

**Achieving Business Success** — How effectively a medical practice is being managed.

## 1 Profitability Ratios • These measure the medical practice's ability to generate earnings relative to revenue, assets and income.

► **Net Margin** - The ratio of net profits to revenues for a company or business segment.

**Net Margin**

$$\frac{\text{Net Income}}{\text{Revenue}}$$

**Net Income**

$$\text{Revenue} - \text{Total Expenses} - \text{Interest \& Taxes}$$



How much each dollar earned is translated into profits.



The higher the number the better.



If the number is negative the company is losing money.

► **ROA** - (Return On Assets) Measures how efficient a practice is at using its assets to generate earnings.

**ROA**

$$\frac{\text{Net Income}}{\text{Total Assets}}$$



Higher is better, efficiency in collection process

► **Net Fixed Assets** - Indicates the extent to which funds are tied up in fixed assets and not available as working capital.

**Over .75\***

$$\frac{\text{Net Fixed Assets}}{\text{Net Worth}}$$



Makes the business vulnerable to solvency problems

\* Benchmarks for businesses in general can vary depending on industry, geography, size, etc.

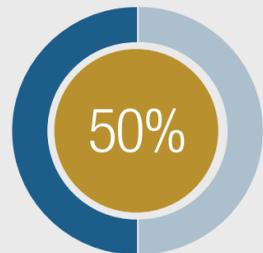
## 2 Debt Management Ratio • Used to evaluate a borrower's suitability for a loan. A key indicator of financial health.

► **Did You Know?** - Debt Management Ratio can be applied to personal financial statements as well as a business.

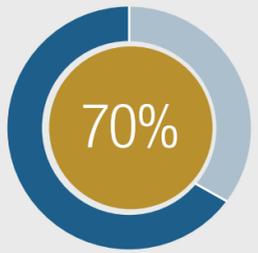
**Debt to Equity Ratio**

$$\frac{\text{Total Liabilities}}{\text{Shareholders' Equity}}$$

$$\text{Shareholders' Equity} = \text{Total Assets} - \text{Total Liabilities}$$



Lower ratio is better  
Ideal = 50%



Some companies in a startup or a growth stage may be as high as 70%.  
If the ratios exceed 80%, then risk is increasing, where debt may not be paid down for years.

## 3 Solvency Ratios • Measure a medical practice's cash flow to see if it is sufficient to meet its obligations – short term and long term.

**Working Capital Ratio**

$$\frac{\text{Current Assets}}{\text{Net Current Liabilities}}$$

**Remember**

<1 = negative working capital

High working capital ratio = potential **excess cash** for investments / expansion

► **Receivables Turnover Ratio** - Indicates the number of times the business converts its accounts receivable into cash in a given period

**Receivables Turnover Ratio**

$$\frac{\text{Net Credit Sales } \$\$\$}{\text{Average Accounts Receivable}}$$



Higher is better, efficiency in collection process

## 4 Key Practice Metrics • Tracks how well a practice is performing in areas that are important.

► **Net Collection Rate** - What is collected against what is owed; higher the better.

**Net Collection Rate**

$$\frac{\text{Collections}}{\text{Net Charges}}$$

**Net Charges**

Gross Charges (contractual adjustments, write offs)

► **Aging** - How well billing/collection resources are performing.



**Better performance** = 10% to 15% for more than 90 days.  
+90 has greater chance of lost revenue.

► **Overhead** - Operating expenses required for a business.

**Overhead**

Total expenses – physician salaries

**Overhead Revenue**

× 100

► **Payor Mix\*** - How well billing/collection resources are performing. **Ex. Payments received:**



\* It's important to optimize your mix.

### Provider RVUs

1 Helps assess physician productivity relative to others

2 Also useful in determining compensation packages in multi-physician practices

Since 1997 CIG Capital Advisors has provided expert business and investment advice. CIG Capital Advisors focuses on four distinct business lines – wealth management, asset management, alternative investments and business advisory services. CIG offers vast experience in dealing with successful aspiring professionals, well-established families, businesses and their respective owners in the pursuit to realize their dreams.

**Business Advisory Services** — CIG Capital Advisors Business Advisory Services assists businesses with planning, financial modeling, strategy and operational objectives, as well as offering guidance on attracting investors. CIG understands that starting a business is one of great risk, which if built and managed properly produces great rewards.

Securities Offered Through CIG Securities, Inc., Member FINRA/SIPC.  
Investment Advisory Services Available Through CIG Asset Management, Inc., a SEC Registered Investment Adviser.  
Insurance Services Provided by CIG Risk Management, Inc.  
All Are Wholly Owned Subsidiaries of CIG Capital Advisors, Inc.