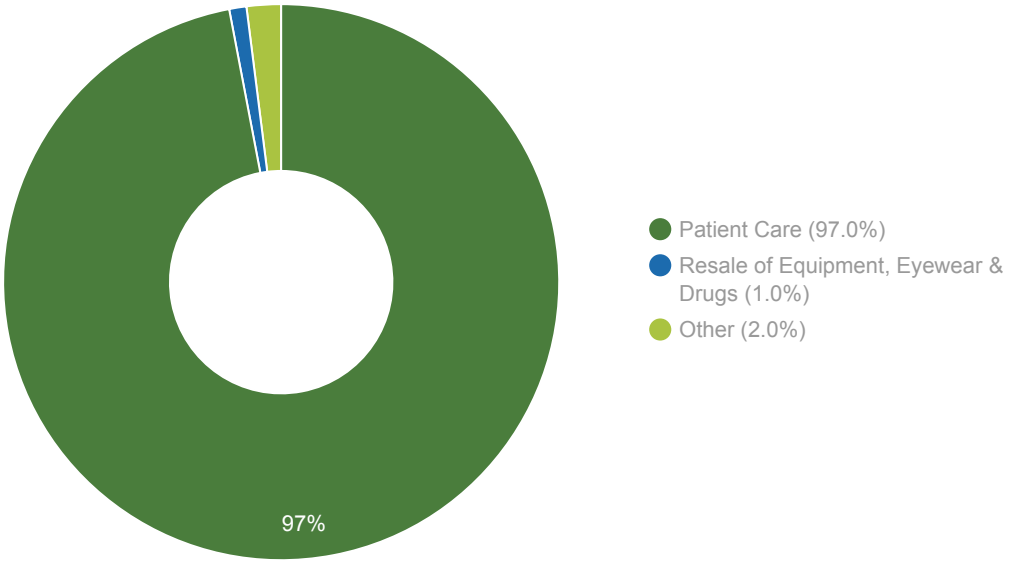
How Firms Operate

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 51% of patient visits are to general and family physicians, about 25% to medical specialists, and 24% to surgical specialists.
- About 23% of patient visits are for preventive care.
- About 69% of visits involve discussing, ordering, supplying, or administering medications.

Physician Practices Revenue



Source: US Census Bureau

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.

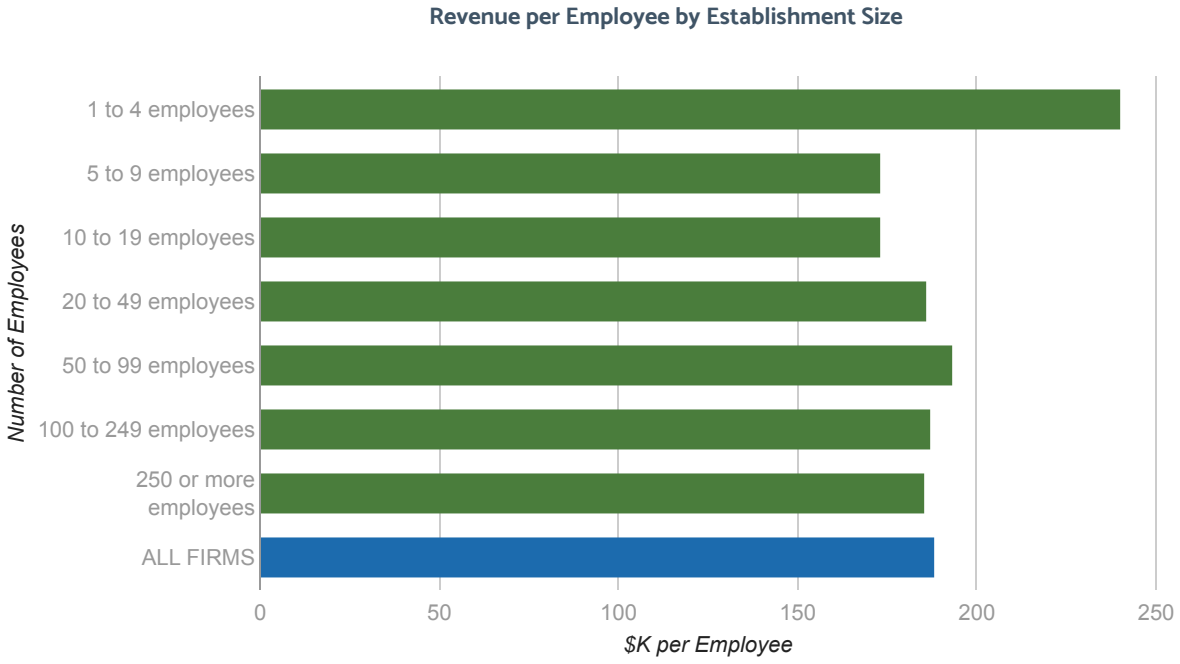
Upon completion of the visit, the patient proceeds to check-out. Follow-up appointments may be scheduled and any patient co-pays are collected. A billing specialist will then process the visit record and file a claim for reimbursement from the patient's insurance company, Medicare, or Medicaid. The claim 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 $108,930 to $111,650. 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 $35,490. Medical billing or coding specialists must understand the complexities of multiple reimbursement systems and average about $36,500 to $39,600 in earnings.

Wages for physicians vary by type of practice, with specialists earning more than primary care physicians. Average wages for physicians range from $190,420 for Pediatricians to $272,140 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.



Source: US Census Bureau

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.

Industry Trends

Trends are affected by the COVID-19 pandemic.

Changes in revenue, employment, business practices, trade and forecasts are occurring rapidly and data reporting by the government lags the changes. We are tracking changes in the "Coronavirus Update" chapter.

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 21% of the US population by 2030, an increase of about 30% over a decade. Elderly adults average over 7 doctor visits per year, about 3 times the rate of adults under age 45. Healthcare reform has also driven 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 $12,000 per year for each US resident. The Centers for Medicare and Medicaid Services projects that spending will rise to $17,600 per resident by 2028 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 13,000 practices have achieved PCMH Recognition.

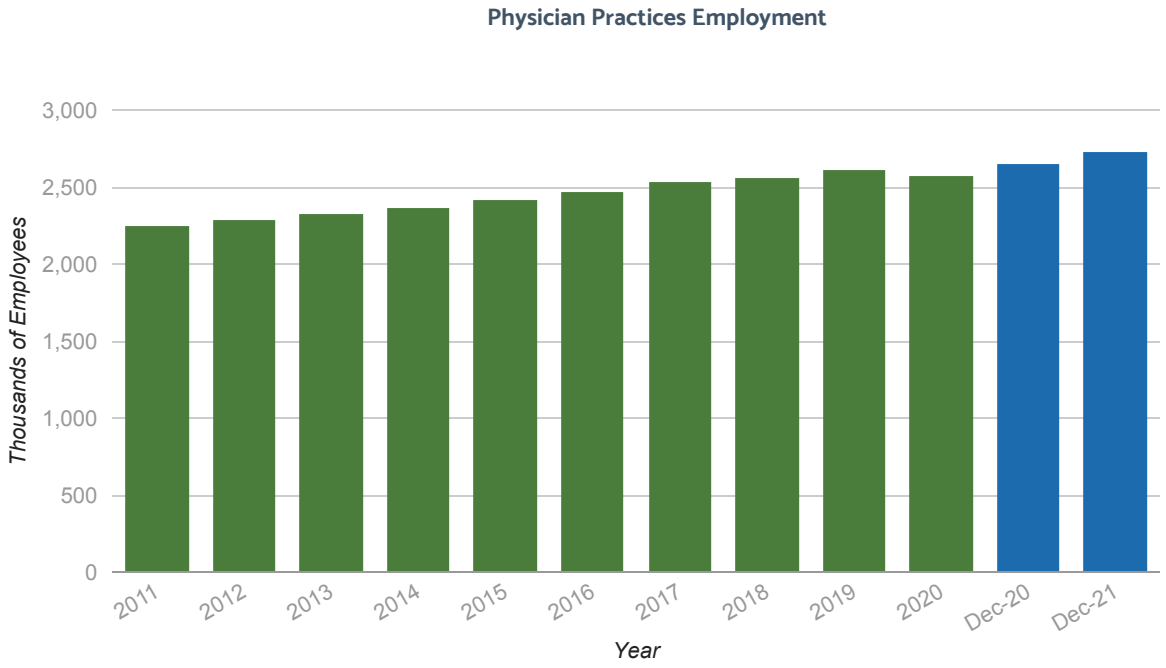
Health Information Exchanges

With the help of federal funding, 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

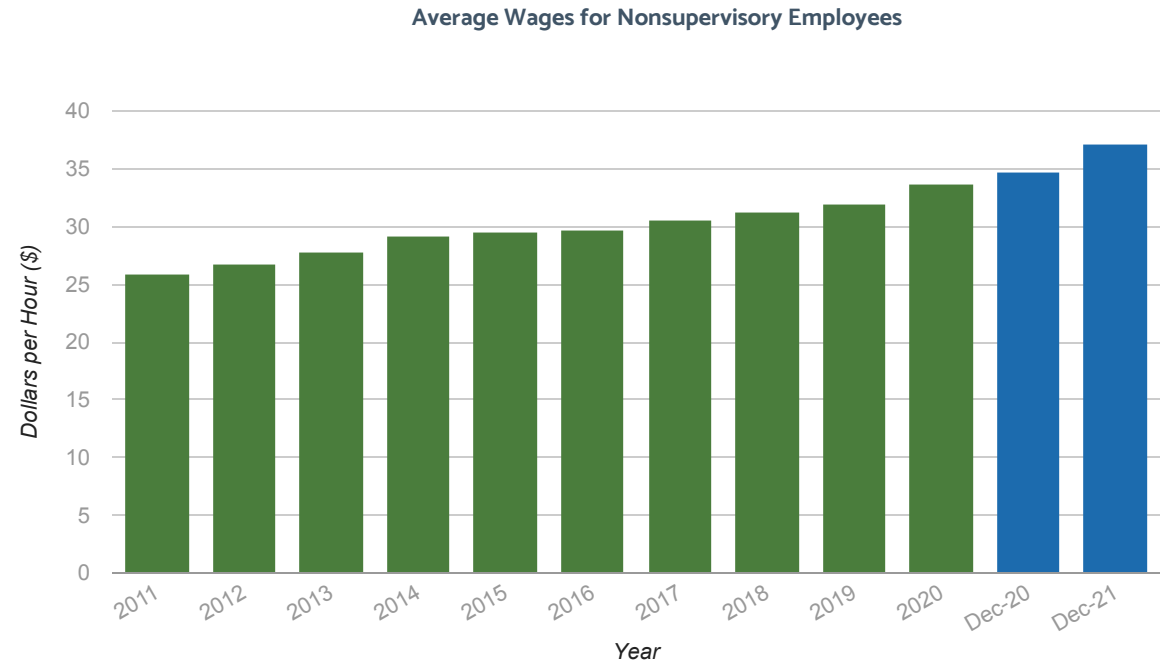
Overall employment by physician practices changed 3.1% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.



Source: Bureau of Labor Statistics

Wages at physician practices rise

Average wages for nonsupervisory employees at physician practices were $37.05 per hour in December, a 7.0% change compared to a year ago.

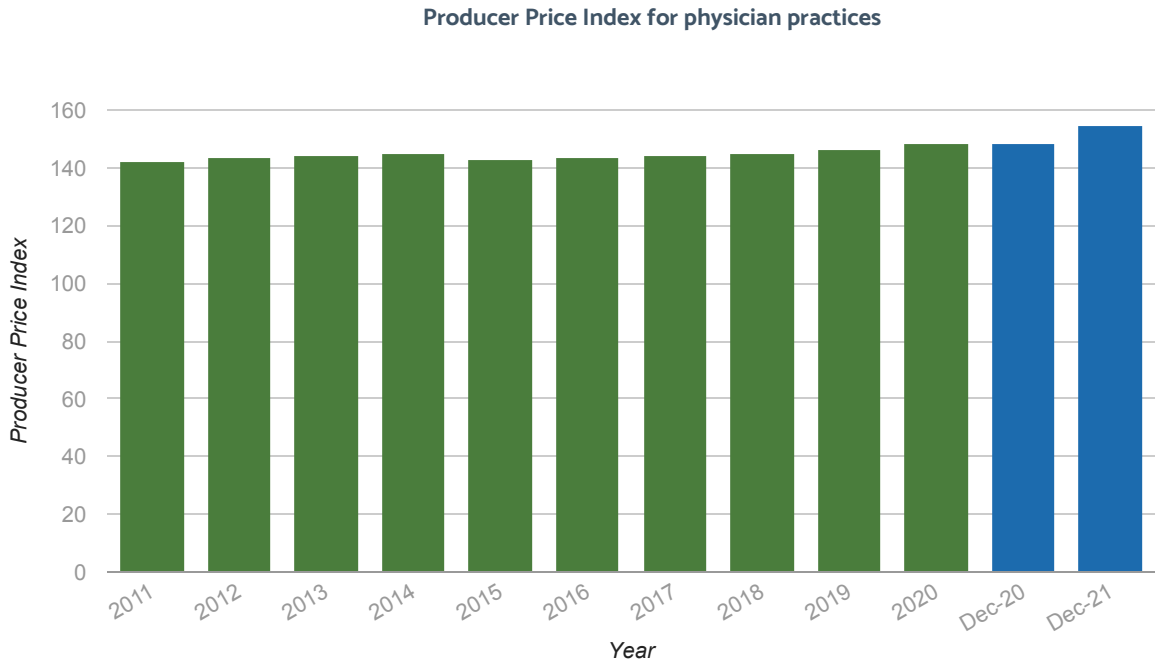


Source: Bureau of Labor Statistics

Price Trends

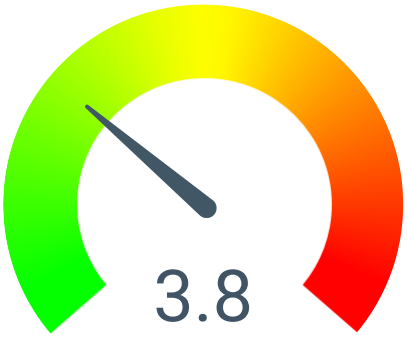
Producer Prices for physician practices rise

The Producer Price Index for physician practices changed 4.28% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.



Source: Bureau of Labor Statistics

Credit Underwriting and Risks



Industry Risk Rating:
Sound

Business Exit Rates:	4.0	Lower than US average for all businesses
Cyclical Sensitivity:	4.5	Moderate sensitivity
Barriers to Entry:	4.0	Moderate initial capital; very high regulatory/technical barriers; low concentration
External Risk:	4.3	Low external risk
Industry Outlook:	1.8	Much higher than GDP; low cyclical risk
Financial Summary:	3.5	High margins; high liquidity; low leverage

Key Metrics

METRIC	VALUE	COMPARISON
Performance During 2007–2009 Recession	7.0%	0.0% GDP
Business Exit Rate 2019–2020	7.81%	9.0% All Industries
Compound Annual Growth Forecast (2020–2025)	6.84%	6.1% GDP
SBA 7(a) Default Rate by Number of Loans (2010–2019)	2.56%	3.82% All Industries
SBA 7(a) Default Rate by Gross Loan Amount (2010–2019)	1.13%	1.21% All Industries

Underwriting Considerations

- Although Physicians are typically lower risk borrowers as they tend to have liquidity and sound cash flow, there are inherent risks within the industry including having sufficient malpractice insurance coverage.
- Compare the practice's operating margin to industry average making sure there is sufficient cash flow generation to service the debt.
- Higher leverage is common. It is recommended that debt levels are managed closely.

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 6% 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 25% between 2012 and 2020 and jobs for physician assistants and registered nurses in physician offices are projected to grow by 35.5% and 8.4%, respectively, from 2019 to 2029.

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 required 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. In January 2022, a restructured ICD-11 takes affect with 17,000 diagnostic categories. 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 past 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

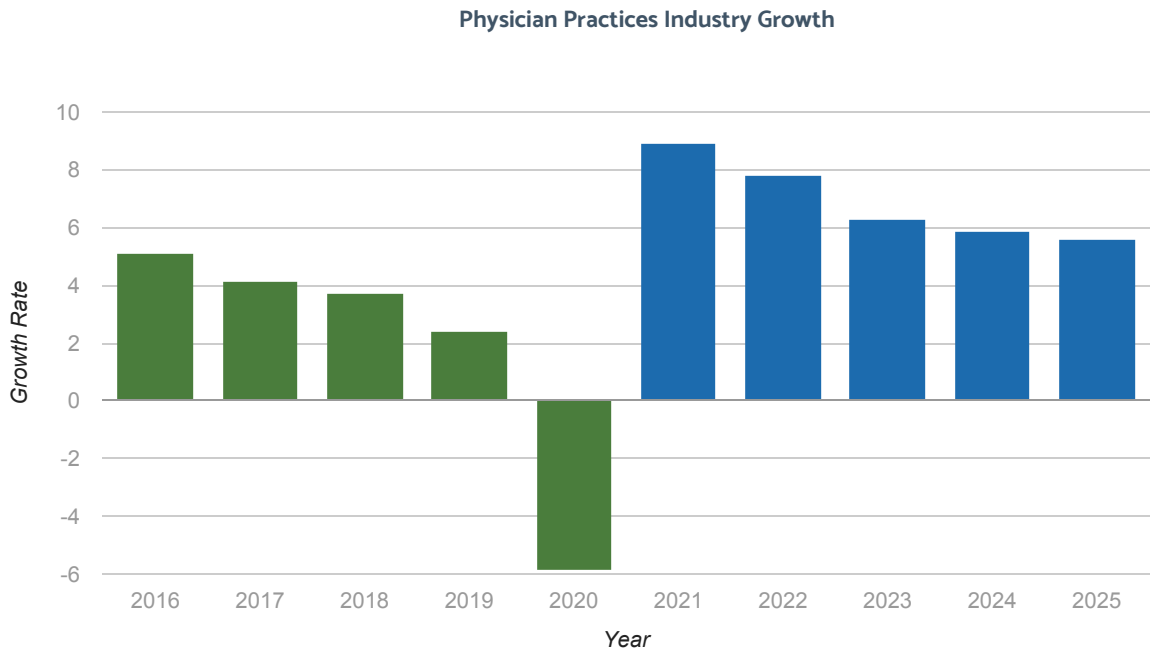
Physicians in group practices often lack a clearly defined strategy for how partners will exit from the practice and how new partners are added. How such transitions will be handled should be documented in writing in the partnership agreement or by-laws for the practice.

Industry Forecast

Sales for the US physician practices industry are forecast to grow at a 6.84% compounded annual rate from 2020 to 2025, greater 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 2021



Source: Interindustry Economic Research Fund, Inc.

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.

> 83% of physician practices said they go to their accountant or bookkeeper for cash flow advice, while 15% turn to their banker and 3% do not seek advice, according to a survey of small businesses by Barlow Research Associates.
>
> *Source: Barlow Research Associates.*

Private insurance accounts for about 46% of physician services revenue, while Medicare or Medicaid pay for 35% and patients themselves pay 9%. The remainder of payments come from other health insurance programs and third-party payers. 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. Physician practices primarily use electronic submission for their claims.

83% of physician practices report that their typical sales transaction is between $50 and $500, according to a survey by Barlow Research Associates.

Collect

Collections average about 17 to 19 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. Payment from private insurance companies or Medicare/Medicaid may be delayed or denied due to errors in coding or patient information. 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 $259,000 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 30-33% of revenue. Rent averages 2-3% 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. After-tax net profit averages 5-6% of sales.

Cash Management Challenges

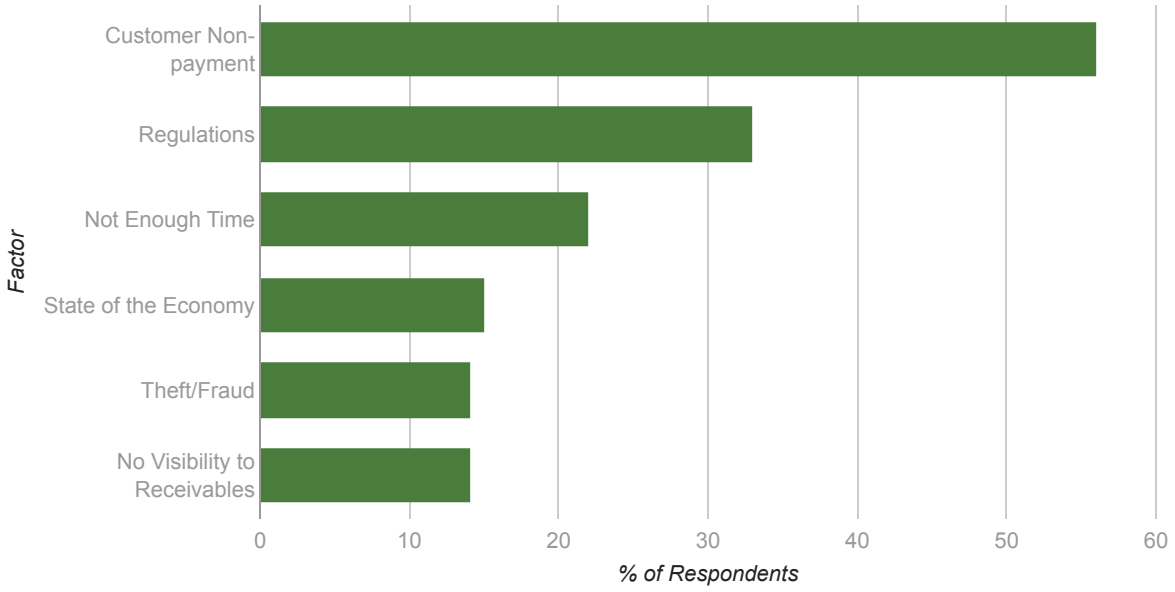
Complex Insurance Claims

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. In January 2022, a restructured ICD-11 takes affect with 17,000 diagnostic categories. 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% 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.

Factors Causing Cash Flow Stress: Physician Practices



Source: Barlow Research Associates

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 varies greatly by regions but the overall average rent for medical office buildings is around $21 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.

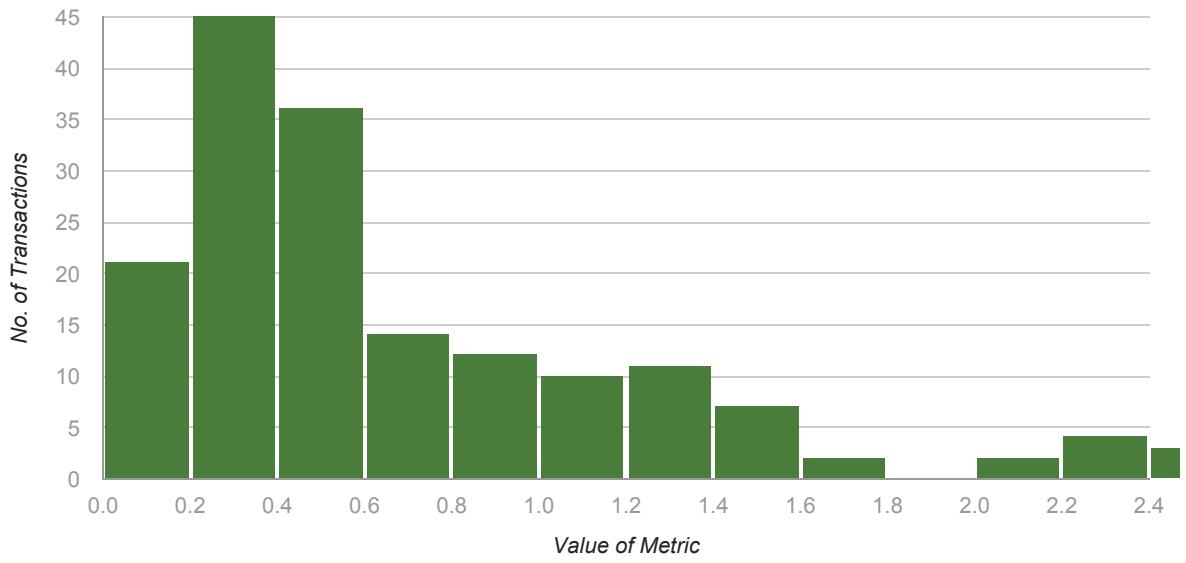
Business Valuation

This data on business valuations is supplied by DealStats, an online database with the most complete financial details on nearly 36,000 acquired companies. These companies are mostly small and medium-sized private firms.

Summary Valuation Data for Physician Practices

	MEDIAN	MEAN	# TRANSACTIONS	DATES
Price to Net Sales	0.47	2.0	167	01/05/1996–05/21/2021
Price to Gross Profits	0.47	2.77	132	01/05/1996–05/21/2021
Price to EBITDA	5.47	76.06	109	01/05/1996–05/21/2021
Price to EBIT	4.21	304.16	127	01/05/1996 –05/21/2021

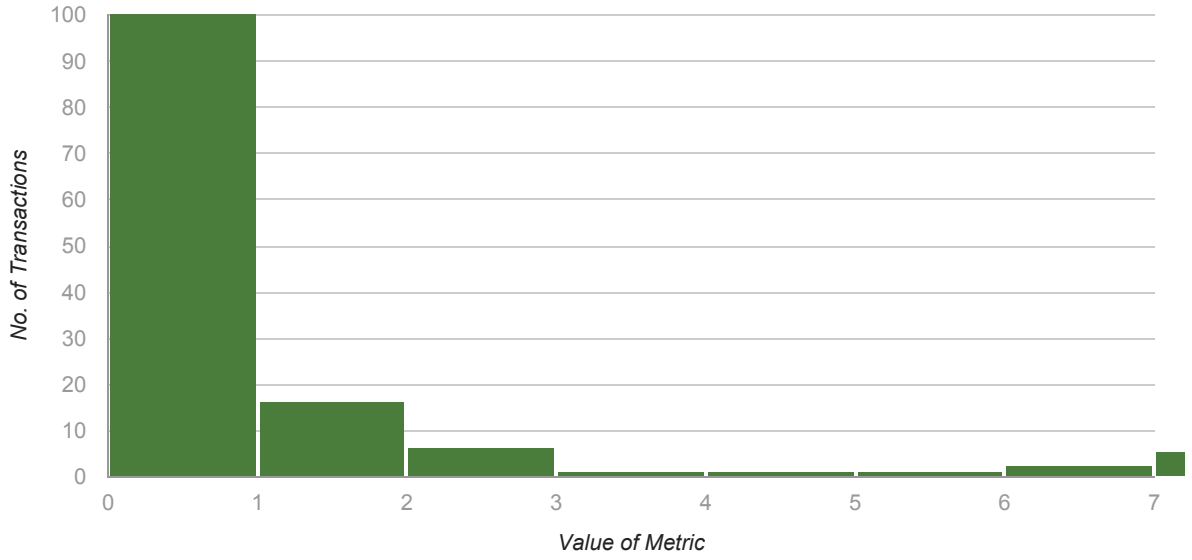
Click on the metric below to see a distribution of transactions for the industry:



Source: DealStats

Count: 167 **Min:** 0.02 **Max:** 221.16 **Mean:** 2.0 **Median:** 0.47

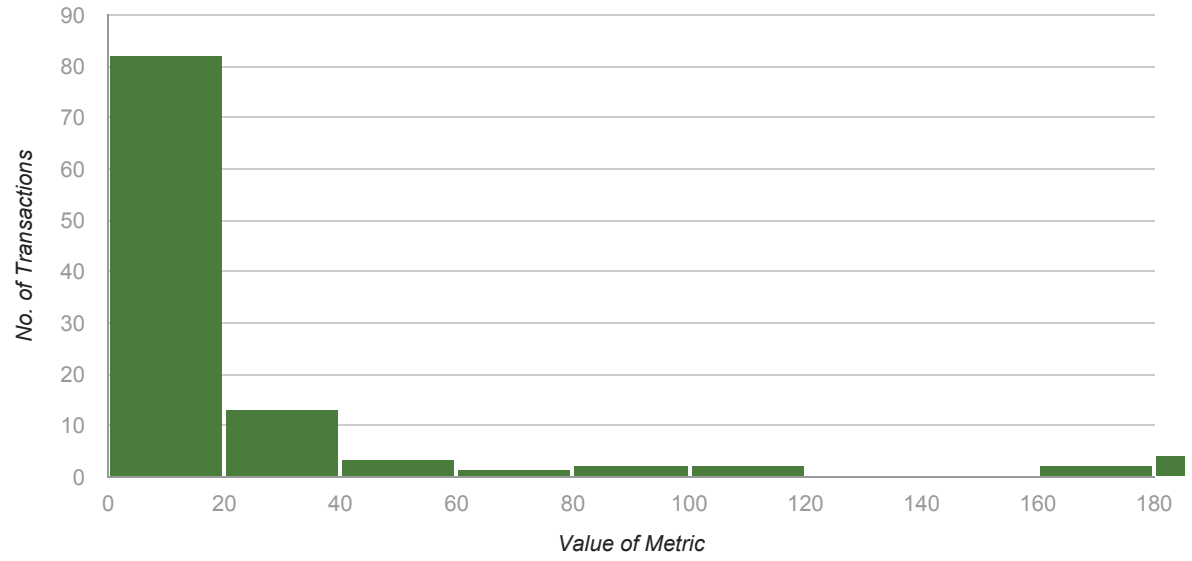
Price to Sales = Selling Price/Net Sales
Date range: 01/05/1996 - 05/21/2021



Source: DealStats

Count: 132 **Min:** 0.07 **Max:** 221.16 **Mean:** 2.77 **Median:** 0.47

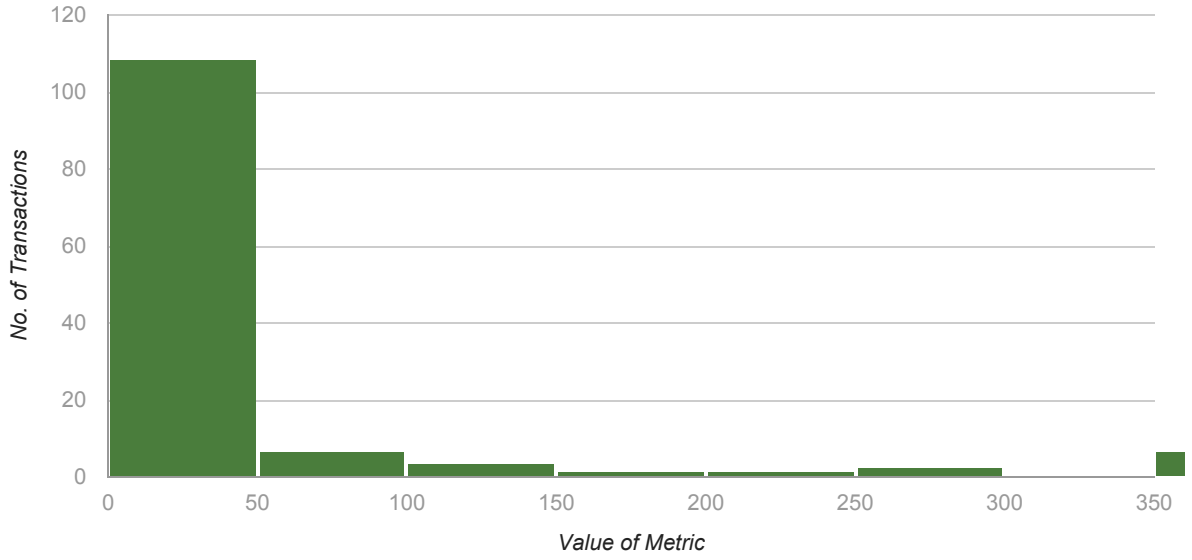
Price to Gross Profit = Selling Price/Gross Profit
Date range: 01/05/1996 - 05/21/2021



Source: DealStats

Count: 109 **Min:** 0.29 **Max:** 4964.29 **Mean:** 76.06 **Median:** 5.47

Price to EBITDA = Selling Price/Operating Profit + Depreciation & Amortization
Date range: 01/05/1996 - 05/21/2021



Source: DealStats

Count: 127 **Min:** 0.11 **Max:** 25714.29 **Mean:** 304.16 **Median:** 4.21

Price to EBIT = Selling Price/Operating Profit
Date range: 01/05/1996 - 05/21/2021

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: DealStats 2019 (Portland, OR; Business Valuation Resources LLC). Used with permission. DealStats is available at https://www.bvresources.com/learn/dealstats

Financial Benchmarks

The following financial benchmark data is based on annual financial statements submitted by member institutions of the Risk Management Association from Q2 of the first year listed through Q1 of the following year.

Financial Ratios (Physician Practices, Industry-wide)

MEASURE	2018-19	2019-20	2020-21
Current Ratio	1.34	1.37	1.51
Quick Ratio	1.13	1.13	1.32
Days Inventory	3.91	5.61	6.87
Days Receivables	17	19	20
Days Payables	16.84	21.39	21.69
Pre-tax Return on Revenue	6.66%	5.49%	7.53%
Pre-tax Return on Assets	24.20%	16.88%	19.22%
Pre-tax Return on Net Worth	64.60%	44.06%	62.57%
Interest Coverage	26.75	15.20	14.86
Current Liabilities to Net Worth	.85	.75	.96
Long Term Liabilities to Net Worth	0.82	0.86	1.3
Total Liabilities to Net Worth	1.67	1.61	2.26
Number of Firms Analyzed	*3,162*	*2,578*	*1,666*

Income Statement (Physician Practices, Industry-wide)

ITEM	2018-19	2019-20	2020-21
Revenue	100.0%	100.0%	100.0%
Cost of Sales	25.37%	26.25%	26.96%
Gross Margin	74.63%	73.75%	73.04%
Officers Compensation	11.09%	10.42%	11.24%
Salaries-Wages	23.72%	22.89%	23.72%
Rent	2.92%	2.9%	3.35%
Taxes Paid	2.11%	2.13%	2.66%
Advertising	0.31%	0.31%	0.52%
Benefits-Pensions	3.54%	3.5%	2.93%
Number of Firms Analyzed	*3,162*	*2,578*	*1,666*

ITEM	2018-19	2019-20	2020-21
Repairs	0.55%	0.54%	0.81%
Bad Debt	0.6%	0.69%	1.7%
Other SG&A Expenses	13.13%	13.64%	9.85%
EBITDA	16.66%	16.73%	16.27%
Amortization-Depreciation	2.9%	2.72%	2.86%
Operating Expenses	60.87%	59.74%	59.64%
Operating Income	13.76%	14.01%	13.4%
Interest Expense	1.97%	1.78%	1.91%
Other Income	-0.11%	-0.09%	-1.94%
Pre-tax Net Profit	11.9%	12.32%	13.43%
Income Tax	0.31%	0.18%	-0.24%
After Tax Net Profit	11.59%	12.14%	13.67%
Number of Firms Analyzed	*3,162*	*2,578*	*1,666*

Balance Sheet (Physician Practices, Industry-wide)

ASSETS	2018-19	2019-20	2020-21
Cash	32.66%	34.09%	43.95%
Receivables	7.84%	8.18%	5.5%
Inventory	1.57%	1.54%	1.18%
Other Current Assets	4.13%	3.9%	3.45%
Total Current Assets	46.2%	47.71%	54.09%
Net Fixed Assets	34.45%	32.67%	27.64%
Net Intangible Assets	7.04%	6.08%	7.71%
Other Non-Current Assets	12.31%	13.54%	10.55%
Total Assets	*100.0%*	*100.0%*	*100.0%*

LIABILITIES			
Accounts Payable	3.86%	3.82%	2.57%
Loans/Notes Payable	23.49%	20.6%	23.33%
Other Current Liabilities	28.17%	28.11%	23.02%
Number of Firms Analyzed	*3,162*	*2,578*	*1,666*

LIABILITIES			
Total Current Liabilities	55.52%	52.53%	48.93%
Total Long Term Liabilities	33.01%	31.75%	42.87%
Total Liabilities	88.53%	84.28%	91.8%
Net Worth	11.47%	15.72%	8.19%
Total Liabilities & Net Worth	100.0%	100.0%	100.0%
Number of Firms Analyzed	*3,162*	*2,578*	*1,666*

Vertical IQ financial benchmark data is based on data provided by the Risk Management Association (RMA) and Powerlytics, Inc. RMA's Annual Statement Studies provide comparative industry financial benchmarks based on financial statements of small and medium business clients of RMA's member institutions. Additional detail on income statement line items is provided using Powerlytics financial benchmarks, which are based on reporting submitted to the IRS. Additional detail on these data sources can be found at RMA and Powerlytics.

Bank Product Usage

Top Bank Products Used by Physician Practices

The following table provides the frequency of bank product usage by Physician Practices with less than $10 million in annual revenue. It is provided by Barlow Research Associates, Inc., the premier market research firm in the financial services industry.

BANK PRODUCT	% OF FIRMS
Business checking account services	98.0
Automated clearing house services (ACH)	69.0
Overdraft protection for business checking	68.0
Business savings or money market account	64.0
Point-of-sale credit card processing	60.0
Business debit card or business check card	59.0
Electronic payments initiated through the Internet (Bill Payment)	55.0
Wire transfer services	54.0
Business credit card issued in your company's name (Visa, MasterCard, Amex, etc.)	54.0
Credit lines secured by receivables, inventory, property or other assets	42.0
Money market mutual funds or short-term investments	41.0
Remote deposit capture (scanning checks at your office or by mobile device for electronic deposit)	40.0
SBA loans	39.0
Payroll processing	37.0
Company sponsored 401(k), SEP, pension or profit sharing plan	34.0
Certificates of deposit	29.0
Commercial real estate mortgage	28.0
Unsecured short-term loans or working capital line of credit (less than one year)	27.0
Commercial real estate mortgage (company occupied building)	26.0
Account reconciliation processing (ARP)	25.0
Accounts receivable collection (lockbox)	21.0
Term loans or equipment financing (one year +)	21.0
Overnight investment or sweep accounts	19.0
Commercial real estate mortgage (investment property)	18.0
Equipment leasing	17.0
International (foreign exchange, import/export letters of credit)	11.0

Barlow's Small Business Banking program is a multi-client research program sponsored by leading banks. Each quarter, a stratified random sample of businesses throughout the United States with sales between $100,000 to $10 million compiled from an independent list provider are invited to participate in a comprehensive banking survey of over 100 questions. The results measure channel adoption, bank satisfaction, brand power, account management, service quality, business product usage and the selling abilities of leading providers. The results in this chapter are calculated directly from the business product usage section and represent usage for the average small business ($100K-<$10MM).

For more information on Barlow's banking research, go to http://www.barlowresearch.com/

Quarterly Insight

1st Quarter 2022

Medicare Payment Cuts Delayed

The Supporting Health Care Providers During the COVID-19 Pandemic Act signed into law in December 2021 reduces and reschedules Medicare payment cuts to providers. Cuts totaling nearly 10% of Medicare payments to physicians were scheduled to go into effect on January 1, 2022. The new legislation will delay a 2% Medicare payment reduction through March 31. That will be followed by a 1% reduction for the period from April 1 to June 30. The law will also provide a one-year increase in the Medicare physician fee schedule of 3% to adjust for changes and provide support for fatigued health care providers during the COVID-19 public health emergency. "This legislation acknowledges the realities of Medicare funding, while ensuring continuity of care," says Dave Rich, CEO of Ensurem, a Florida-based insurance technology and product distribution firm.

1st Quarter 2022

AI Is No Panacea

Some healthcare industry experts caution against overestimating the capabilities of augmented intelligence (AI), often called artificial intelligence. AI may indeed be saving lives, reducing physician burnout, and making healthcare more efficient, but quality questions need be resolved and end users need to be assured that the data used to create AI algorithms is sound and matches the patient populations it is meant to serve, according to Brett A. Oliver, MD, chief medical information officer at Baptist Health Medical Group. Dr. Oliver notes that he recognizes that some algorithms may be generated using proprietary methods, but in those cases, there needs to be an official, disinterested third party who is allowed to look into the AI "black box" and assure users that its algorithms are sound and will help—and not harm—patients or introduce bias. Physicians "want to understand why," Dr. Oliver explained. If they don't understand why the algorithm generated the clinical decision that it did, "buy-in is a struggle."

4th Quarter 2021

Pandemic-driven Payment Rulings Becoming Permanent

Many states that implemented temporary payment parity regulations through the end of the federal public health emergency have made them permanent. Payment Parity requires that health care providers are reimbursed the same amount for telehealth visits as in-person visits. Nineteen states approved permanent policies requiring payment parity by the beginning of October, five states have payment parity in place with caveats, and 26 states have no payment parity. The US Department of Health and Human Services announced the renewal of the Public Health Emergency through January 15, 2022.

3rd Quarter 2021

Medicare Payment Cut Scheduled

Industry advocacy groups hope to prevent a 3.75% cut to Medicare payments to physicians from going into effect in 2022. The 2022 Physician Fee Schedule proposes to cut the Medicare conversion factor, which is used to calculate Medicare reimbursements. Congress had averted the 3.75% cut from going into effect for 2021, but that moratorium ends after this year. The Surgical Care Coalition, an advocacy group of 13 surgical associations, said that updates to the conversion factor have not kept up with inflation. "The result is that the conversion factor is only about 50% of what it would have been if it had been indexed to general inflation as it had been prior to 1998," a group spokesperson said.

2nd Quarter 2021

Most Physicians Now Work at Large Practices

Physicians are increasingly likely to be employed at large medical practices rather than small, physician-owned practices, a new American Medical Association (AMA) survey suggests. About 49.1% of the 3,500 survey respondents were working in private practice as of fall 2020, a drop from the 54% reported in 2018. This difference is the largest shift the AMA has observed between polls since kicking off its biennial surveys in 2012. It's also the first time that the proportion working at private practices has dropped below 50%. The percentage of physicians working in practices with 50 or more physicians increased from 14.7% in 2018 to 17.2% in 2020.

1st Quarter 2021

FTC to Study Industry Consolidation

The Federal Trade Commission (FTC) plans to study the impact of physician group and healthcare facility consolidation during the past six years to determine whether a given merger has affected competition in one or more of the markets impacted by that merger. The agency plans to look at six years' worth of patient-level commercial insurance claims data from Cigna, United Healthcare, Anthem, Florida Blue, Aetna, and Health Care Service Corporation for inpatient, outpatient, and physician services in 15 states. The FTC is seeking data including how much patients paid for services, how much insurers actually paid, how much insurers promised to pay, how patients chose their insurer, how much hospitals billed patients, and whether physician services were included in the bill. Hospitals acquired 8,000 medical practices, and 14,000 more physicians left independent practice to become hospital employees over an 18-month period between July 2016 and January 2018, according to the FTC.

4th Quarter 2020

Cash Advance Repayments Extended

The Centers for Medicare & Medicaid Services (CMS) announced amended terms for Accelerated and Advance Payment (AAP) Program loans in October. The AAP Program provides an emergency cash advance based on a practice's historical Medicare payments in order to provide necessary funds when there is a disruption in claim submission or processing, such as with the COVID-19 pandemic. Providers and suppliers were initially required to begin repayments on these loans 120 days after payment was issued, as early as August, and repay the balance in full within seven months. Initiation of repayment offsets has been delayed until 12 months after the payment was issued. After the first 12 months, Medicare will automatically recoup 25% of Medicare payments instead of 100% of Medicare payments as originally required. After 11 months of 25% recoupment (23 months from the date payment was issued), recoupment will increase to 50% of Medicare payments.

3rd Quarter 2020

Cash Advance Repayments Coming Due

Repayments to the Medicare Accelerated and Advance Payment (AAP) Program are coming due. The AAP Program provides an emergency cash advance based on a practice's historical Medicare payments in order to provide necessary funds when there is a disruption in claim submission or processing, such as with the COVID-19 pandemic. The Centers for Medicare & Medicaid Services (CMS) expanded eligibility for the program in March. The American Medical Association is urging the Trump administration to be flexible in its terms and recognize that physician practices are still facing reduced revenues because of the COVID-19 pandemic.

Industry Terms

ACO

Accountable Care Organization, model proposed to integrate care and lower cost for Medicare patients.

Affordable Care Act

Health reform legislation passed by Congress in 2010.

CMS

Center for Medicare and Medicaid Services

CPT

Procedure codes used by Medicare to determine reimbursement for medical services.

D.O.

Doctor of Osteopathic Medicine, similar to an MD, but with more emphasis on the musculoskeletal system, preventive medicine and holistic care.

EHR

Electronic Health Record, software system for capturing patient history and treatment data.

HIE

Health Information Exchange, State-sponsored networks to share patient data

ICD-9

Diagnostic codes used by Medicare to determine reimbursement for medical services.

Meaningful Use

Standards for use of an EHR system to qualify for federal funding

PCMH

Patient-Centered Medical Home, a set of standards to improve primary care.

RVU – Relative Value Unit

A measure used by Medicare to determine physician compensation for a particular service.

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

Related Profiles

Ambulatory Surgery Centers

NAICS: 621493 SIC: 8011

Hospitals

NAICS: 622110 SIC: 8062, 8069

Medical & Imaging Labs

NAICS: 621511, 621512 SIC: 8071

Pharmaceutical Manufacturers

NAICS: 3254 SIC: 2833, 2834, 2835, 2836

Testing Laboratories

NAICS: 541380 SIC: 8734

Niche Profiles

Acupuncturists

NAICS: 621111 SIC: 8011

Anesthesiologists

NAICS: 621111 SIC: 8011

Cardiologists

NAICS: 621111 SIC: 8011

Dermatologists

NAICS: 621111 SIC: 8011

Gastroenterologists

NAICS: 621111 SIC: 8011

Naturopathic Physicians

NAICS: 621111 SIC: 8011

Neurologists

NAICS: 621111 SIC: 8011

OB/GYN

NAICS: 621111 SIC: 8011

Oncologists

NAICS: 621111 SIC: 8011

Ophthalmologists

NAICS: 621111 SIC: 8011

Orthopedic Surgeons

NAICS: 621111 SIC: 8011

Otolaryngologist (ENT Specialist)

NAICS: 621111 SIC: 8011

Pediatricians

NAICS: 621111 SIC: 8011

Plastic Surgeons

NAICS: 621111 SIC: 8011

Podiatrists

NAICS: 621391 SIC: 8043

Radiologists

NAICS: 621111 SIC: 8011

Urologists

NAICS: 621111 SIC: 8011
