

Intro to Financial Acumen

Webinar Guide

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THE ALLIANCE OF WOMEN
IN WORKERS' COMPENSATION



Artemis Emslie, President



- ▶ Ms. Emslie has nearly 25 years of experience in both the workers' compensation and group health industries, bringing a multi-dimensional perspective to the complex issues facing PBM clients. She previously was the CEO of myMatrixx, where she led the strategic growth of the workers' compensation division of the pharmacy benefit management (PBM) firm.
- ▶ Artemis co-founded and currently serves on the executive board of the Alliance of Women in Workers' Compensation, a think tank committed to sharing ideas and mentoring tomorrow's industry leaders. She is also chairperson of the Workers Compensation Research Institute (WCRI) Core Funders Group and serves on the board of directors for Paradigm Outcomes as well as on the advisory boards for Kids' Chance, the Comp Laude Awards, and the American Heart Association's Circle of Red.
- ▶ As a recognized industry expert, Artemis is a frequent speaker at national industry conferences on topics such as drug trends and best practices in pharmacy benefit management. She has been recognized as one of *Business Insurance* magazine's Women to Watch and honored with *WorkCompCentral's* Comp Laude Leadership and President's Honor Roll awards.



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Stephanie Narvades, Chief Financial Officer



- ▶ Ms. Narvades is a certified public accountant with more than 20 years of experience. She served as a consultant to Healthsystems before joining the management team in 2006. As chief financial officer, she is the steward of accounting and treasury operations. Ms. Narvades provides financial planning leadership, analysis and forecasts on which business decisions rely. With her guidance, Healthsystems has grown rapidly while remaining financially stable, debt-free and privately owned.
- ▶ Ms. Narvades' leadership has been recognized by her peers, who invited her to share her expertise on CFO panels sponsored by Financial Executives International and the American Society of Woman Accountants. She was a finalist for the CFO of the Year and Woman of the Year awards sponsored by the Tampa Bay Business Journal. The publication singled out Healthsystems for recognition of its exceptional financial performance through its prestigious Fast 50 Award program.
- ▶ Ms. Narvades started her career at PWC and later managed the accounting functions for a real estate development firm and specialty pharmacy as corporate controller.



Budget Basics

A budget is a forecast of what you expect to happen. It includes:

- ▶ Income statement (how much to you expect to make)
- ▶ Balance sheet (what I own, what I owe and what I have invested)
- ▶ Cash flow (when is cash coming in and going out)

Key components:

- ▶ Revenue projections - how much do I plan to sell next year?
- ▶ Expense estimates - what is my best estimate of what it is going to cost to deliver?
 - ▶ Direct Costs
 - ▶ Overhead Costs
- ▶ Staffing plan - who needs to be hired to achieve these plans? What turnover may happen?
- ▶ Capital investment plan - what investments are needed to make your plans happen?
 - ▶ Fixed Assets
 - ▶ Technology



What is a Budget Driver?

- ▶ A budget driver is
 - ▶ A **variable** that results in a **change** in a component of the budget
 - ▶ An **input** that affects the **outcome** of the budget
- ▶ Start by thinking
 - ▶ What **operational** changes do I **want to make** and what could go wrong?
 - ▶ What **operational** changes do I **need to make** in order to hit specific targets?
- ▶ Examples
 - ▶ If I add more sales people...
 - ▶ How much more revenue should I expect to achieve?
 - ▶ How long does it take a sales rep to ramp up?
 - ▶ How strained will my profit & loss be during the ramp period - how can we make room to afford it?
 - ▶ If I launch a new product...
 - ▶ How much marketing cost will be required and how does it drive my revenue?
 - ▶ Do I get results this year or next?
 - ▶ Do I need more staff onboard as a result? In which departments?



What is Gross Profit?

- ▶ Gross Profit = Revenue - Cost of Goods or Services Sold (COGS)
- ▶ Gross profit is a key metric to understand the efficiency/health of the business model
 - ▶ Calculates money earned from directly operating the business before considering administrative expenses
- ▶ Gross Profit = Gross Margin (synonymous)

- ▶ Revenue is the total amount of sales
 - ▶ Examples:
 - ▶ Carrier = Premiums Earned
 - ▶ TPA = Services Revenue, Claims Management Revenue
- ▶ COGS/COSS are the expense directly related to producing products or services
 - ▶ the materials that go into a product, and the costs to convert materials into an actual product
 - ▶ all direct costs required to close a claim
 - ▶ labor that is directly related to making a product OR providing a service
- ▶ Gross profit does not include
 - ▶ Overhead
 - ▶ Operating expenses such sales & marketing, office supplies, executive and administrative salaries



What Levers Can Be Controlled?

Fixed vs Variable Expenses

- ▶ Two type of expense:
 - ▶ Variable costs: *change with the level output* (e.g. shipping cost per unit) or based on a *business decision* (e.g. running an ad campaign)
 - ▶ Fixed costs: *stay at the same level* whatever the level of business activity is (at least over the short term)
- ▶ You can control:
 - ▶ What you have not yet committed to spending (both fixed and variable)
- ▶ You can manage:
 - ▶ Variable costs - to ensure that such costs are efficient and delivering results
- ▶ You can leverage:
 - ▶ Fixed costs - to ensure that the optimal output is achieved before investing in new, incremental fixed costs (i.e. headcount, office space)

Cost	Fixed	Variable
Ad Campaign		X
Travel		X
Depreciation of Equipment	X	
Rent	X	
Office Supplies		X
Salaries	X	



What is ROI (Return on Investment)?

- ▶ ROI = % Gain
 - ▶ $(\text{Gain from Investment} - \text{Cost of Investment}) / \text{Investment}$
- ▶ ROI is the “what’s in it” for the investment your make
 - ▶ How much is gained in the future by spending money now
 - ▶ Used as tool for trade off decisions by management
 - ▶ Measure efficiency of investment
 - ▶ Factor in time value of money for longer term investments
- ▶ Simple Example:
 - ▶ \$10,000 investment in marketing drives \$100,000 in additional revenue that contributed an additional profit (gain) of \$15,000
 - ▶ $(\$15,000 - \$10,000) / \$10,000 = 50\%$ return
 - ▶ Questions to ask
 - ▶ If I invested that \$10,000 elsewhere in the business, what would the return be?
 - ▶ Which investment has the greater return; where is our \$\$ best invested?



EBITDA: Why is it important?

- ▶ EBITDA = Earnings Before Interest, Tax, Depreciation and Amortization
- ▶ Measures performance without having to factor in:
 - ▶ Financing decisions (interesting expense or income)
 - ▶ Accounting decisions (depreciation and amortization)
 - ▶ Tax environments (tax rates vary by company)
- ▶ EBITDA
 - ▶ Allows investors to understand a company's overall operating efficiency
 - ▶ Makes it easier to compare companies, industries, etc.

