Foreword

We know that general practices are the backbone of the Australian medical industry, because they are also the backbone of our Health practice. Prosperity Health provides specialised financial, advisory, taxation and wealth management services to over 500 medical practitioners throughout NSW, ACT and Queensland.

At Prosperity Health, we want to make sure we are doing everything possible to support our general practice clients to grow, improve and eventually sell their practices for the highest price, so they can live and retire financially secure.

We have invested in developing our own professional skills, so we can make sure our clients receive best of breed advice from us and our trusted team of experts.

To provide our practice owning GP’s with accurate, real time industry performance benchmarking Information, we conducted a benchmarking study during 2014-15 into the key practice performance metrics for our general practice clients.

This report provides the feedback from that study, set in the context of an analysis of recent broader industry data released by respected commentators and industry analysts.

We encourage you to contact us to discuss how our knowledge and processes can be applied to grow and improve YOUR practice.

Stephen Guthrie
Director
Prosperity Health
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Recent Industry Analysis

The July 2015 IBISWorld Industry Report into General Practice Medical Services provides some interesting high level industry statistics:

- Strong demand for GP services has resulted in industry revenue rising by an estimated compound annual rate of 3.8% over the five years to 2015-16, reaching $11.4 billion pa.
- Revenue growth during this period has been driven largely by growth in consultation volumes, primarily on the back of Australia’s rapidly ageing baby boomer generation. This ageing population drives industry growth as older generations are more susceptible to disease, chronic illness and minor ailments. Older people also require more prescription medications and regular health check-ups.
- Despite older people typically being offered bulk-billing, which reduces per-patient revenue through the absence of co-payments, patient volume growth is expected to result in compound annual revenue growth of 2.7% for the five year period 2016-21.
- Bulk-billing has climbed to cover over 80.0% of all GP consultations over the past five years.

Patients using GP services can be segmented into the following age groups:

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>People aged 24 and under</td>
<td>19.7%</td>
</tr>
<tr>
<td>People aged 25 to 44</td>
<td>22.7%</td>
</tr>
<tr>
<td>People aged 45 to 64</td>
<td>26.9%</td>
</tr>
<tr>
<td>People aged 65 and over</td>
<td>30.7%</td>
</tr>
</tbody>
</table>

Total $11.4bn

Source: www.ibisworld.com.au
The IBISWorld report notes a number of macro-level factors influencing the General Practice industry, including:

- A continuing consolidation of practices, meeting consumer demands for more convenience, multi-disciplinary services and longer operating hours.
- The use of GP services by larger practices as a “loss leader” for their other in-house specialist services. GPs operating their own private practices could be forced to bulk-bill to stay competitive, putting pressure on their profit margins.
- Increasing pressure on the Federal Government to reduce the growth in Medicare funding, which has seen the freezing of schedule fees numerous times over the past five years, resulting in increases to schedule fees not meeting inflation.
Industry wide revenue of $11.4b is split into the following broad categories:

**Products and services segmentation (2015-16)**

- 27.5% General and unspecified treatments
- 5.9% Digestive treatments
- 10.7% Musculoskeletal treatments
- 14.2% Respiratory treatments
- 9.2% Skin treatments
- 7.3% Cardiovascular treatments
- 25.2% Other treatments

**Total $11.4bn**

In November 2014 the University of Sydney released their latest edition of the *Bettering the Evaluation and Care of Health (BEACH)* study into general practice clinical activities, covering the 10 year period to 2014.

This study highlighted many areas in which GPs and general practice have changed between 2004 and 2014:

- Bigger practices: the proportion of GPs working in larger practices (more than 10 GPs) increased from 14% to 26%, while solo general practices declined from 12% to 9% of total practices.
- Ageing: almost half the GP workforce is aged over 55, compared with one-third just a decade ago.
- Feminisation: the proportion of female GPs has increased from 32% to 43%.
- Shorter week: average hours in direct patient care decreased from 40 hours to 37 hours per week.
- Using practice nurses: the number of consults involving practice nurses and allied health workers has doubled to around 8% over the past 10 years.
Practice Benchmarking Study

Our practice benchmarking study covered a broad cross section of our general practice clients from NSW, ACT and Queensland. Respondent practices covered the following cross section of the general practice industry:

- Solo GP practices (with 1-2 contracting doctors) through to practices with 15 full time equivalent (FTE) GPs.
- Gross patient fees of $0.7m - $7.3m
- Salary and on-costs for admin and support staff from $0.12m to $1.9m

Our benchmarking and key performance indicator (KPI) results have been divided into 5 broad categories and in each category we have provided two measures:

**Industry Average** This represents the average benchmark / KPI result across the whole database of contributing practices.

**Highest 20%** This shows the benchmark / KPI result for the highest 20% of the contributing practices, for each individual benchmark.

To help understand these measures, look at the following example:

<table>
<thead>
<tr>
<th>Bulk Billed Patient Fees (%)</th>
<th>Industry Average</th>
<th>Highest 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>63%</td>
<td>91%</td>
</tr>
</tbody>
</table>

So in this example case:

- The average level of bulk billed patient fees (by $ value) of all survey respondents was 63%
- Of the spread of responses, the average level of bulk billed patient fees (by $ value) of the top 20% of respondents was 91%.

This measure does not imply any linkage with practice profitability. It is not a measure of “what are the most profitable practices doing”.

All results are based on reported financial data for the 2013-14 financial year.
Trading Benchmarks

<table>
<thead>
<tr>
<th></th>
<th>Industry Average</th>
<th>Highest 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulk Billed Patient Fees (%)</td>
<td>63%</td>
<td>91%</td>
</tr>
</tbody>
</table>

Unsurprisingly, the data from this survey is in broad alignment with the IBISWorld report findings noted earlier. In the 20% of surveyed practices which do not bulk bill to any significant extent, the average bulk billed patient fees were less than 10% of total fees. In other words, there are a small number of almost completely private billing practices which tends to skew the overall industry averages. If these practices are excluded from the data set, the industry average increases to 76%.

Is there a discernible correlation between bulk billing levels and practice profitability? In short - no! Our data shows that it is possible to run a profitable practice under either private or bulk billing - by far the bigger determinant of profitability is consulting room utilisation and management fee levels.

<table>
<thead>
<tr>
<th></th>
<th>Industry Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Consultations (%)</td>
<td>46%</td>
</tr>
<tr>
<td>Long Consultations (%)</td>
<td>18%</td>
</tr>
<tr>
<td>Other Consultations (%)</td>
<td>36%</td>
</tr>
</tbody>
</table>

For the purpose of this survey:
- Short Consultations were defined as Medicare items 23 & 3
- Long Consultations were defined as Medicare items 36 & 44
- All other items fell into the Other Consultations category

<table>
<thead>
<tr>
<th></th>
<th>Industry Average</th>
<th>Highest 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Patient Fees per square metre ($)</td>
<td>$6,931</td>
<td>$11,717</td>
</tr>
<tr>
<td>Patient Fee Growth (%) (see note below)</td>
<td>13%</td>
<td>36%</td>
</tr>
</tbody>
</table>

How well a practice utilises their available floor space is a critical factor in driving profitability. The practice floor space of our surveyed practices ranged from 100 m2 (with 3 consulting rooms) to over 900 m2 (with 22 consulting rooms). The top 20% of practices who generated the most patient fees from their floor space, averaging $11,717 of fees per m2, ranged in size from 220-718 m2.

Patient fee growth results warrant particular mention, as we have intentionally excluded the growth data from two practices which were skewing the results.
- Our surveyed practices reported average patient fee growth rates from 2013 to 2014 of 13%, with the top 20% of practices reporting average growth of 36%.
- Two practices however effectively started from a zero base in 2013 to build practices with turnovers of $1.1m and $4.4m respectively. The resulting percentage growth data has been excluded from the above results.
Practice incentive payments (including PIPs, NIPs and GPIIs) varied widely across the surveyed practices, from 0-12% of total patient fees.

### Growth & Performance Benchmarks

<table>
<thead>
<tr>
<th></th>
<th>Industry Average</th>
<th>Highest 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practice Incentive Payments (%)</td>
<td>7.4%</td>
<td>11.6%</td>
</tr>
</tbody>
</table>

Patients per GP is a measure of the number of “active” patients recorded by each practice in their patient database divided by the number of full time equivalent GPs at that practice. As a consequence, the reported results are clearly heavily influenced by how regularly each practice cleanses their patient data and how they define an “active patient”.

Our surveyed GPs are a busy crew, averaging 5,220 consultations pa, with the busiest 20% of practices averaging 7,764 consultations pa. Unsurprisingly, there is a clear correlation between high consultation rates and low levels of Long Consultations (Medicare items 36 & 44). The busiest practice was a 2 GP practice averaging nearly 10,000 consultations each per annum.

A comparison of total active patients vs number of consultations pa revealed that the average patient attended their GP practice 2.6 times pa, with a small number seeing their patients almost 5 times pa.

<table>
<thead>
<tr>
<th></th>
<th>Industry Average</th>
<th>Highest 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patients per GP</td>
<td>2,862</td>
<td>5,953</td>
</tr>
<tr>
<td>Consultations per GP (per annum)</td>
<td>5,220</td>
<td>7,764</td>
</tr>
<tr>
<td>Average Patient attendance rate pa</td>
<td>2.6</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Consulting Room Utilisation (%) 59% 84%

Improving the utilisation of consulting rooms is generally an area where practices need to focus attention in improving overall profitability. A consulting room without a GP or allied health professional in it seeing patients is simply wasted space.

We measured room utilisation by calculating the actual number of patient consulting hours per practice as a percentage of the theoretical number of available hours (being the number of consulting rooms multiplied by the opening hours for the practice).

Clearly newly established practices move through a period of under-utilisation as they build their patient base. But amongst the mature practices we were surprised that only 25% of surveyed practices achieved utilisation rates in excess of 75%.
The factors contributing to the low utilisation rates are considered to be threefold:

- Lack of available contracting GPs to fill those rooms;
- Part time GPs who are allocated a fixed room on a full time basis (so that the room is not used by other GPs in free sessions);
- Over capitalisation (interestingly the surveyed practices with the largest number of available rooms often displayed mediocre utilisation rates).

<table>
<thead>
<tr>
<th></th>
<th>Industry Average</th>
<th>Highest 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patient Fees per GP ($)</td>
<td>$406,297</td>
<td>$590,725</td>
</tr>
<tr>
<td>Average Patient Spend per annum ($)</td>
<td>$193</td>
<td>$319</td>
</tr>
<tr>
<td>Fees Charged per Consultation ($)</td>
<td>$68</td>
<td>$83</td>
</tr>
</tbody>
</table>

Gross patient fees per GP per annum showed a broad range, from $265,000-$740,000. The majority of higher billing practices fell in the $550,000-$600,000 range.

The average patient spend per annum is a function of gross patient fees divided by the number of active patients in each practice's database. As noted earlier, the reported results are heavily influenced by how regularly each practice cleanses their patient data and how they define an "active patient".

Fees charged per consultation was calculated by dividing total patient fees by the number of consultations and reflects the large number of bulk billing within the surveyed client base.

<table>
<thead>
<tr>
<th></th>
<th>Industry Average</th>
<th>Highest 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Profit Margin (%)</td>
<td>37.2%</td>
<td>44.1%</td>
</tr>
<tr>
<td>Gross Profit per GP ($)</td>
<td>$150,443</td>
<td>$225,215</td>
</tr>
<tr>
<td>Net Profit (%)</td>
<td>9.8%</td>
<td>23.0%</td>
</tr>
<tr>
<td>EBIT (Earnings Before Interest &amp; Taxes)</td>
<td>10.8%</td>
<td>23.2%</td>
</tr>
</tbody>
</table>

For the purposes of this survey, Gross Profit has been calculated as follows:

Gross patient fees generated by owner GPs
Less: Arms-length component payable to owner GPs (55-60% of gross fees)
Plus: Net contribution received from contracting/employed GPs
Less: Medical supplies cost

This approach serves to treat owner GPs in an equivalent manner to contracting GPs and calculate the practice profitability on the basis that all GPs (whether owners, contractors or salaried) receive a market-based share of the patient revenue generated.

Gross Profit margins averaged 37.2% for the surveyed practices, with higher performing practices averaging 44%. In absolute dollar terms, Gross Profit per GP (taking into account owners, contractors and employed GPs) averaged around $150,000, with higher performing practices averaging more than $225,000 per GP. This measure shows how much extra gross profit should be expected to be added to the practice (after the GP takes their fee cut) for every additional GP working in the practice.
Average net profit rates across the industry were a more modest 9.8%. In this survey, Net Profit represents the profit available to the owner GPs after all operating costs and after allowing for an arms-length split of their direct patient fees (calculated at 55-60% of gross fees, depending on the region).

Interestingly:

- The bottom 20% of surveyed practices reported a net loss under this methodology. In other words, the owner doctors were earning less as a result of operating the practice than if they had worked as contractors in their own practice!
- The top 20% of surveyed practices generated average net profit percentages of 23%. In all cases, these practices were 2-4 GP practices.
- In absolute dollar terms, 15% of the practices were made up of 1 owner practices netting in excess of $400,000 profit pa (in addition to 55-60% of their own billings). These practices typically had a large number of contractor GPs providing patient care.

EBIT (Earnings Before Interest and Taxes) rates are very much in line with Net Profit rates in this industry, reflecting the low overall use of debt to finance practice operations.

### Staffing Benchmarks

<table>
<thead>
<tr>
<th></th>
<th>Industry Average</th>
<th>Highest 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTE Admin Staff per GP</td>
<td>0.9</td>
<td>0.5</td>
</tr>
<tr>
<td>FTE Nurses per GP</td>
<td>0.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Staff Salaries, Wages &amp; On Costs %</td>
<td>19.8%</td>
<td>10.2%</td>
</tr>
</tbody>
</table>

Administrative and nursing staff have been measured on a per GP basis, in order to provide a comparison point between smaller and larger practices. All figures are on a “full time equivalent” (FTE) basis. The Staff Salaries, Wages & On Costs have been measured as a percentage of total patient fees.

The Highest 20% of practices:

- Use over 40% less administrative staff per GP than the industry average
- Employ one nurse for each GP.

Effective use of administrative staff is another key area where practices can significantly improve their bottom line. The practice data reflected quite divergent practices in relation to admin staffing levels for equivalent practices:

- Two practices with 13 GPs - one running with 8 admin staff and the other with 15
- Two practices with 8 GPs - one running with 6 admin staff and the other with 11

Total staff costs averaged 20% for the surveyed practices but the most profitable practices in net profit % terms managed their average total staff costs to nearly 10% of patient fees.
Operating Costs

<table>
<thead>
<tr>
<th></th>
<th>Industry Average</th>
<th>Best 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising &amp; Promotion (%)</td>
<td>0.3%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Cleaning (%)</td>
<td>0.6%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Electricity (%)</td>
<td>0.5%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Rent Expense (%)</td>
<td>4.0%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Telephone (%)</td>
<td>0.9%</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

Whilst it is important to monitor and manage the wide range of other costs incurred in running a practice, these costs are overall reasonably minor in percentage terms in comparison to staff costs. Most practices do not appear to overspend on these items.

Assets, Cash Flow, Finance & Value

<table>
<thead>
<tr>
<th></th>
<th>Industry Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Debt as a % of Medical Practice Value (%)</td>
<td>28%</td>
</tr>
<tr>
<td>Total Debt to EBIT (%)</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

Many of the typical business ratios do not translate well to general medical practices, due to the welcome absence of debtors, inventory and trade creditor issues.

Debt levels are reasonably modest and generally represent finance for asset acquisition or voluntary debt undertaken by practice owners for debt management reasons.
Conclusion

At Prosperity Health we offer tailored benchmarking and practice consulting services to help you monitor and improve the performance, growth, profitability and value of your practice. For further details and to review your own practice planning matters, contact your local Prosperity Health office to arrange for an initial consultation.

As outlined above, the key planning, growth and performance measures include:

- Industry trends
  - Revenue growth driven largely by growth in consultation volumes
  - Increasing pressure on the Federal Government to reduce the growth in Medicare funding.
- Benchmarking study results
  - It is possible to run a profitable practice under either private or bulk billing - by far the bigger determinant of profitability are consulting room utilisation and management fee levels. How well a practice utilises their available floor space is a critical factor in driving profitability.
  - The top 20% of practices who generated the most patient fees from their floor space, averaging $11,717 of fees per m2, ranged in size from 220-718 m2. Improving the utilisation of consulting rooms is generally an area where practices need to focus attention in improving overall profitability.
  - The factors contributing to low utilisation rates include lack of available contracting GPs, inefficient use of rooms for part time doctors and over capitalisation.
  - The top 20% of surveyed practices generated average net profit percentages of 23%. In all cases, these practices were 2-4 GP practices.
  - Effective use of administrative staff is another key area where practices can significantly improve their bottom line.

Interested in being part of our next survey?

If you are a practice owner and would like to be involved in our next benchmarking report, please contact your local Prosperity Health office for further details.

REFERENCES

Whytcross, D (July 2015) IBISWorld Industry Report Q8511. General Practice Medical services in Australia

Exclusive Offer

Health practitioners understand the importance of diagnosing the correct cause of a health issue. By correctly identifying the symptoms, the right treatment can be provided and the benefit to the patient will be invaluable.

The Prosperity Health team has applied the same philosophy to our benchmarking program. A tailored individual diagnostic report will assist your practice by correctly identifying potential issues and the follow up consultation will address and prioritise key focus areas to ensure achievement of your practice goals.

The Prosperity Health team is offering medical practices an exclusive tailored diagnostic report and follow up consultation. The necessary information can be gathered by you or your Practice Manager within an hour, and our report will be received within 10 business days. Until the end of 2015, this will be at the reduced rate of $595. Please call your local Prosperity Health office or email us at mail@prosperityhealth.com.au for more details.
About Prosperity Health

Prosperity is an independently owned, award-winning chartered accounting and financial advisory firm, with offices in Sydney, Brisbane and Newcastle.

Our Health team specialises in providing medical and allied health professionals with the financial services they need. Our team of specialists provide comprehensive accounting, audit, taxation, salary packaging and financial advisory services to a growing base of small to medium enterprise (SME) clients, mid sized corporates and high net worth individuals.

With 13 partners and over 120 staff throughout our three offices, Prosperity has the necessary expertise, experience and resources to service our clients' needs throughout New South Wales, the ACT and Queensland. We are very proud of our reputation amongst our clients and we follow best practice processes and procedures to ensure our clients receive consistently high quality service and solutions.

Our experienced Prosperity Health team will work closely with you to assess your individual circumstances and continue strategies to reach your financial goals and objectives.
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MORE ABOUT: John
MORE ABOUT: Gavin
MORE ABOUT: Lilian
MORE ABOUT: Moien
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