



# Psychiatric Practices

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*prepared February 18th, 2022*

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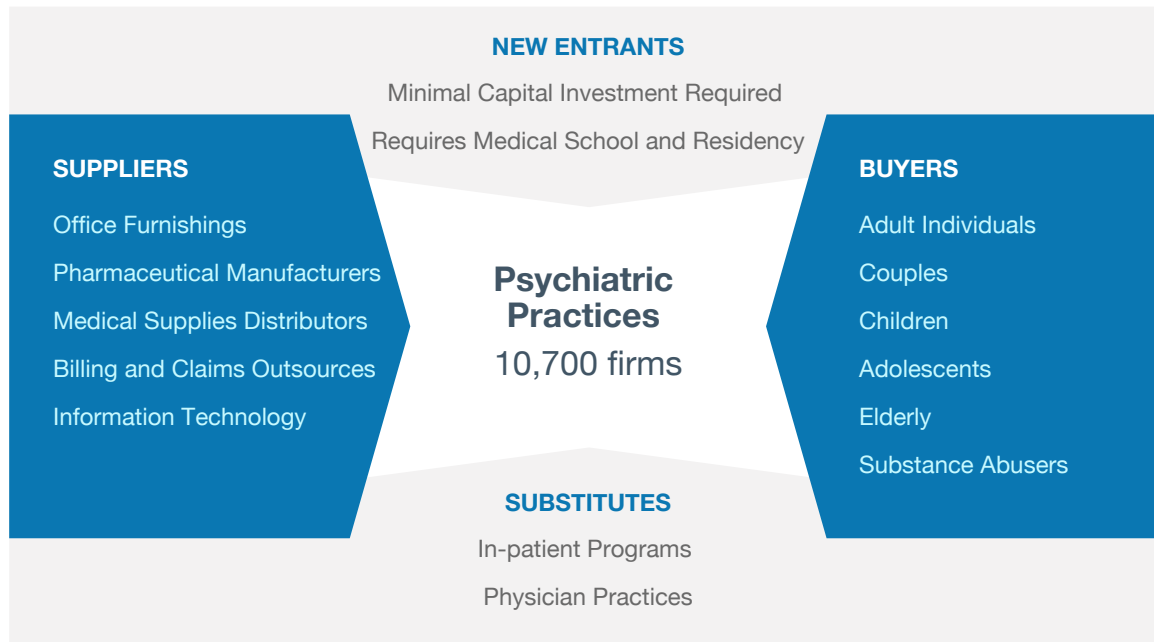
# Coronavirus Update

## Feb 15, 2022 -- Telehealth Use Likely To Continue

- Some 88% of consumers surveyed by Sykes want to continue using telehealth for non-urgent visits in the future (up from the 20% of patients that used telehealth before the coronavirus pandemic). About 58% of physicians surveyed view telehealth more favorably now than they did in 2019, and by spring of 2021, 84% of the doctors surveyed were offering virtual visits.
- The Centers for Medicare & Medicaid Services (CMS) issued a final rule for 2022 that provides for payment of various telehealth services through at least the end of 2023. Some of these reimbursable services fall under the category of “remote therapeutic monitoring” (RPM). The creation of these new RPM codes enables providers to continue to provide care to patients who don’t feel comfortable returning to the office without losing the ability to submit for reimbursement through Medicare or Medicaid. Industry experts say that patients may be more likely to continue with treatment if they know that their visits will be covered through their federal insurance plan, since it has less impact on their monthly budget.
- About 96% of clinical psychologists surveyed by the American Psychological Association (APA) said that they were providing remote or “telehealth” services to patients, and an equal portion judged them to be effective. Only 21% of psychologists reported offering videoconferencing as an option as recently as 2019, according to an APA spokesperson. Insurers have loosened rules around remote diagnosis and treatment, and clinicians have begun using teletherapy for first assessments in addition to post-assessment treatment.
- More mental health support is needed for pregnant individuals, according to a team of researchers who conducted a survey which found that nearly three-quarters of respondents who had been pregnant during the pandemic reported moderate to high levels of distress. One in five respondents experienced depressive symptoms.
- Relaxed regulations that providers have relied on during the coronavirus pandemic to expand services are being terminated as health emergencies are canceled. Florida Governor Ron DeSantis, for example, let an executive order declaring a public-health emergency expire in late June. Many regulatory flexibilities that healthcare providers received during the pandemic, including flexibilities related to telehealth, also expired. Smartphones and traditional phones are no longer an acceptable platform for delivering telehealth services to non-Medicare patients in Florida. The state Agency for Health Care Administration has limited the frequency and duration of Medicaid behavioral-health services and has reinstated prior-authorization requirements for behavioral-health services. The federal Public Health Emergency will expire on July 19 unless it is renewed.
- Suspected suicide attempts by teenaged girls have increased significantly during the coronavirus pandemic, according to the Centers for Disease Control and Prevention (CDC). The number of emergency department visits between February 21 and March 20, 2021, for suspected suicide attempts was about 51% higher among girls aged 12 to 17 years than during the same period in 2019. Emergency department visits among boys aged 12 to 17 years for suspected suicide attempts increased 4%, the CDC reports.
- 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.”
- Online gaming and gambling addictions are increasing during the COVID-19 lockdowns, according to industry news site Healthline. While addiction is most commonly associated with substances like alcohol, certain human behaviors can be addictive too. There are no approved medications to treat these addictions, but other treatments, such as cognitive behavioral therapy, can be helpful.
- The Office for Civil Rights (OCR) at the US Department of Health and Human Services announced that it would not impose civil penalties for HIPAA violations “against covered health care providers in connection with the good faith provision of telehealth during the COVID-19 nationwide public health emergency”. The OCR Guidance does not provide an expiration date. OCR will publicly announce when the Notification is no longer in effect “based upon the latest facts and circumstances.” The US Department of Health & Human Services (HHS) announced on October 2 that the Public Health Emergency (PHE) declaration for

COVID 19 will be renewed for another 90 days, beginning on October 23 (the date the PHE was previously scheduled to expire) and extending through January 20, 2021. HHS retains the discretion to terminate the PHE at any time.

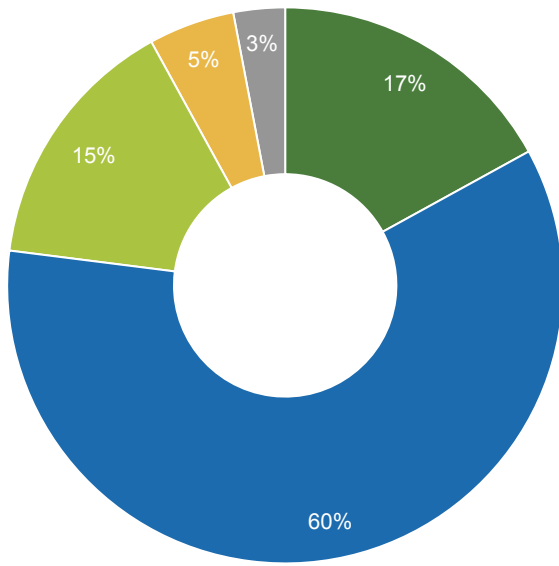
# Industry Structure



The average psychiatric practice operates out of a single location, employs 5 workers, and generates about \$649,000 annually.

- The psychiatric services industry consists of about 10,700 firms that employ about 57,600 workers and generate about \$7 billion annually.
- The industry is extremely fragmented; the top 50 companies account for less than 15% of industry revenue.
- Most psychiatric practices are small, independent firms that operate locally. State licensing requirements create geographical restrictions.
- Large practices, such as Psychiatric Solutions, operate as part of hospitals or inpatient psychiatric care providers, such as Universal Health Services (UHS).

# Industry Demographics



- Corporations (17.0%)
- S-Corporations (60.0%)
- Individual Proprietorships (15.0%)
- Partnerships (5.0%)
- Non-profit/Other (3.0%)

Source: US Census Bureau



**Female Owned**

45.0%



**Minority Owned**

24.0%



**Veteran Owned**

10.6%

Source: Census Bureau

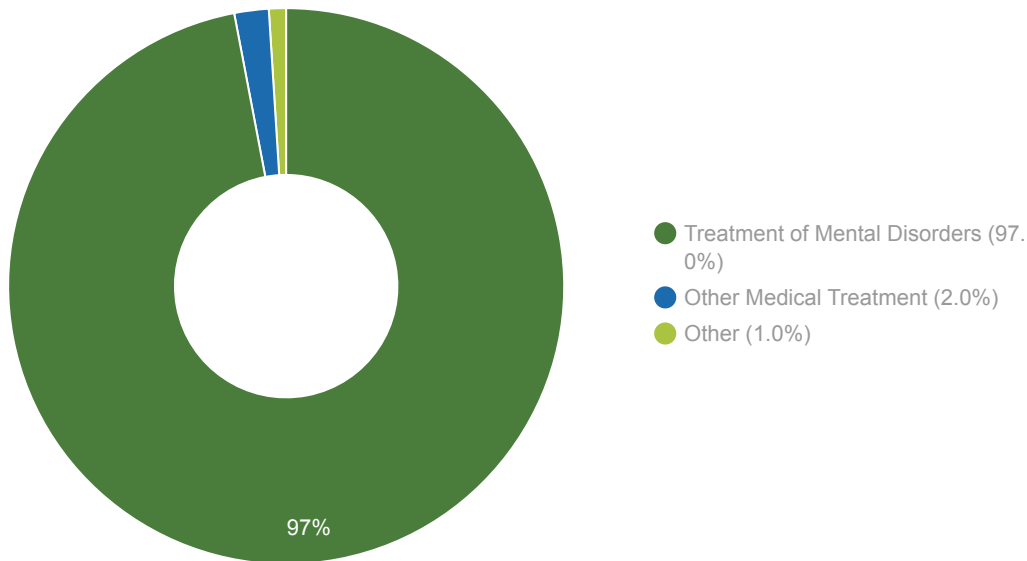
# How Firms Operate

## Products and Operations

Psychiatric practices provide mental health care through private practices, group practices, or medical facilities (hospitals, HMOs).

- Firms generate the majority of revenue through visits and consultations. Other sources of revenue include non-surgical interventions.
- Psychiatric practices may specialize in a particular type of disorder (eating disorders, behavioral problems, substance abuse) or patient (elderly adults, children, adolescents).

**Psychiatric Practices Revenue**



*Source: US Census Bureau*

Psychiatric practices treat a range of mental health disorders, including depression, schizophrenia, attention deficit/hyperactivity disorder, bipolar disorder, substance abuse, and eating disorders. Mental health issues are often accompanied by general health issues. Evaluation and diagnosis may involve medical and psychological testing and consultation with family members, teachers, physicians, and employers. Psychiatrists make diagnoses based on criteria in the Diagnostic and Statistical Manual of Mental Disorders (DSM)

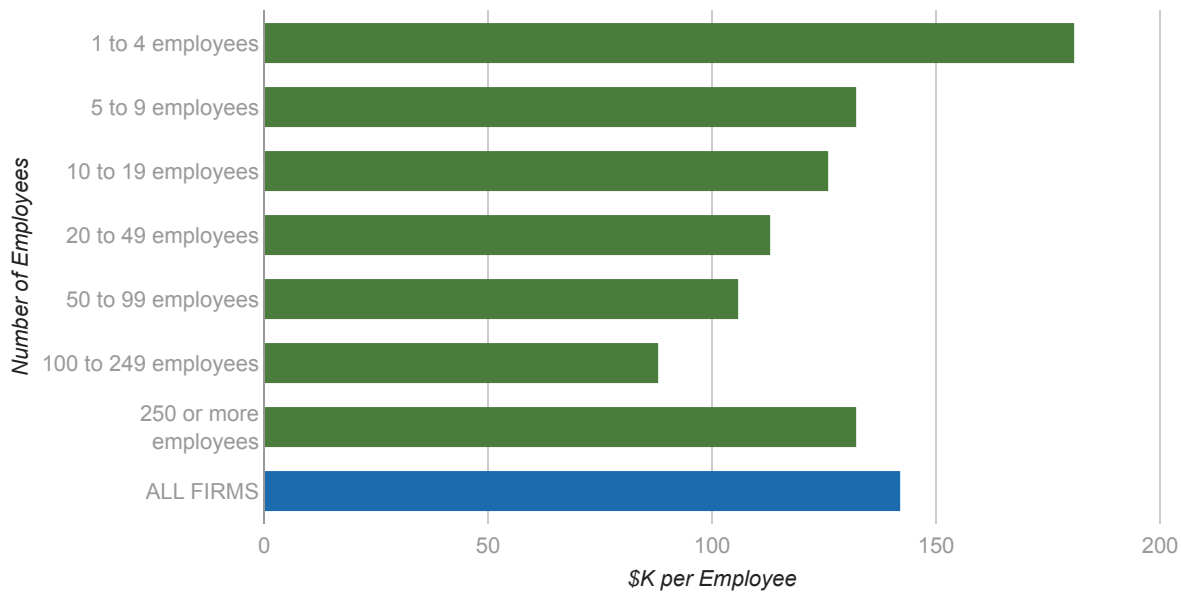
Treatment depends on the patient's diagnosis, and may include medication, individual therapy, group/family therapy, referral to inpatient programs, or other types of treatment. Medications include anti-depressants, anti-psychotics, stimulants, and mood stabilizers. Psychotherapy, also known as "talk therapy", involves multiple counseling sessions with a mental health professional. Serious disorders or emotional problems may require years of psychotherapy. Patients on medication meet with psychiatrists regularly to monitor effectiveness. A typical psychotherapy session lasts about 50 minutes. A medication management appointment can last 15 to 20 minutes. In extreme cases, psychiatrists may recommend electroconvulsive therapy (ECT) or inpatient treatment.

Most practices build a client base through referrals from a wide range of sources, including physicians, schools, social workers, therapists, counselors, health care facilities (hospitals, emergency rooms), insurance and managed care providers, law enforcement, and community agencies. In addition to maintaining a private practice, many psychiatrists work in alternative settings, such as nursing homes or hospices. Private practice may include psychologists, who focus primarily on psychotherapy, and other mental health care professionals.

Psychiatrists are medical doctors with residency training in psychiatry. A board-certified psychiatrist has passed voluntary oral and written examinations by the American Board of Psychiatry and Neurology, and must re-certify every ten years. While psychiatrist and

psychologists can provide psychotherapy and psychological testing, only psychiatrists can prescribe medication.

**Revenue per Employee by Establishment Size**



Source: US Census Bureau

## Profit Drivers

### Growing Patient Volume

Psychiatric practices increase revenue when they see more patients on a weekly basis, so they try to fill all available appointments. Firms rely on referrals for new patients from a variety of sources, including other health care providers, law enforcement, and community mental health organizations. Practices invest time and energy into developing a referral network. Participation in insurance and managed care programs can greatly increase a practice's ability to attract patients.

### Scheduling Staff Resources

Psychiatric practices have a fixed capacity for patient appointments based on the number of psychiatrists and psychologists on staff, so they strive to fully schedule their available time. Scheduling more medication management sessions can help fit in more patients per day, since they take less time than therapy sessions. Patients who are "no shows" for appointments or drop out of treatment all together reduce revenue. Practices can use appointment scheduling software with automated patient reminders to develop optimal schedules and maintain high utilization of available appointment times.

### Minimizing Overhead Costs

Overhead expenses for psychiatric practices can include facility costs, liability insurance, a receptionist, billing and collections staff, and office management. Group practices can share overhead expenses across multiple doctors. Practice management software can help to automate common office tasks, including scheduling, chart management, billing and claims, and patient statements. Small practices may outsource billing and collections to firms that specialize in working with third-party payers.



# 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.

## **National Level of Psychological Distress Rises**

Poor economic conditions and high unemployment rates can elevate the psychological distress of US adults. The percentage of adults age 18 and over who regularly have feelings of worry, nervousness or anxiety was just over 11% in 2019 and 2020, 12.2% in Q1 2021 and 11.3% in Q2 2021, according to the National Health Interview Survey conducted by the CDC. Unemployed adults are more likely to suffer from psychological distress, regardless of insurance coverage. Adults aged 45 to 64, women, and Hispanics are more likely to report distress compared to other demographic groups.

## **Funding for Mental Health Services**

Public mental health care providers often struggle with funding challenges, despite the growing need for psychological treatment. Tight budgets force states to reduce non-Medicaid mental health funding. Reductions in mental health budgets shift the cost of care to other institutions. Correctional systems, homeless agencies, emergency rooms, and law enforcement often bear increasing responsibility for patients in need of psychiatric care. As the economy strengthens, some states have expanded their budgets to provide more funding for mental health services. The Affordable Care Act has increased access for treatment, since more Americans are able to use subsidized insurance to pay for mental health treatment.

## **Drug Treatment Prevails**

The advent of prescription drugs to treat mental illness created a fundamental shift in how the medical community provides psychiatric care. One in five adults in the US takes at least one psychotropic medication, according to the American Psychological Association. While many pharmaceuticals are highly effective in treating mental illness, the rising use of drug treatment over traditional psychotherapy has been somewhat controversial, as some experts believe medication fails to address the underlying cause of a psychiatric disorder. In some cases, insurance fee structures favor medication management over therapy sessions.

## **Telepsychiatry**

Since the introduction of telepsychiatry decades ago, the use of video conferencing to facilitate therapy sessions has grown. Telepsychiatry is an accepted form of treatment in hospitals, prisons, and VA clinics, and especially useful for reaching patients in underserved areas, such as rural markets. Zoom and other video chat apps expand accessibility to a broader range of patients and appeal to those who prefer treatment in the comfort of home. While telepsychiatry increases the potential market for practices, state licensing requirements still put limits in geographical scope. In addition, skeptics cite opportunities for exploitation as a potential problem. Use of telepsychiatry spiked in 2020 as a result of the coronavirus pandemic and subsequent quarantines. More people sought the services of psychiatrists, remotely, to manage their medications and cope with loneliness, stress, and mental conditions.

## **ACOs Force Integration**

As part of health care reform, the development of Accountable Care Organizations (ACOs) can have a significant impact on the medical community and psychiatric practices. ACOs group related health care providers, including primary care physicians, specialists, and hospitals, to deliver coordinated care. ACOs members provide integrated care and are evaluated on the quality and cost effectiveness of treatment, allowing members to benefit from savings. Integrated care requires psychiatrists to work closely with other health care providers and share critical information without violating patient confidentiality. ACOs favor large providers because of the challenges in accountability for small group practices and individual practitioners.

## Employment and Wage Trends

### Employment by psychiatric practices increases

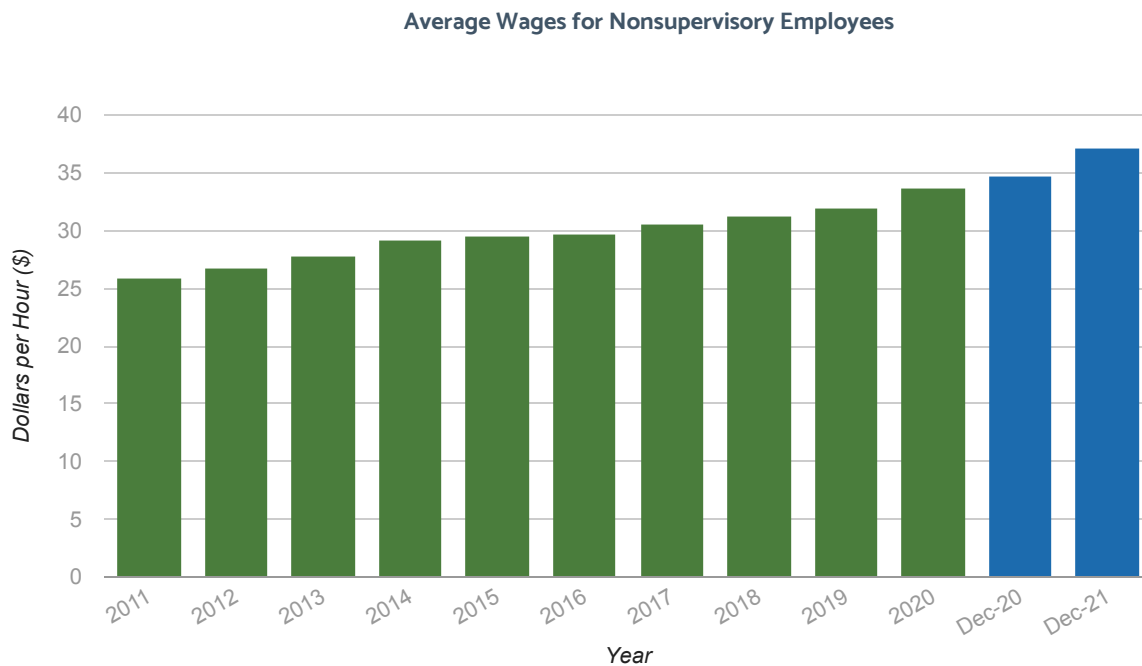
Overall employment by psychiatric practices changed 8.8% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.



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

# Credit Underwriting and Risks



<b>Business Exit Rates:</b>	7.0	Higher than US average for all businesses
<b>Cyclical Sensitivity:</b>	5.0	Moderate Sensitivity
<b>Barriers to Entry:</b>	3.1	Low initial capital; very high regulatory/technical barriers; very low concentration
<b>External Risk:</b>	6.5	High external risk
<b>Industry Outlook:</b>	2.0	Much higher than GDP; some cyclical risk
<b>Financial Summary:</b>	5.9	Average margins; moderate liquidity; very high leverage

## Key Metrics

METRIC	VALUE	COMPARISON
<b>Business Exit Rate 2019–2020</b>	11.21%	9.0% All Industries
<b>Compound Annual Growth Forecast (2020–2025)</b>	6.84%	6.1% GDP
<b>SBA 7(a) Default Rate by Number of Loans (2010–2019)</b>	2.94%	3.82% All Industries
<b>SBA 7(a) Default Rate by Gross Loan Amount (2010–2019)</b>	1.23%	1.21% All Industries

## Underwriting Considerations

- Does the company carry sufficient malpractice insurance? Having the Bank as a beneficiary is recommended.
- Does the company have a backlog of clients? Is/are the Psychiatrist(s) continuously billing for hours or are their large gaps in the day. How many clients do the therapists treat a week?
- What is the company's fee structure? Does the company have any contract business?
- Does the company have any collection problems?

## Industry Risks

### Dependence on Third-Party Payers

Many psychiatric practices are dependent on third-party payers, such as private insurance, government programs (Medicare, Medicaid), and managed care organizations (HMOs, PPOs), for a percentage of revenue, although the percentage varies by practice. Participation in third-party payment programs can greatly increase a practice's ability to attract patients. Third-party payers reimburse according to set fee schedules. Participation in Medicare and Medicaid programs requires certification and compliance with complex laws and regulations. Private insurers may require discounts for preferred or exclusive participation. The quality of coverage for mental health care has varied over time. Legislation, including the Affordable Care Act and the Mental Health Parity and Addiction Equity Act, mandates coverage for mental health that is comparable to coverage for physical health.

### Competition from Alternative Sources

Psychiatric practices compete with a variety of alternative sources, including in-patient programs, physician's offices, social workers, community mental health centers, and psychologists. The most serious cases of psychiatric disorders require referrals to in-patient programs, where patients are monitored 24 hours a day. Upon stabilization, patients may return for outpatient treatment at the inpatient facility. General physicians are often the first professional to see a patient, and are capable of providing basic mental care. Mental health centers are typically subsidized by government funding and charge minimal fees. Clinical social workers and

psychologists both offer psychotherapy services, but are unable to prescribe medication.

### **Dependence on Referrals**

Because psychiatric care is highly personal and involves sensitive information, many patients rely on referrals to obtain services. Firms without established relationships with physicians, insurers, school counselors, or therapists struggle to develop a client base. Because of the stigma associated with mental health disorders, patients are often reluctant to share issues with friends or colleagues and unlikely to make personal referrals. Creating a referral network is time consuming and requires resources. Government regulations restrict certain types of referral activity to prevent fraud and abuse.

### **Difficult Patients**

Patients suffering from mental health disorders can be difficult to treat and may resist compliance with established treatment plans. Many patients also suffer from physical ailments which can complicate treatment. Psychiatric practices generally have a higher “no show” rate compared to traditional medical practices. Establishing continuity of care can be difficult, and no shows often lead to “drop-outs”.

### **Malpractice**

Psychiatrists that provide care for patients with potentially life-threatening conditions increase exposure to the risk of malpractice liability. Highly unstable or suicidal patients can be a danger to themselves or others. Psychotropic medication can have severe side effects, particularly when taken over long periods of time common with chronic mental illness. While psychiatrists are generally at a lower risk of being sued than other medical specialists, the industry incurs the risk of malpractice, particularly when dealing with severe cases of mental illness.

### **Sensitivity to Economic Conditions**

While psychiatric care can be considered a necessity, revenue for psychiatric practices is still sensitive to economic conditions. Although the stress of unemployment generally increases demand for mental health services, job loss and the accompanying loss of health insurance reduces patient ability to pay. Cost is the most common reason why adults are unable to obtain mental health services, according to the Kaiser Commission on Medicaid and the Uninsured. Caregivers struggling with finances may be unable to provide support. Disruption of support networks can lead to missed therapy sessions or medication. Patients may turn to public mental health clinics in lieu of private practices to save money, although waits can be long. In extreme cases, desperate patients use emergency rooms as a temporary solution to mental problems.

## **Company Risks**

### **Maintaining Third-Party Payer Relationships**

Ongoing relationships with third-party payers, including insurance companies, managed care organizations, Medicare, and Medicaid, are critical to generating steady cash flow. Certification and re-certification for government programs can be arduous, particularly for smaller companies. Insurance companies and managed care organizations exert constant pressure to reduce costs. With limited resources, small firms often struggle to accommodate the needs of large third-party payers.

### **Patient Non-Compliance**

While patient compliance is critical to treatment, adherence is difficult to enforce. Prescription medications have side effects. Psychotherapy may involve discussing painful experiences and generally requires multiple visits. Failure to comply can have disastrous consequences, particularly for patients with substance abuse problems. Providing effective care is difficult, if not impossible, for non-compliant patients.

### **Dependence on Key Staff**

Solo psychiatric practices are highly dependent on the owner/psychiatrist to provide services and manage business operations. New graduates often underestimate the amount of time, money, and effort required to start a successful practice. Mastering business

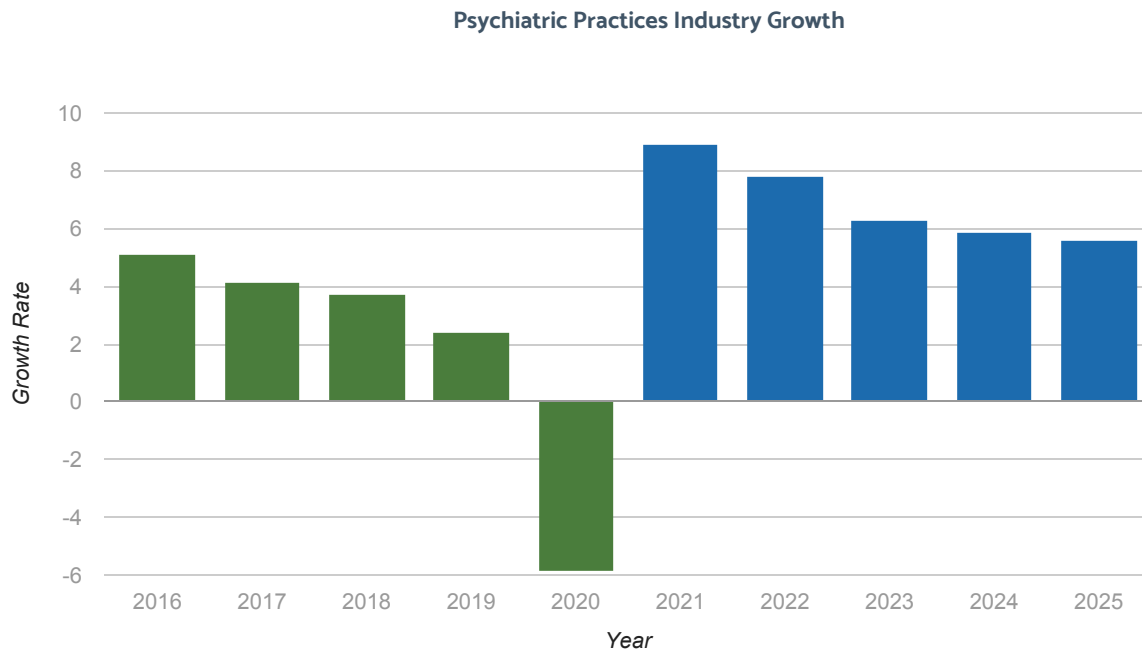
operations in addition to providing psychiatric care can be tricky. Accidents, illness, or injury can sideline a solo operator and prevent a practice from generating revenue.

# Industry Forecast

Sales for the US psychiatric 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

Companies generate revenue by charging fees for providing psychiatric care. Fees vary depending on the type of service and payer. Psychotherapy generally costs between \$60 and \$120 per session, but can be as high as \$250. Practices can typically fit multiple medication management appointments into an hour. Psychiatric practices may accept payment from various parties, including private insurance, managed care organizations, government programs (Medicare, Medicaid), and patients. Third-party payers generally pay according to set fee schedules, effectively limiting what practices can earn. Practices may charge fees on a sliding scale, based on a patient's ability to pay.

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.*

## Collect

Some psychiatric practices require payment at the time of service, regardless of what type of coverage a patient has. Practices may accept cash, check, or third party credit or debit card. Practices requiring cash payments generally file claims with insurers and direct reimbursements to patients. Large practices or practices within hospitals rely on billing departments to manage third-party reimbursements.

## Manage Cash

Patient volume drives cash flow for psychiatric practices. Firms rely on referrals from a variety of sources, including other health care providers, law enforcement, and community mental health organizations, to establish and grow a patient base. Participation in insurance and managed care programs can greatly increase a practice's ability to attract patients. Case mix also affects cash flow. In some cases, psychiatrists earn less per hour for providing psychotherapy than providing medication management treatments. The case load for an individual practice can vary; some practices require patients to wait weeks for initial consultations, while others have no wait. Because treatment typically involves multiple or ongoing sessions, patient retention helps maintain cash flow. No shows and drop outs are lost revenue opportunities.

Requiring payment at the time of service greatly improves cash flow, as third-party payers can be slow to pay. Coding errors and other discrepancies in billing delay payments from third-parties, such as insurance providers and government programs. Although health care reform requires insurers to cover treatment for mental and physical health equally, third-party payers may still limit the number of psychiatric treatments that are reimbursable. Gross margins are extremely high.

## Pay

Payroll costs vary and average 35-36% of sales and rent averages 3-4% of sales. Psychiatrists may carry liability insurance. Solo practices often have minimal expenses. Group practices allow partners to split overhead costs. In some cases, a managing psychiatrist prescribes medication and employs psychologists to provide the majority of psychotherapy. Advertising averages less than 1% of sales.

## Report

After-tax net profit averages 8-12% of sales. Patient count and case mix are important factors that affect revenue. An excessive number of no shows and drop outs reduce cash flow. Practices may also monitor hourly rates compared to competition.

## Cash Management Challenges

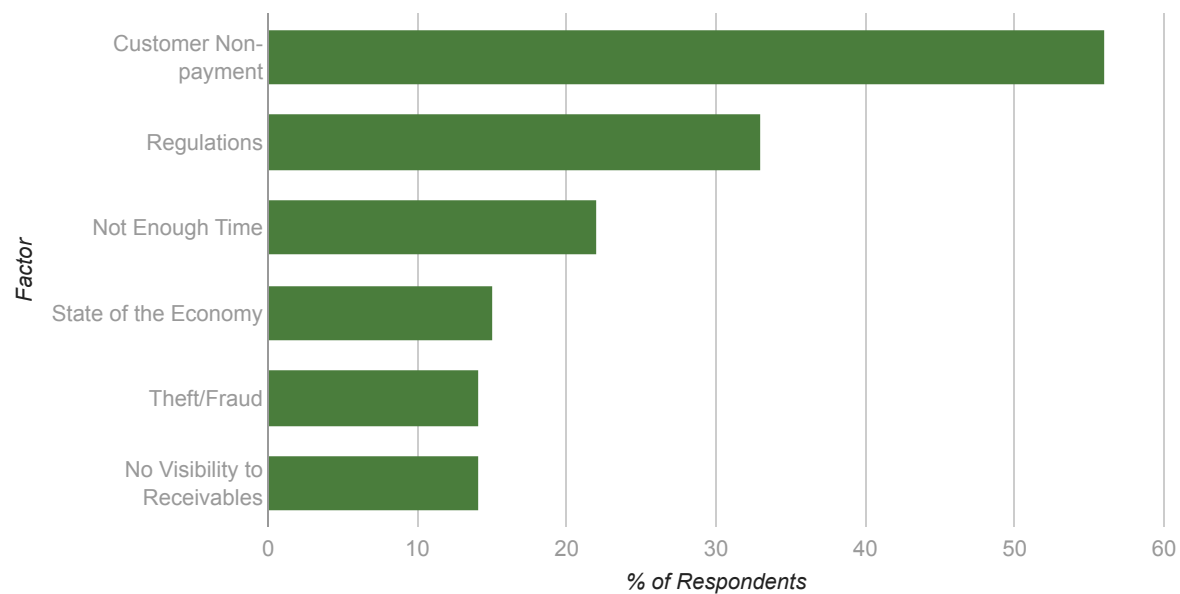
### Maintaining High Patient Volume

Cash flow for psychiatric practices is driven by the number of patients they see on a weekly basis, so maintaining a full appointment schedule is critical. Patients who are “no shows” for appointments or drop out of treatment all together reduce revenue. Emergencies, such as dealing with a suicidal patient, disrupt appointment schedules. Scheduling more medication management sessions can help fit in more patients per day, since they take less time than therapy sessions. Practices can use appointment scheduling software with automated patient reminders to develop optimal schedules and maintain high utilization of available appointment times.

### Timely Collection From Third-Party Payers

Many psychiatric practices are dependent on third-party payers, such as private insurance, government programs (Medicare, Medicaid), and managed care organizations (HMOs, PPOs), for a percentage of revenue and participation in third-party payment programs can greatly increase a practice’s ability to attract patients. However, these programs can be slow to pay and require complex claims documentation for reimbursement. Billing errors or disputes can delay payments. To improve cash flow, some psychiatric practices require patients to pay at the time of treatment and then submit claims for reimbursement directly to the patient.

### Factors Causing Cash Flow Stress: Physician Practices



Source: Barlow Research Associates



# Capital Financing

Projects that involve capital financing include the purchase of property, buildings, furniture, fixtures, and information systems. With minimal needs for medical equipment, psychiatric practices have lower capital requirements compared to other types of health care providers. Practices often lease office space to minimize upfront capital purchases. Some solo practitioners operate out of home offices. Psychiatric practices require basic furnishings and fixtures to make patients comfortable and conduct business.

Practices may invest in information systems and technology to automate day to day operations. Practice management software integrates scheduling, chart management, billing and claims, and patient statements. Federal incentive programs encourage all medical practices, including psychiatric practices, to implement certified Electronic Health Records (EHR) systems. Firms that provide telepsychiatry services may invest in video conferencing equipment.

After a psychiatrist pays for the cost of education, start-up costs for a solo practice are minimal. Owners may finance start-up costs with personal funds. Because of the extensive educational requirements associated with psychiatry, many psychiatrists graduate with significant amounts of debt.

## Examples of Equipment Purchases



### Therapy Couch

\$700 - 3,000

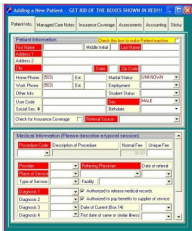
Couch to help patient relax during talk therapy sessions.



### ECT Machine

\$10,000 - 30,000

Electroconvulsive Therapy (ECT) machine for treating severe depression through electric shocks to the brain.



### Mental Health Practice Management Software

\$2,000 and up, depending on the number of users

Practice management software designed for mental health and substance abuse solo and group practices. Features include patient scheduling, billing, medication management, clinical documentation, and reporting. Some systems also include Electronic Health Records (EHR).

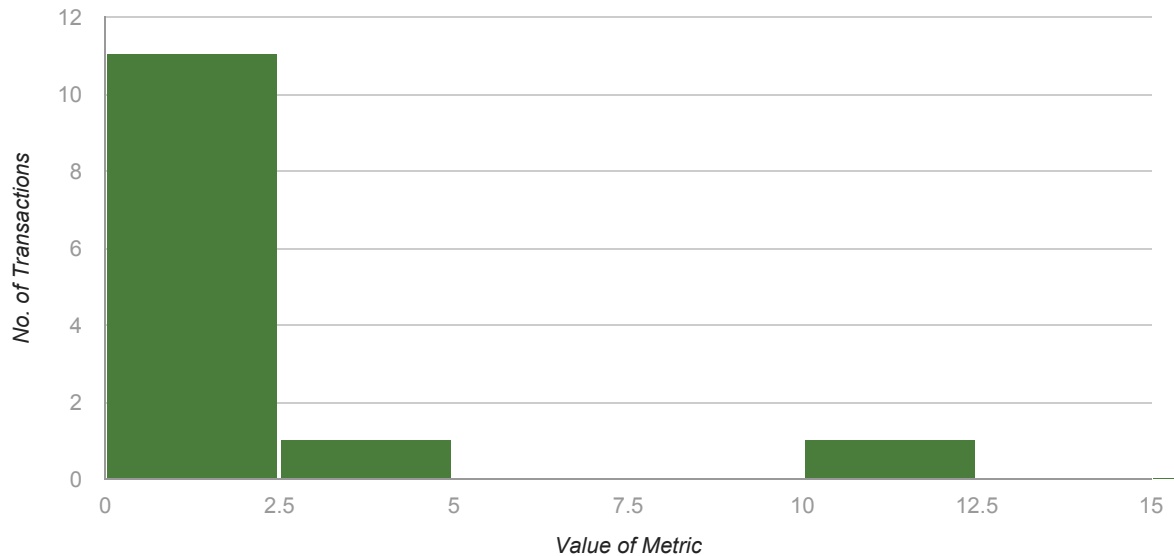
# Business Valuation

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 Psychiatric Practices

	MEDIAN	MEAN	# TRANSACTIONS	DATES
Price to Net Sales	0.65	1.76	13	09/09/2011–11/13/2020
Price to Gross Profits	0.7	2.19	13	09/09/2011–11/13/2020
Price to EBITDA	2.67	2.74	9	09/09/2011–11/13/2020
Price to EBIT	3.18	3.61	12	09/09/2011–11/13/2020

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



Source: DealStats

Count: 13

Min: 0.24

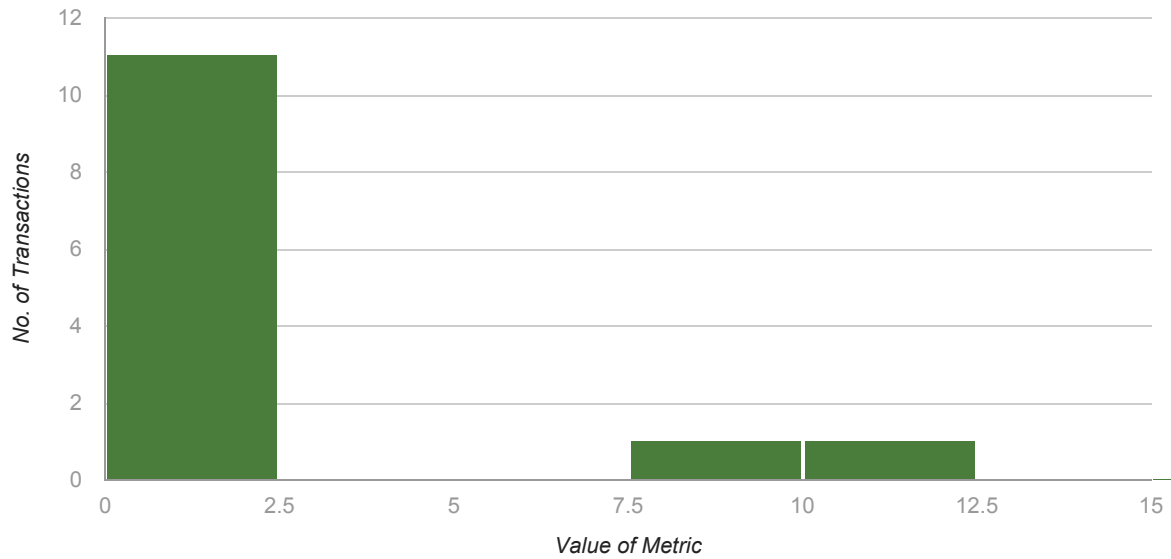
Max: 11.3

Mean: 1.76

Median: 0.65

Price to Sales = Selling Price/Net Sales

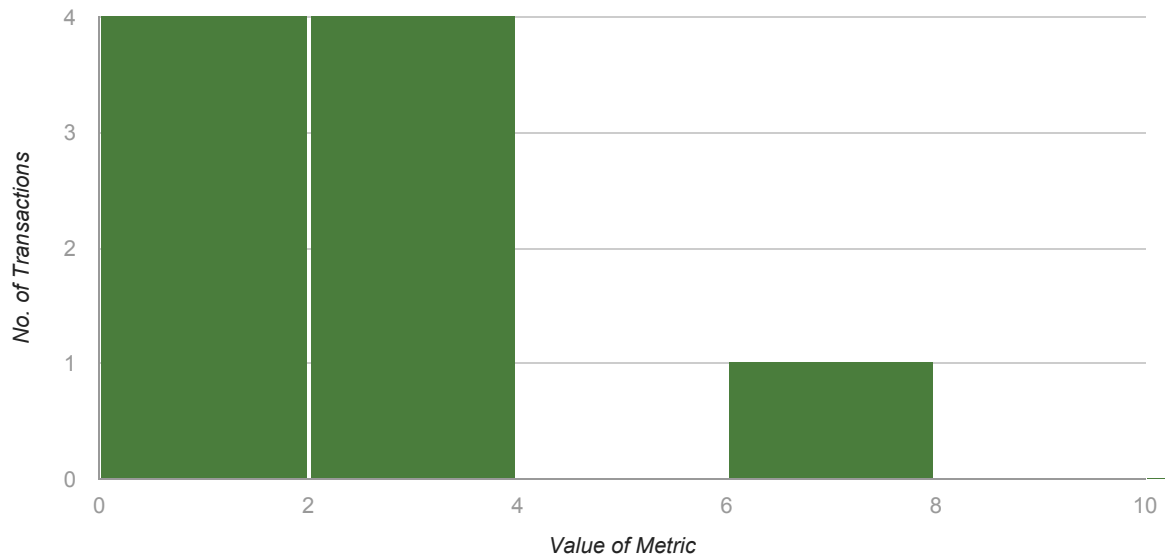
Date range: 09/09/2011 - 11/13/2020



Source: DealStats

**Count:** 13      **Min:** 0.26      **Max:** 11.3      **Mean:** 2.19      **Median:** 0.7

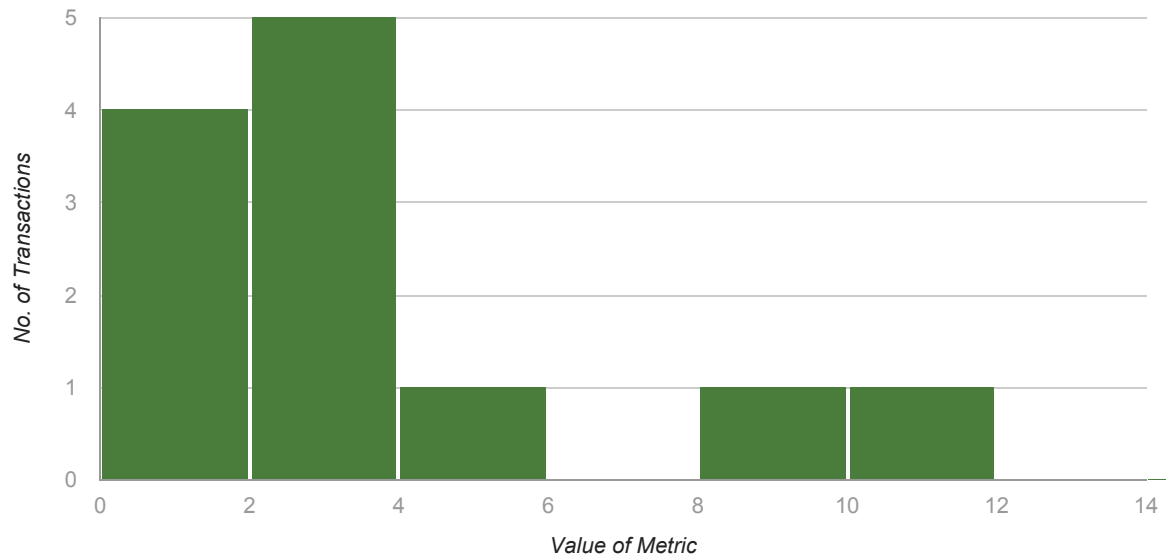
*Price to Gross Profit = Selling Price/Gross Profit*  
*Date range: 09/09/2011 - 11/13/2020*



Source: DealStats

**Count:** 9      **Min:** 0.74      **Max:** 7.66      **Mean:** 2.74      **Median:** 2.67

*Price to EBITDA = Selling Price/Operating Profit + Depreciation & Amortization*  
*Date range: 09/09/2011 - 11/13/2020*



Source: DealStats

**Count:** 12

**Min:** 0.74

**Max:** 10.35

**Mean:** 3.61

**Median:** 3.18

*Price to EBIT = Selling Price/Operating Profit*

*Date range: 09/09/2011 - 11/13/2020*

**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 noncomplete 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 (Psychiatric Practices, Industry-wide)

MEASURE	2018-19	2019-20	2020-21
Current Ratio <sup>?</sup>	1.49	1.83	1.94
Quick Ratio <sup>?</sup>	1.22	1.63	1.72
Days Inventory <sup>?</sup>	0.0	0.0	0.0
Days Receivables <sup>?</sup>	30	38	16
Days Payables <sup>?</sup>	0.0	0.0	0.0
Pre-tax Return on Revenue <sup>?</sup>	8.23%	2.78%	7.34%
Pre-tax Return on Assets <sup>?</sup>	16.08%	5.30%	19.12%
Pre-tax Return on Net Worth <sup>?</sup>	36.68%	9.18%	56.07%
Interest Coverage <sup>?</sup>	19.69	14.74	36.73
Current Liabilities to Net Worth <sup>?</sup>	.62	.40	.87
Long Term Liabilities to Net Worth <sup>?</sup>	0.66	0.33	1.06
Total Liabilities to Net Worth <sup>?</sup>	1.28	.73	1.93
<i>Number of Firms Analyzed</i>	<i>111</i>	<i>81</i>	<i>79</i>

## Income Statement (Psychiatric Practices, Industry-wide)

ITEM	2018-19	2019-20	2020-21
Revenue	100.0%	100.0%	100.0%
Cost of Sales	0.0%	0.0%	0.0%
Gross Margin	100.0%	100.0%	100.0%
Officers Compensation	7.79%	6.47%	6.52%
Salaries-Wages	29.58%	30.6%	31.24%
Rent	4.0%	4.25%	4.68%
Taxes Paid	2.9%	3.15%	3.61%
Advertising	0.42%	0.46%	0.71%
Benefits-Pensions	4.54%	4.83%	3.91%
<i>Number of Firms Analyzed</i>	<i>111</i>	<i>81</i>	<i>79</i>

ITEM	2018-19	2019-20	2020-21
Repairs	0.72%	0.74%	1.06%
Bad Debt	0.84%	1.07%	2.3%
Other SG&A Expenses	34.16%	38.24%	29.56%
EBITDA	15.05%	10.19%	16.41%
Amortization-Depreciation	2.07%	1.67%	1.2%
Operating Expenses	87.02%	91.48%	84.79%
Operating Income	12.98%	8.52%	15.21%
Interest Expense	1.98%	0.6%	0.33%
Other Income	0.67%	0.08%	-1.55%
Pre-tax Net Profit	10.32%	7.85%	16.43%
Income Tax	0.02%	0.15%	-0.16%
After Tax Net Profit	10.3%	7.7%	16.59%
<i>Number of Firms Analyzed</i>	<i>111</i>	<i>81</i>	<i>79</i>

#### Balance Sheet (Psychiatric Practices, Industry-wide)

ASSETS	2018-19	2019-20	2020-21
Cash	33.37%	39.85%	51.63%
Receivables	9.21%	11.85%	5.17%
Inventory	0.66%	0.58%	0.33%
Other Current Assets	5.55%	4.05%	3.46%
Total Current Assets	48.79%	56.33%	60.59%
Net Fixed Assets	28.68%	25.73%	21.21%
Net Intangible Assets	7.78%	6.9%	10.84%
Other Non-Current Assets	14.75%	11.05%	7.36%
<i>Total Assets</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>
LIABILITIES			
Accounts Payable	5.17%	4.99%	1.99%
Loans/Notes Payable	22.38%	18.78%	22.98%
Other Current Liabilities	23.94%	13.72%	28.43%
<i>Number of Firms Analyzed</i>	<i>111</i>	<i>81</i>	<i>79</i>

**LIABILITIES**

Total Current Liabilities	51.49%	37.49%	53.4%
Total Long Term Liabilities	30.01%	23.22%	44.84%
Total Liabilities	81.5%	60.71%	98.24%
Net Worth	18.49%	39.3%	1.76%
Total Liabilities & Net Worth	100.0%	100.0%	100.0%
<i>Number of Firms Analyzed</i>	<i>111</i>	<i>81</i>	<i>79</i>

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 Psychiatric Practices

The following table provides the frequency of bank product usage by Psychiatric 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

## **Use of Mental Health Services Stagnant Despite Rise in Suicide Attempts**

Use of mental health services within a year of an attempted suicide did not increase between 2008 and 2019, according to a study published in JAMA Psychiatry. Among adults who attempted suicide, 34.8% (2010 to 2011) to 45.5% (2018 to 2019) reported needing mental health services but did not receive them, with no significant change between 2008 and 2019. Data additionally revealed a sharp rise in the number of participants who stated that they did not know where to receive treatment, that lack of transportation provided an obstacle, or that services were too far away. “Our finding that less than half of suicide attempters had clinical contact around the time of their attempt suggest that it is not only important to expand initiatives for high-risk individuals with clinical contact, but also to implement public health-oriented strategies outside the formal treatment system,” the study authors wrote.

4th Quarter 2021

## **Startups Offer Service Delivery Alternatives**

Startups offering virtual mental health services have accelerated delivery of mental health treatment from nontraditional sources. More than 20,000 digital health providers offer direct-to-consumer services, according to Fierce Healthcare. Venture capital funds saw opportunity in this exploding space, with investors pouring more than \$1.5 billion into this market in 2020 and \$795 million in the first quarter of 2021, according to Forbes magazine. Forbes reports that there are now seven digitally driven mental health “unicorns” (billion-dollar privately held companies) in the US, up from just two in 2020.

3rd Quarter 2021

## **Effect of Legal Marijuana Use On Opioid Crisis is Uncertain**

Research into whether wider availability of legal cannabis would help ease the opioid overdose epidemic has yielded mixed results, according to mental health experts. A study published in June in Health Economics found that the implementation of recreational marijuana laws in 2017 was associated with a decline in opioid-related emergency department visits – but that decline did not persist after six months. The researchers concluded that while recreational cannabis laws may offer some help in fighting the opioid crisis, they are “likely not a panacea.” They noted that about a third of Americans now live in a state with a recreational cannabis law. Yet during the pandemic, overdose deaths from opioid use rose by more than a third to 69,000 in 2020, according to provisional data released this week by the Centers for Disease Control and Prevention. Another study published in 2020 in the journal Addiction found that marijuana use seemed to promote – rather than replace – opioid use. Researchers followed more than 200 adults in New York who used nonmedical or illegal opioids. Over 90 days of study, the researchers found that on the days when people used marijuana, the odds of them using nonmedical opioids almost doubled, regardless of whether they were experiencing pain.

2nd Quarter 2021

## **More Mental Health Funding Sought**

Senate Majority Leader Chuck Schumer wants the federal government to release \$5 billion that has already been allocated for mental health services. Some \$3 billion would come from mental health and substance use block grants that would be used to fund treatment, implement community-based mental health interventions, and enhance efforts to prevent mental health problems. More than \$1 billion would be used to develop mobile crisis intervention services, which would work closely with law enforcement to help provide aid to people going through mental health or substance use emergencies. The remaining funds would be used for mental health needs of frontline health care workers who have struggled with post-traumatic stress disorder and fatigue throughout the pandemic, youth mental health, and other educational campaigns on mental health disorders.

## 1st Quarter 2021

### **Mental Health Issues Increase for Children**

Mental health problems account for a growing proportion of children's visits to hospital emergency rooms, according to the Centers for Disease Control and Prevention. Visits related to mental health issues increased 31% year over year for those 12 to 17 years old and 24% year over year for children ages 5 to 11 from March 2020, when the pandemic was declared, to October 2020. Experts have explored the effects of home and school stresses, social media, cellphones, disconnection, and lack of sleep as possible causes of the increase.

## 4th Quarter 2020

### **Public Health Emergency Declaration Renewed**

The US Department of Health & Human Services (HHS) announced on October 2 that the Public Health Emergency (PHE) declaration for COVID-19 will be renewed for another 90 days, beginning on October 23 (the date the PHE was previously scheduled to expire) and extending through January 20, 2021. The emergency measure linked to the PHE that may be of most interest to psychiatric practices is coverage of telehealth services. Medicare and Medicaid coverage of telehealth services was extended immediately. Industry experts say that waiver of cost-sharing for medical and behavioral telehealth services by health insurers is likely to be extended again by insurers who have done so for earlier PHE renewals. Industry stakeholders should remember that HHS retains the discretion to terminate the PHE at any time.

## 3rd Quarter 2020

### **Lawmakers Seek Restart of Federal Telehealth Program**

Over 40 lawmakers hope to revive the Federal Communications Commission's (FCC) COVID-19 Telehealth Program, which ran out of money in July. The FCC approved 539 funding applications from 47 states, Washington DC, and Guam while the program was active, missing only Hawaii, Alaska, and Montana. While applicants sought funding for telemedicine equipment and telehealth and remote patient monitoring services, emphasis was placed by the FCC on efforts to expand broadband connectivity. The lawmakers want the FCC to broaden the connectivity efforts to expand high-quality, affordable healthcare access in rural communities.

## 2nd Quarter 2020

### **Penalties for HIPAA Violations During Telehealth Sessions Suspended**

The Office for Civil Rights (OCR) at the US Department of Health and Human Services announced that it would not impose civil penalties for HIPAA violations "against covered health care providers in connection with the good faith provision of telehealth during the COVID-19 nationwide public health emergency". The OCR Guidance does not provide an expiration date. OCR will publicly announce when the Notification is no longer in effect "based upon the latest facts and circumstances." Many licensed clinical psychologists and psychiatrists are providing phone and video appointments during the coronavirus crisis for patients who want to remain in their homes to practice social distancing. Telehealth, which offers therapy via video, allows providers to counsel people remotely and help them deal with disruptions because of evacuations and quarantines. Telepsychiatry is covered by insurance in most but not all states, according to the American Psychiatric Association.

# Industry Terms

## **ACO – Accountable Care Organization**

Groups of related health care providers, including primary care physicians, specialists, and hospitals, that deliver coordinated care.

## **Affordable Care Act**

Federal healthcare reform act aimed at reducing the cost of care and increasing the number of insured Americans.

## **DSM**

Diagnostic and Statistical Manual of Mental Disorders, manual used to diagnose psychiatric disorders.

## **ECT – Electroconvulsive Therapy**

Shock treatment used to treat severe depression.

## **EHR – Electronic Health Records**

Digital storage of health records that allow sharing across providers and settings.

## **Medication Management**

Psychiatric appointment used mainly to monitor the effectiveness of medication.

## **Mental Health Parity Act**

Mandates equal coverage for mental and physical illnesses.

## **Psychiatrist**

Doctors with residency training in psychiatry.

## **Psychologist**

Professional trained to perform psychological research, testing, and therapy.

## **Psychotherapy**

“Talk therapy”, addressing mental health concerns through discussions with a mental health professional.

## **Telepsychiatry**

Delivering remote psychotherapy through video conferencing.

# Web Links

## **[National Institute of Mental Health](#)**

News, trends, and statistics on mental health issues

## **[Psychiatric Times](#)**

News, trends, and practice management advice

## **[American Psychiatric Association](#)**

News, trends, and legislative issues

## **[National Alliance on Mental Illness \(NAMI\)](#)**

News, trends, and studies on mental illness and treatment

## **[National Association for Behavioral Healthcare](#)**

News, trends, and surveys

## **[Centers for Disease Control and Prevention - Mental Health](#)**

Statistics and trends

# Related Profiles

## Mental Health & Substance Abuse

NAICS: 621420, 623220 SIC: 8361, 8093

## Pharmaceutical Manufacturers

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

## Physician Practices

NAICS: 621111 SIC: 8011

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