

90 Day Cash Flow Plan for Reopening Your Orthodontic Practice

CPA recommendations for managing your cash flow

The Coronavirus pandemic has sparked a frenzied selling of stocks and mandatory lockdowns all over the country. Orthodontic practices have been required to shut their doors as a result of local and national reactions.

At this point, your practice has been closed for 3 to 4 weeks and all new production has been halted. Most practices have taken significant and decisive measures to lower their overhead to just the critical and required expenses in the practice.

The following scenario looks at the cash flow of an orthodontic practice experiencing a two-month shutdown and the financial implications in the resulting months as the business begins to reopen and see patients.

Prior to filling out your own three-month needs, read the following descriptions of revenue, direct expenses and fixed expenses. This will help you understand the methodology and aid in utilizing the attached worksheet.

UNDERSTANDING WHAT COMES IN, AND WHAT GOES OUT

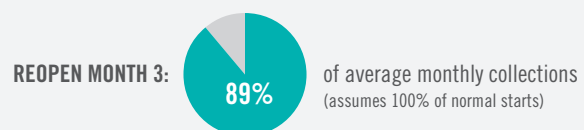
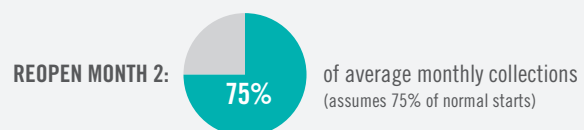
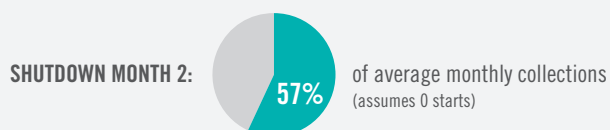
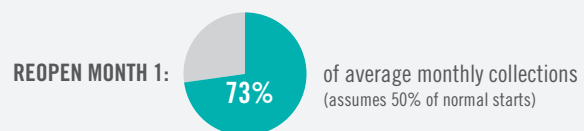
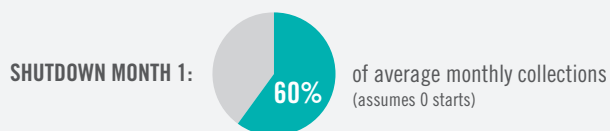
Revenue

In a typical orthodontic practice, you receive income from down payments, paid-in-fulls, initial insurance payments, insurance continuation and patient monthlies or contacts receivable. As new patient starts ceased, so did same-day cash and initial insurance payments.

Based on metrics from OrthoFi, a \$1,800,000 practice with contract balances of \$1,000,000, it is estimated that approximately 63% of the practice's monthly cash flow comes from recurring insurance payments and patient monthly payments. Thus, you may not feel the cash impact as much if your overhead has been reduced significantly to match the drop off in up-front cash.

Focusing on the first month back in practice, your increased collections will be largely dependent on paid-in-fulls and new start down payments. This will likely be comprised of fitting as many current patients back into the practice while trying to accommodate new patients in as well. The first month back (month 3), would estimate that your practice receives 50% of the typical down payments and paid-in-fulls.

Example: All percentages below assume a practice with an average case fee of \$5,000 and 30 starts per month.



This article is presented for informational purposes only. You should consult with your accountant, attorney, and/or any other relevant advisor or representative of you or your practice before making financial decisions for your practice.

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UNDERSTANDING WHAT COMES IN, AND WHAT GOES OUT, *CONT.*

Direct Expenses

Direct expenses vary directly with the amount of production being performed. These costs would include your staff, supplies and lab fees. During the first two months of a shutdown the practice should have reduced the majority of these costs.

Thing to consider when ramping up:

- Determining the level of staff needed as the practice is opening back up. Keep in mind you will need to bring staff on earlier to reschedule appointments.
- Learning new protocols for practicing under new potential guidelines.
- Ensuring you're adequately stocked with supplies.

CWA TIP

Receiving the PPP loan closer to your opening date will help cover your staffing costs during the ramp up period and receive a higher percentage of forgiveness. Ideally the loan would fund a week before the practice reopens. Currently there are no available funds. A vote for a second round of funding up to \$300 billion is expected to take place soon.

[Read our blog to prepare for additional funding.](#)

Fixed Expenses

These are bills that are consistent on a month-to-month basis (rent, utilities, debt, etc.). During the shutdown, you can decrease your utilities, advertising and perhaps defer rent for 60-90 days, but these expenses will return as the practice ramps up.

Considerations:

- Be prepared to increase marketing efforts relating to safe practice procedures as you begin to open.
- Review previously paused or terminated expenses to determine what is needed to resume and what can be deferred or eliminated to help with cash flow as staff are onboarded and starts have not returned to pre-shutdown levels.

Profit

Most practices will still experience positive cash flow the first couple months of shutdown. The positive cash flow is due to collections continuing while expenses have been dramatically reduced. When the practice reopens, owners need to prepare for net cash flow to drop since collections will continue to lag while the practice expenses resume to normal levels.

Assuming the practice returns to average start levels in the third month after the shutdown, the overall profit will still be 25% lower than pre-shutdown levels. These first few months of returning to practice can put more strain on your cash flow than the initial shock from the two months of being shutdown. Continue to be mindful of expenses and overall cash flow as the practice returns to a state of normalcy.



Attached is a worksheet to help calculate net cash flow during a shutdown and the first three months of resuming operations.

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Review the example to prepare to fill in your own actuals on the following page.

EXAMPLE

	NORMAL	SHUTDOWN MONTH 1	SHUTDOWN MONTH 2	REOPEN MONTH 1	REOPEN MONTH 2	REOPEN MONTH 3
Starts	30	0	0	15	23	30
Collections	150,000	90,000	85,500	108,750	120,375	133,125
Direct Expenses						
Staff Salaries	30,500	3,000	3,000	30,500	30,500	30,500
Payroll Taxes - Staff	2,440	240	240	2,440	2,440	2,440
Dental Supplies	10,500	500	500	7,613	8,426	9,319
Lab	9,000	500	500	6,525	7,223	7,988
Office Supplies	2,250	500	500	1,631	1,806	1,997
Fixed Expenses						
Accounting & Legal	1,100	1,100	1,100	1,100	1,100	1,100
Advertising	5,000	3,000	3,000	5,000	5,000	5,000
Bank/Credit Card Fees	1,800	1,080	1,026	1,305	1,445	1,598
Insurance	1,000	1,000	1,000	1,000	1,000	1,000
Rent	7,500	7,500	7,500	7,500	7,500	7,500
Other Fixed Costs	8,000	3,500	4,000	8,000	8,000	8,000
Utilities & Telephone	550	550	550	550	550	550
Non-Operating Costs						
Debt Payments	0	0	0	0	0	0
Net Available Cash Flow	70,360	67,530	62,584	35,586	45,386	56,134
Current Cash		80,000	147,530	317,614	317,614	353,200
PPP Proceeds			107,500			
Total Cash Available		147,530	317,614	353,200	361,000	407,335

CWA TIP

Estimating Collections: Once an orthodontic office shuts down, the collections from same day cash and initial insurance stop. The contracts receivable, which includes ongoing insurance and patient payments, is amortized over the average treatment length in months. Once a practice reopens, it will take several months to rebuild ongoing insurance and patient payments to previous levels.

For example, if your practice is closed for 2 months and it takes 2 months to rebuild to pre-close starts at 30 per month, your practice missed adding to contracts 82 starts over a four-month period. *Based on this, CWA estimates that you could see up to a 15-20% decrease to your contracts receivable balances at the end of month 5.*

In order to determine your collections, you will first need to understand the breakdown percentage of each category into your total collections during a normal operation month.

For example, you need to determine the percentage of collections in office for same-day down payments. Do the same with initial insurance, insurance continuation and patient monthly payments. Knowing these percentages will allow you to determine your collections during the ramp up period as indicated in re-open months 1-3.

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Leveraging the previous page as a guide, fill in your plan to get a better understanding of your financial position during re-opening. Please keep in mind the starts and expenses listed on the previous page are examples. You will need to consider your state mandates and dental society recommendations for re-opening, and adjust for your personal situation.

MY PLAN

	SHUTDOWN MONTH 1	SHUTDOWN MONTH 2	REOPEN MONTH 1	REOPEN MONTH 2	REOPEN MONTH 3
Starts					
Collections					
Direct Expenses					
Staff Salaries					
Payroll Taxes - Staff					
Dental Supplies.....					
Lab.....					
Office Supplies.....					
Fixed Expenses					
Accounting & Legal.....					
Advertising.....					
Bank/Credit Card Fees					
Insurance.....					
Rent					
Other Fixed Costs					
Utilities & Telephone					
Non-Operating Costs					
Debt Payments					
Net Available Cash Flow					
Current Cash.....					
PPP Proceeds					
Total Cash Available					

PEACE OF MIND COMES FROM PREPARATION AND CONFIDENCE IN A WELL CONSTRUCTED PLAN.

In times of uncertainty, financial security will offer you and your family what it needs to breathe deeply and confidently navigate through this period of transition.

WE ARE HERE TO HELP GUIDE YOU THROUGH YOUR PERSONAL SITUATION. CONTACT OUR TEAM AT CAINWATTERS.COM/CONTACT >