

A QUICK, EASY TOOL FOR MAKING INFORMED STRATEGIC DECISIONS

September 2021

The phone rings nonstop with clients wanting appointments right away. The team is tired, and you can't find skilled people to hire. The doctors are frustrated, and it will take months to hire another doctor. So, who has time to look at one more financial report? What you really need is a report that gives you valuable information – not more data. So how would you like a tool that enables you to review your financials and make informed strategic decisions quickly and easily? Does such a report even exist? The critical component to keep in your toolbox is the trailing twelve-month (TTM) analysis.

A Reporting Method that Helps

The pandemic impacted all industries and is still creating adverse effects. If it weren't the pandemic, some other economic or environmental situation would exert adverse impacts. Now, we don't mean to minimize the impact of the pandemic, but let's face it: there will always be something causing problems for the business. Relying on year-end financials will not provide an accurate narrative of the financial health of your practice during the year. Every practice manager knows how difficult it can be to formulate a strategic plan without accurate, complete data. It would help if you had a tool that allowed you to quickly assess and respond – be it from the frequent changes due to the pandemic to any new services you implement or any future adverse situation.

A trailing twelve-month (TTM) report reviews your practice's previous twelve-months' financials. It's not based on a calendar year, but it allows you to analyze an entire year's worth of data at any given point in the year. The TTM smooths out seasonality because it looks at trends for an extended period. It also removes the effects of seasonality and other factors that might not be immediately obvious but could lead you to the wrong conclusion.

Why is TTM reporting better than Year-to-Date (YTD)? Because YTD numbers, although current, do not provide you with enough data to conduct a comparative analysis – especially if it is early in the year when you are only looking at a few months of data. Also, YTD numbers don't reflect the seasonality of some practice activities or provide enough information to show any out-of-ordinary activities.

Why is TTM better than Quarterly or End-of-Year (EOY) reports? Quarterly and EOY require you to wait too long for data, and many decisions require a faster response.

Two examples of TTM reports are shown below. Figure 1 is a TTM Profit & Loss by Month Report for July 2020 - June 2021. This report helps identify issues related to seasonality. For example, if the practice experiences losses during the 4th quarter of 2020, looking at the June 2021 YTD report wouldn't include the 4th quarter of 2020 and could mislead you into thinking the practice is more profitable than it really is. However, the seasonal decline is included by looking at a full twelve-month period, giving you a more accurate picture of the practice.

Figure 2 is a TTM Profit & Loss Yearly Comparison. This report compares the recent twelve-month period with the prior twelve months. In the example provided, we see that this practice has grown significantly in gross revenues and bottom-line profits. Moreover, the material ups and downs of the pandemic are smoothed out, giving a better apples-to-apples comparison.

Figure 1: Monthly for Twelve Months

Veterinary Hospital Profit and Loss July 2020 - June 2021							
	Jul 2020	Aug 2020	Sep 2020	...	May 2021	Jun 2021	Total
Income	115,000	95,000	90,000	...	110,000	120,000	1,140,000
Cost of Goods Sold	20,000	20,000	25,000	...	29,000	10,000	248,000
Gross Profit	95,000	75,000	65,000	...	81,000	110,000	892,000
Expenses				...			
Compensation Expense	30,592	30,347	32,465	...	39,919	47,524	495,067
Employer Payroll Taxes	2,546	2,280	2,430	...	3,378	5,924	41,401
Employee Fringe Benefits	583	393	3,274	...	1,560	1,546	17,442
Facility & Equipment Costs	11,101	5,146	4,404	...	6,274	4,145	77,001
Administrative Costs	6,842	6,941	7,282	...	8,010	5,989	87,259
Total Expenses	51,765	45,656	50,093	...	59,659	65,304	721,925
Net Operating Income	43,235	29,344	14,907	...	21,341	44,696	170,075
Net Other Income	(506)	(2,214)	7,445	...	(2,004)	(387)	(3,658)
Net Income	42,729	27,130	22,351	...	19,337	44,309	166,417

Figure 2: Yearly Comparison

**Veterinary Hospital
Profit and Loss
July 2020 - June 2021**

	Jul 2020 - Jun 2021	Jul 2019 - Jun 2020	Change	% Change
Total Income	1,140,000	773,036	366,964	47.47%
Total Cost of Goods Sold	249,409	163,218	86,191	52.81%
Gross Profit	890,591	609,817	280,773	46.04%
Expenses				
Compensation Expense	495,067	299,725	195,342	65.17%
Employer Payroll Taxes	41,401	26,609	14,792	55.59%
Employee Fringe Benefits	17,442	3,976	13,466	338.69%
Facility & Equipment Costs	77,001	62,939	14,062	22.34%
Administrative Costs	87,259	69,207	18,052	26.08%
Total Expenses	721,925	464,910	257,015	55.28%
Net Operating Income	168,666	144,908	23,758	16.40%
Net Other Income	(3,658)	(8,488)	4,831	56.91%
Net Income	165,008	136,419	28,588	20.96%

The TTM method only reflects a single point in time. However, it provides current financial health information that allows you to make better decisions. This “bigger picture” information is critical when making strategic plans, monitoring KPIs, and evaluating trends in revenue and expenses.

How to Get Started

Before you create a TTM report, complete these few key steps to ensure the report is as accurate as possible:

1. Make sure the books are complete, reconciled, and closed for the previous month. Ensure all transactions are recorded, including payroll, vendor statements, and credit card charges. Remember, having no data is better than making decisions using the wrong data.
2. Determine if you are running a TTM P&L by month or a P&L yearly comparison.
 - ✓ P&L by month takes a deeper look into the details of the numbers and can help you narrow down areas of significance.
 - ✓ P&L yearly comparison helps you step back and see the 10,000-foot view and how it all comes together.
3. The TTM P&L report start date will be twelve months before the month just completed. For example, if you are running a TTM in September 2021, the date ranges will be September 1, 2020, to August 31, 2021.
4. Run a comparison to the prior year’s TTM. (i.e., September 1, 2019, to August 31, 2020).
5. Most accounting software will have options to add the change in dollars spent and the percentage of gross fees to the report. These additional details will increase your ability to see trends, analyze changes, and take action as needed.

Enjoy the Benefits and Reap the Rewards

The TTM method is a user-friendly tool to identify areas that need attention before it is too late to implement practical changes.

The benefits of using TTM:

- More accurate than using YTD figures, especially when analyzing business performance early in the year
- Allows for more frequent monitoring of financial health rather than waiting for a quarterly or EOY report
- Accounts for seasonality of business activity and smooths out abnormalities
- Provides an easy method for tracking KPIs
- Easier to predict what the next twelve months might look like
- Useful for a loan application at some financial institutions because it shows more accurate data on current business performance

Caution: do not use this method for tax planning or calculating tax liabilities. All tax analysis should be done on a calendar year or the business’ fiscal year, if different.

Gain the upper hand in charting the next strategic move by using a more accurate view of your practice’s financial health and trends. The TTM is a tool that provides current financial data in a quick-to-obtain, easy-to-understand report. Review your trailing twelve-month report when you want to make sense of the numbers and understand whether a trend is developing. A clearer understanding of the past will give you a better picture of what the future may hold.