Experience EXPO With Us!

- Innovation Stage - *Exhibit Hall – The Bridge (Booth P14051)*
  Our Innovation Stage sessions feature free, promotional content for all attendees.

- Vision Series - *Thursday, Sept 19 and Friday, Sept 20*
  Grab a bite to eat or drink and continue learning over breakfast or lunch!* Listen to industry leaders as they address the latest clinical innovations in a relaxed and collaborative environment.

  **Open to Optometrists only. Not for Credit. Meals offered on first-come, first-serve basis to pre-registered attendees.*

- Exhibit Hall Hours

Thursday, Sept 19	9:30am – 6:00pm
Friday, Sept 20	9:30am – 6:00pm
Saturday, Sept 21	9:30am – 3:00pm

PURCHASING EQUIPMENT

A Case Study Approach to Efficiency and Cost Effectiveness

Aaron Neufeld, O.D.

slido

Join at slido.com
#1171851

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FINANCIAL DISCLOSURES

Speaking/Consulting
Speaker/Consultant, Coopervision
Speaker, Alcon
Speaker/KOL, ReviewWave
Advisory Board, Vyluma
Advisory Board, Stifel Investments

Ownership/Equity - Significant
Co-Owner, ODs on Finance LLC
Co-Owner, EyeDock LLC
Partner/Investor, ODoF Ventures

Ownership/Equity - Minority Stake
Shareholder, Virtual Vision
Shareholder, Barti
Shareholder, Mercantile (AOA card)
Shareholder, Percept

All relevant relationships have been mitigated

Who is this Guy and

WHY ARE WE STUCK **WITH HIM FOR AN HOUR?**

★ Multi-practice Owner
- **Los Altos Optometric Group**
- **Pacific Eye Care Optometry**
- **The Contact Lens Institute**

★ Partner/Investor
- **ODoF Ventures**

ODoF Ventures

★ Owner
- Neufeld Holdings (practice real estate)

★ Co-Founder/COO/Practice Consultant
- **ODs on Finance**

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Who is this Guy and

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DISCLAIMER

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Have you made any major purchases for your practice in the last 6-12 months?

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What did you buy?

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PURCHASING EQUIPMENT

A Case Study Approach to Efficiency and Cost Effectiveness

Aaron Neufeld, O.D.

OBJECTIVES

01

Understand Cost Benefit Analysis and Return on Investment

02

Apply these Principles to Investments in Various Pieces of Optometric Equipment

03

Determine how each equipment analysis benefits both the practice and patient

Why is this IMPORTANT?

- **Free cash flow (FCF)** is the money a company has left over after paying its operating expenses (OpEx) and capital expenditures (CapEx).

- The more **free cash flow** a company has, the more it can allocate to
  - Dividends
  - Paying down debt
  - Growth opportunities

Why is this IMPORTANT?

If we can make smart decisions on capital expenditures via equipment, we have the opportunity of **increasing free cash flow**.

However, a poor decision in acquiring equipment via capital expenditure can result in a hit to free cash flow and rare instances cause it to go negative.

Calculating FREE CASH FLOW

Free Cash Flow =

Sales Revenue − (Operating Costs + Taxes) − Required Investments in Operating Capital

Calculating FREE CASH FLOW

Free Cash Flow =

Sales Revenue − (Operating Costs + Taxes) − Required Investments in Operating Capital

We all focus on
INCREASING this

We should also focus
on REDUCING this

FACTs about Cash Flow

Look at Overhead

- General Overhead
  - Staffing
- Cost of Goods
  - Inventory
    - Frames
    - Lens
    - Consumables
- Capital Expenditures
  - Equipment

FACTs about Equipment

- The only one that recognizes a fancy brand/model is YOU (not the patient)
- Function over form
- Used doesn’t matter if it works
  - But…warranty issues
- Your Rep does NOT care about you

FACTs about Equipment

- Not Every Practice Needs an OCT
- Not Every Practice Needs an Optos
- Not Every Practice Needs an IPL
- Some practices need 3 of each

FACTs about Equipment

Delayed pain happens too often

- Easy financing
- FOMO
- Effect seen years later with compounding losses

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How do you approach big purchases?

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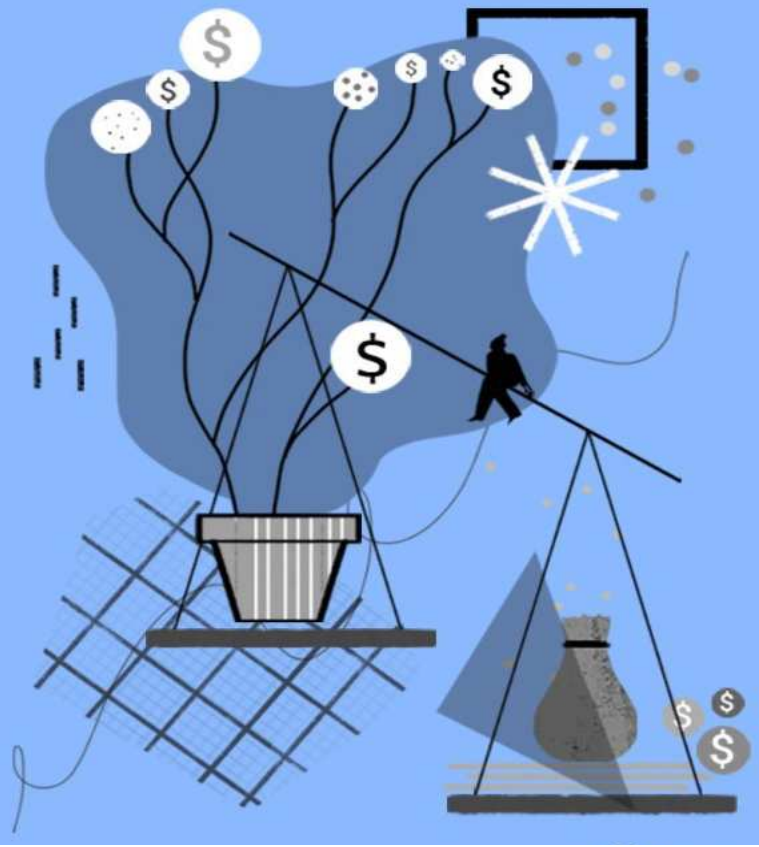
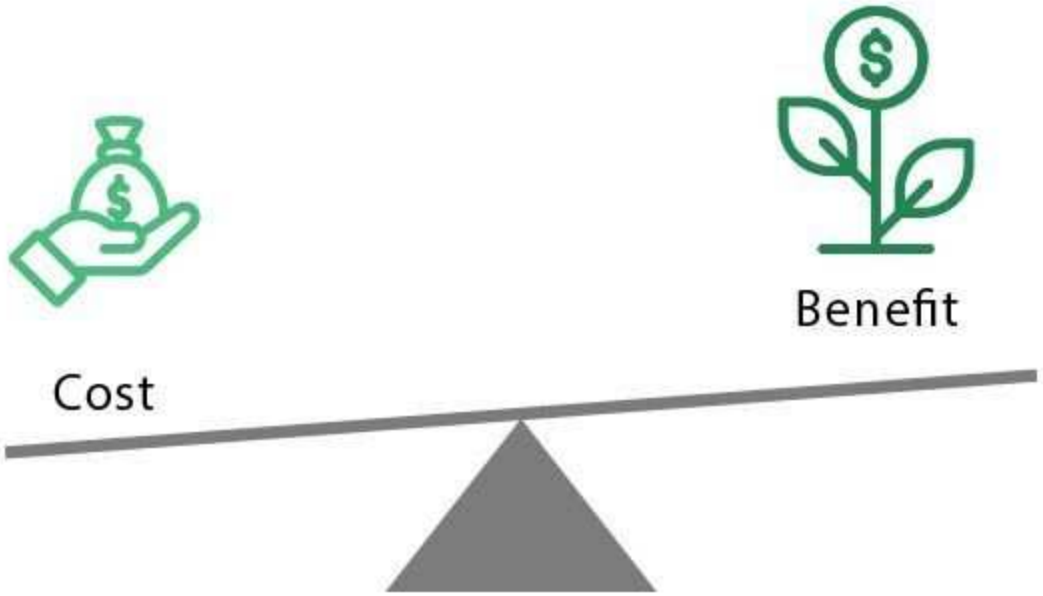


Cost-Benefit Analysis

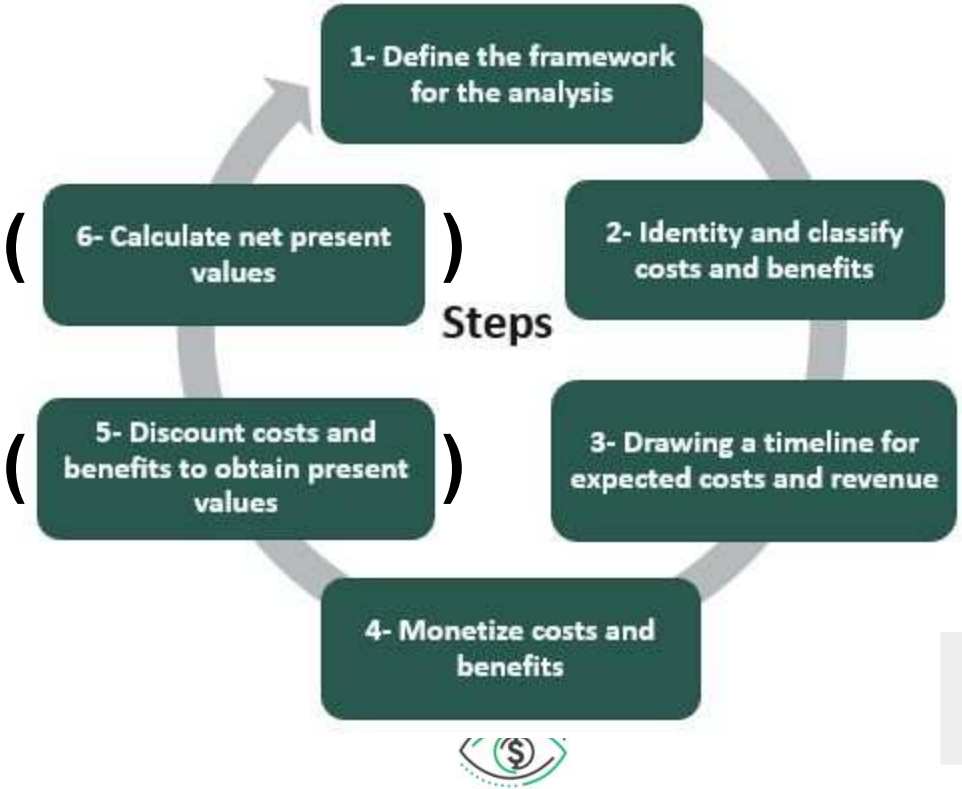
[kós(t)-ˈbe-nə-ˌfit ə-ˈna-lə-səs]

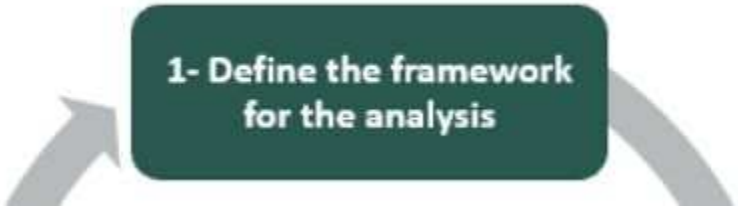
A systematic process of evaluating the desirability of a decision by weighing its potential benefits and costs.

Cost Benefit Analysis



Cost-Benefit Analysis





- What the Equipment is
- The Different Variants and Prices
- The Intended Procedures to be performed
- The approximate active patients that could benefit from equipment

2- Identity and classify costs and benefits

Costs

- Machine
- Maintenance
- Insurance
- Space
- Training
- Time

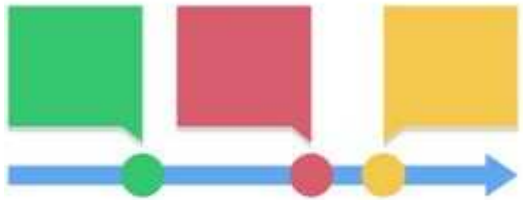
Benefits

- Patient Outcomes
- Efficiency
- Reimbursement
- Further Services/Materials
- Referral

3- Drawing a timeline for expected costs and revenue

Costs

- Financing vs Buying Up Front
  - Monthly Payments - Financing
  - Buying Up Front - Cash Reserves
- Maintenance plans + insurance



Revenue

- Reimbursement
  - How many patients per month?
- Secondary Revenue
- Gained Efficiencies
- Intangibles

4- Monetize costs and benefits

Costs

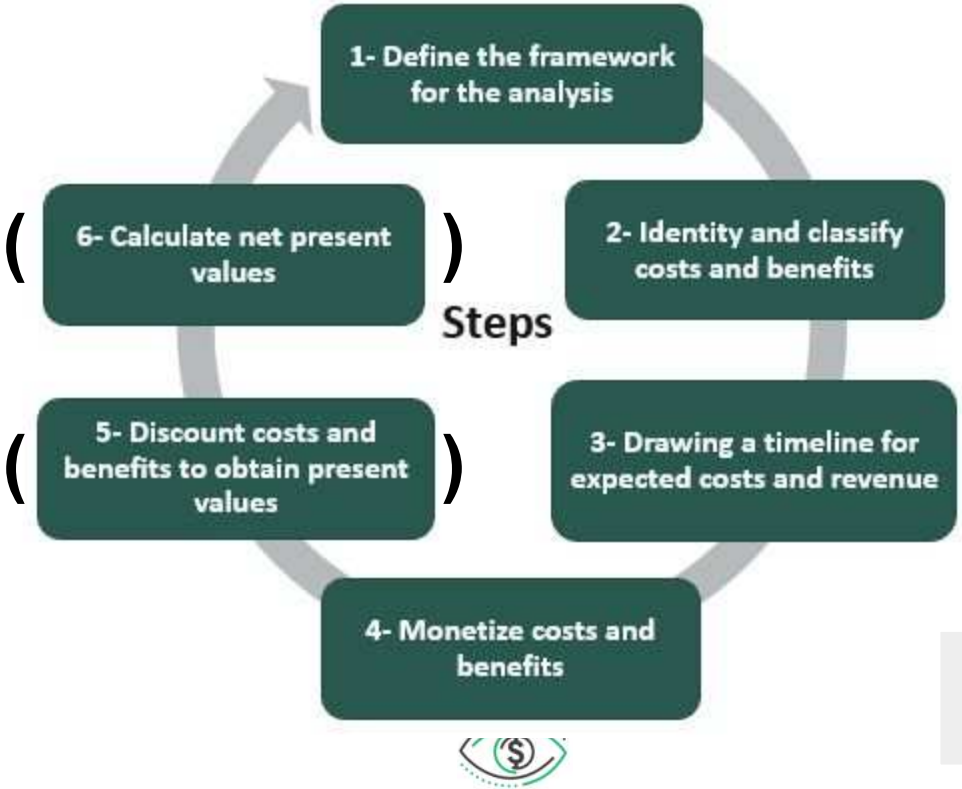
- Financing vs Buying Up Front
  - Monthly Payments - Financing
  - Buying Up Front - Cash Reserves
- Maintenance plans + insurance
- Intangibles

Revenue

- Reimbursement
  - How many patients per month?
- Secondary Revenue
- Gained Efficiencies
- Intangibles

Apply $$ Values to Each!

Cost-Benefit Analysis



(Optional)

5- Discount costs and benefits to obtain present values

6- Calculate net present values

Present Value Formula and Calculation

$$\text{Present Value} = \frac{\text{FV}}{(1+r)^n}$$

where:

$\text{FV} = \text{Future Value}$

$r = \text{Rate of return}$

$n = \text{Number of periods}$

Net present value formula

$$NPV = \frac{R_t}{(1+i)^t}$$

R_t = net cash flow at time t

i = discount rate

t = time of the cash flow

We want a good ROI…

What is ROI?

Return on Investment - financial metric that measures the profitability of an investment relative to its cost. It's commonly expressed as a percentage and helps assess the effectiveness of an investment decision

ROI = Net Profit/Cost of Investment x 100

(where Net profit = total revenue - total cost)

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What is the most important benefit a new piece of equipment can bring in?

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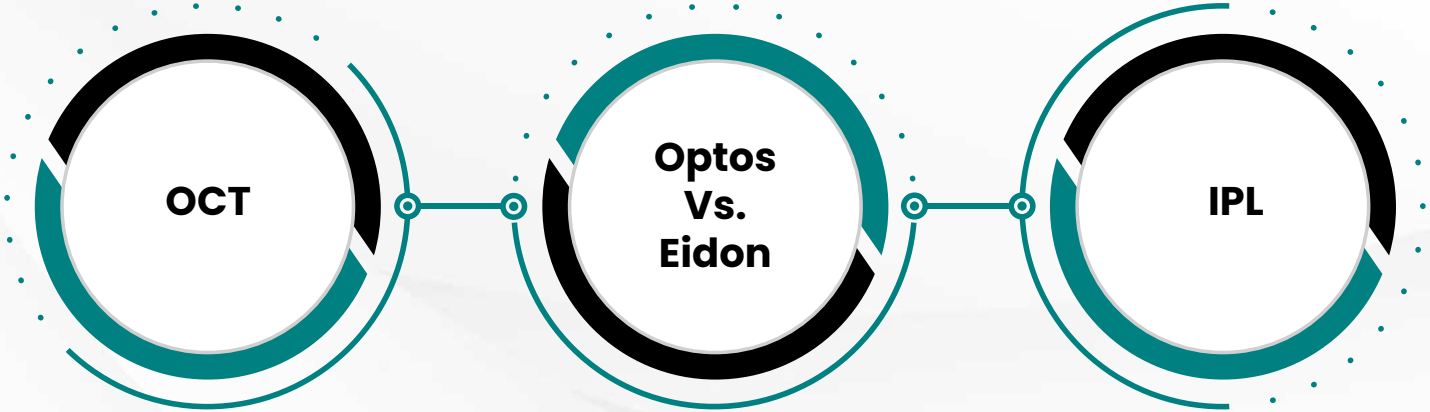
In reality, all three of these points work synergistically

Analyzing **Examples**



Classic Cost Benefit Analysis

Cross Comparison Utilizing CBA

Looking at Intangibles

Cost Benefit Analysis - OCT

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Who has an OCT in their office?

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Cost Benefit Analysis - OCT

NOTE: We will be making some simplifications in our breakdown

Cost Benefit Analysis - OCT

Equipment: OCT

Price Range: $50,000-$120,000

Reimbursement codes: 92132, 92133, 92134

Active Patients: 2000

Patients w/ Dx codes that fit OCT: 200

Cost Benefit Analysis - OCT

2- Identity and classify costs and benefits

Tangible **Costs**:

- Staff time cost
- Dr time cost
- Biller time
- Maintenance per yr
- Energy cost
- Footprint
- Property Tax

Intangible **Costs**:

- Footprint opportunity
- Upgrade miss
- Lemon potential

Cost Benefit Analysis – OCT

2- Identity and classify costs and benefits

Tangible **Benefits**:

- Manage/bill for glaucoma
- Manage/bill for AMD
- Manage/bill for retinal conditions
- Anterior segment options
- Keep patients in house
- Specialty lens fits
- Less liability, better ID

Intangible **Benefits**:

- Office perception
- Possibility to max. chair time revenue

Cost Benefit Analysis - OCT

3- Drawing a timeline for expected costs and revenue

Cost Benefit Analysis - OCT

4- Monetize costs and benefits

Initial Capital Cost: $60,000

Projected revenue Generated Annually: $10,000 (200 patients at $50 each)

- **Staff time per usage** (@ $20/hr) - 15 min = $5/patient - $500/100 patients
- **Doctor time per usage** (@ $60/hr) - 5 min = $5/patient - $500/100 patients
- **Biller time per usage** (@ $15/hr) - 3 hrs/100 patients - $45/100 patients
- **Avg. Maintenance cost per year** - $200
- **Energy cost per usage** - $0.25 - $0.25 x 100 patients - $25
- **Footprint** - 10 sq ft @ $30 sq ft/yr lease = $300/yr
- **Property tax** - not applicable in this instance

Cost Benefit Analysis - OCT

4- Monetize costs and benefits

Initial Capital Cost: $60,000

Projected revenue Generated Annually: $10,000 (200 patients at $50 each)

- **Staff time per usage** (@ $20/hr) - 15 min = $5/patient - $500/100 patients
- **Doctor time per usage** (@ $60/hr) - 5 min = $5/patient - $500/100 patients
- **Biller time per usage** (@ $15/hr) - 3 hrs/100 patients - $45/100 patients
- **Avg. Maintenance cost per year** - $200
- **Energy cost per usage** - $0.25 - $0.25 x 100 patients - $25
- **Footprint** - 10 sq ft @ $30 sq ft/yr lease = $300/yr
- **Property tax** - not applicable in this instance

So if we add all of these up, our total cost per year to run the OCT on 100 patients comes up to:

$500 + $500 + $45 + $200 + $25 + $300 = **$1570/year.** *Certainly not a huge amount, but enough to be seen as significant!*

Return on Investment- OCT

Year 1: Revenue = $10,000

$7857 depreciation → $3300 tax savings

(assume $1M gross, 8.84% Corp Tax)

ROI = Net Profit/Cost of Investment x 100

(where Net profit = total revenue - total cost)

$$\text{Year 1: ROI} = \frac{[\,(\$10{,}000+\$3300) - (\$60{,}000 + \$1570)\,]}{\$60{,}000} \times 100$$

ROI = -80.45%

Return on Investment- OCT

Year 1: Revenue = $10,000

$7857 depreciation → $3300 tax savings

(assume $1M gross, 8.84% Corp Tax)

Tangent: The Power of Depreciation

Straight Line Method:

$$\text{Depreciation per year} = \frac{\text{Asset Cost - Salvage Value}}{\text{Useful life}}$$

$60,000 — Asset Cost

$5000 — Salvage Value

7 years — Useful life

Other Methods:

- Declining Balance
- Sum of the Year's Digits
- Units of Production

Tangent: The Power of Depreciation

Year 1: Revenue = $10,000

$7857 depreciation → $3300 tax savings

(assume $1M gross, 8.84% Corp Tax)

Result

With the straight line method, the depreciation per year is **$7,857**.

Year	Beginning Book Value	Depreciation Percent	Depreciation Amount	Accumulated Depreciation Amount	Ending Book Value
1.	$60,000	14.29%	$7,857	$7,857	$52,143
2.	$52,143	14.29%	$7,857	$15,714	$44,286
3.	$44,286	14.29%	$7,857	$23,571	$36,429
4.	$36,429	14.29%	$7,857	$31,428	$28,572
5.	$28,572	14.29%	$7,857	$39,285	$20,715
6.	$20,715	14.29%	$7,857	$47,142	$12,858
7.	$12,858	14.29%	$7,857	$54,999	$5,001

Tangent: The Power of Depreciation

PSA: Have your CPA do this

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Return on Investment- OCT

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ROI = -80.45%

Return on Investment- OCT

Year 2: revenue = $15,000 (vs $10,000 in yr 1)

$7857 depreciation → $3300 tax savings

(assume $1M gross, 8.84% Corp Tax)

$$\text{Year 2: ROI} = \frac{[\ (\$25{,}000+\$6600) - (\$60{,}000 + \$3140)\ ]}{\$60{,}000} \times 100$$

ROI = -52.57%

Return on Investment- OCT

Year 3: revenue = $20,000 (yearly $5000 increase)

$7857 depreciation → $3300 tax savings

(assume $1M gross, 8.84% Corp Tax)

	Year 1	Year 2	Year 3	Year 4	Year 5	
Revenue	$10,000.00	$15,000.00	$20,000.00	$25,000.00	$30,000.00	$100,000.00
Depreciation	$7,857.00	$7,857.00	$7,857.00	$7,857.00	$7,857.00	$39,285.00
						$139,285.00

Year 3: ROI = $\frac{[\ (\$45{,}000+\$9900) - (\$60{,}000 + \$4710)\ ]}{\$60{,}000} \times 100$

ROI = -13.73%

Return on Investment- OCT

Year 4: revenue = $20,000 (yearly $5000 increase)

$7857 depreciation → $3300 tax savings

(assume $1M gross, 8.84% Corp Tax)

	Year 1	Year 2	Year 3	Year 4	Year 5	
Revenue	$10,000.00	$15,000.00	$20,000.00	$25,000.00	$30,000.00	$100,000.00
Depreciation	$7,857.00	$7,857.00	$7,857.00	$7,857.00	$7,857.00	$39,285.00
						$139,285.00

Year 4: ROI = $\frac{[\ (\$70{,}000+\$13{,}200) - (\$60{,}000 + \$6280)\ ]}{\$60{,}000} \times 100$

ROI = +28.2%

BREAK EVEN IN 4th YEAR!

Return on Investment- OCT

Year 5: assume $5000 increase every year
$7857 depreciation every year

	Year 1	Year 2	Year 3	Year 4	Year 5	
Revenue	$10,000.00	$15,000.00	$20,000.00	$25,000.00	$30,000.00	$100,000.00
Depreciation	$7,857.00	$7,857.00	$7,857.00	$7,857.00	$7,857.00	$39,285.00
						$139,285.00

Year 5: ROI = [($100,000+$16,500) - ($60,000 + $7850)] / $60,000 x 100

ROI = +81%

(remember 3 yrs of negative ROI)

Return on Investment- OCT

Shortcomings with our Example:

- **We assume equal tax burden + rates year after year**
- **We assume a constant growth curve**
- **We did NOT account for increase in salaries nor the increase in hours needed for seeing more patients**
- **All ROIs instantaneous, true ROI not seen until Year 6**

- **We assumed buying in full - how about financing?**

Return on Investment- OCT

	Year 1	Year 2	Year 3	Year 4	Year 5	
Revenue	$10,000.00	$15,000.00	$20,000.00	$25,000.00	$30,000.00	$100,000.00
Depreciation	$7,857.00	$7,857.00	$7,857.00	$7,857.00	$7,857.00	$39,285.00
						$139,285.00

What if we financed?

Return on Investment- OCT

Loan Amount	$60,000
Loan Term	10 years 0 months
Interest Rate	6 %
Compound	Monthly (APR)
Pay Back	Every Month

Calculate Clear

Results:

Payment Every Month	$666.12
Total of 120 Payments	$79,934.76
Total Interest	$19,934.76

View Amortization Table

What if we financed?

Return on Investment- OCT

Year 5: assume $5000 increase every year

$7857 depreciation every year

	Year 1	Year 2	Year 3	Year 4	Year 5	
Revenue	$10,000.00	$15,000.00	$20,000.00	$25,000.00	$30,000.00	$100,000.00
Depreciation	$7,857.00	$7,857.00	$7,857.00	$7,857.00	$7,857.00	$39,285.00
						$139,285.00

Year 5: ROI = [($100,000+$16,500) - ($79,934.36 + $7850)] / $79,934.36 x 100

ROI = +35%

Instantaneous BREAK EVEN in YEAR 5 w/ much lower ROI, true ROI most likely in Year 7

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How are you feeling after that classic CBA walkthrough?

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Takeaways - OCT

- Accounting for ALL expenses is vital in getting a true look at ROI
- Establishing a timeline to profitability can help us plan + forecast cash flow
- Financing will push back break even point
- Depreciation plays a factor in all equipment purchases

Debating Equipment

- CBA is a great way to pit two pieces of equipment against each other
- Can help even emotions with logic
- Can tell us what is best for our unique situation

Debating Equipment

Optos California

iCare Eidon

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What UltraWideField imaging device do you have in your practice?

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Debating Equipment

Optos California

~$105,000
($100,000)

iCare Eidon

~$60,000
($47,000)

Debating Equipment

Similarities

Optos California ($100k)

iCare Eidon (~$50k)

- **Value Proposition (screening fee + 92250 ability)**
- **Patient demographic capture**
- **Footprint**
- **Overall operation**

Debating Equipment

Differences

Optos California ($100k)

- Cloud based
- Faster imaging
- One flash
- Softer Flash
- Larger support network
- Customer service issues

iCare Eidon (~$50k)

- Server based (LAN)
- Slower imaging
- Multiple flashes
- Harsher flash
- Smaller support network
- Better customer service reputation

Debating Equipment

The Reality

Optos California ($100k)

- Ease of use
  - Efficiency
  - Better growth?
- More familiar UI

iCare Eidon (~$50k)

- Will show an earlier positive ROI most likely

Debating Equipment

Optos California vs iCare Eidon

- **CBA helps us delineate benefits numerically**

- **Key Tradeoff #1: Price point**
- **Key Tradeoff #2: Operation (staff + pt standpoint)**

Exploring Intangibles

- **Despite the number-heavy methodology of CBA - intangibles can play a deciding factor for certain pieces of equipment**

- **Intangibles can hold significant risks and benefits**

Exploring Intangibles

IPL

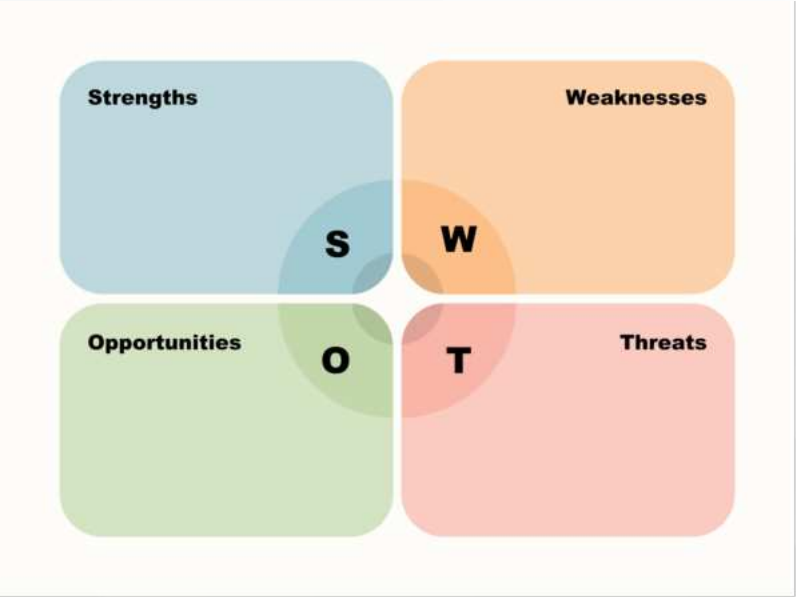
OA iLight IPL ~$37k

Lumenis IPL ~$80k

InMode IPL ~$110k

Exploring Intangibles

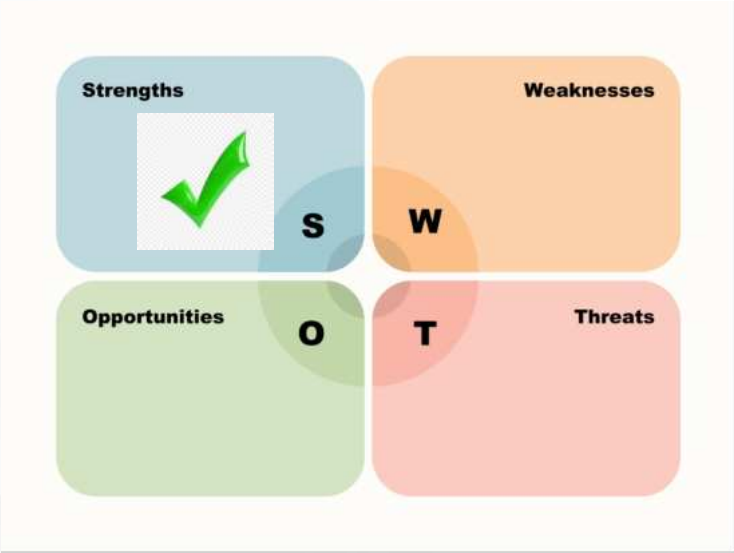
Bring out the SWOT



Exploring Intangibles

IPL - Strengths

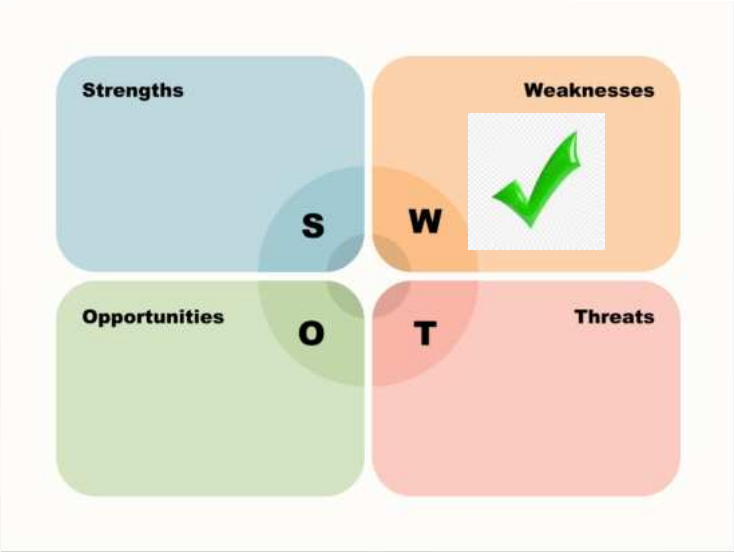
- Dry eye treatment efficacy
- Aesthetics applications
- Alternative treatment for patients



Exploring Intangibles

IPL - Weaknesses

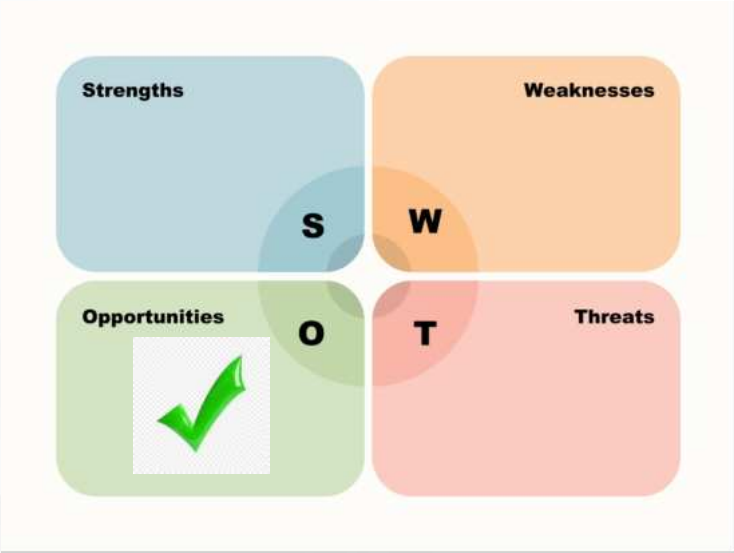
- Consistency
- Marketing
- Time
  - “Selling”
  - Performing
- Scheduling



Exploring Intangibles

IPL - Opportunities

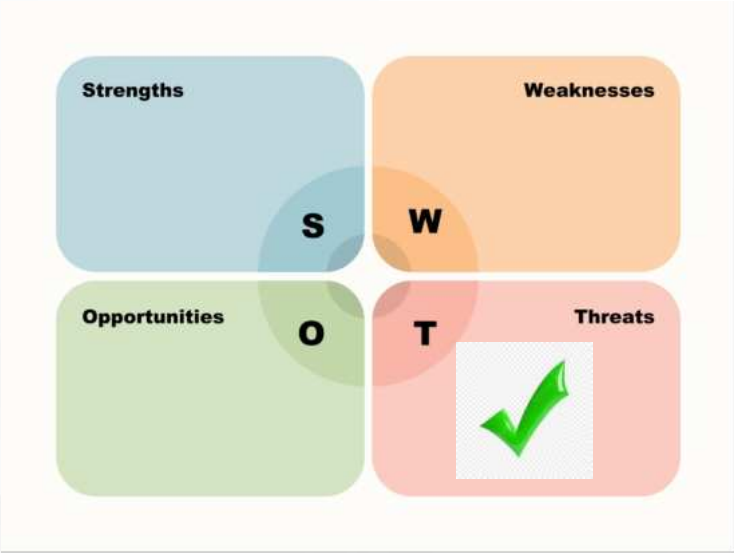
- A new patient base
- Niche differentiation
- Set your fees
- Significant revenue boost
- Sell other services
  - LLLT, RF, PPs, etc.



Exploring Intangibles

IPL - Threats

- Over 10 manufacturers
  - This is niche!
  - Oversaturation
- New therapy
- Inability to sell service
- Poor patient experience



Exploring Intangibles

Which one are you choosing…or do you even need one?

OA iLight IPL ~$37k

Lumenis IPL ~$80k

InMode IPL ~$110k

Bonus: Max Profitability

RetEval (handheld ERG)
92273 - $128 reimburse
Cost: ~$20k

Rabin CCT
92283 - $56 reimburse
Cost: ~$7k

IN CONCLUSION

01

Understand everything that affects free cashflow

02

Run a full CBA on capital expenditures

03

Cross compare, understand intagibles

Realize the power large purchases make for your practice both in the present, and the FUTURE.

THANK YOU!

Aaron Neufeld, OD

aneufeldod@gmail.com

ODs on Finance

Los Altos Optometric Group

THE CONTACT LENS INSTITUTE
AN OPTOMETRIC CORPORATION