The Dermatology and Aesthetics Market: Continued Mergers and Acquisitions Momentum and Emerging Trends

The resilience of the dermatology and aesthetics market, coupled with growth opportunities, continues to fuel the M&A trend.

BY CLINT BUNDY

>> The past decade witnessed consolidation within the dermatology and aesthetics market, and the past three years have been no exception. There are many reasons for this mergers and acquisitions ("M&A") activity, and the resilience of and growth opportunities within the dermatology and aesthetics market only help to fuel this trend further. While many independent physician practice owners are intrigued by this buyer demand—and the attractive practice valuations that are being offered by buyers—there are also some skeptics in the community about the long-term impact of private equity groups, or financial sponsors, on health care services. While there are many reasons why a physician owner may or may not consider selling a practice, the M&A momentum in the dermatology and aesthetics segment currently shows no signs of slowing.

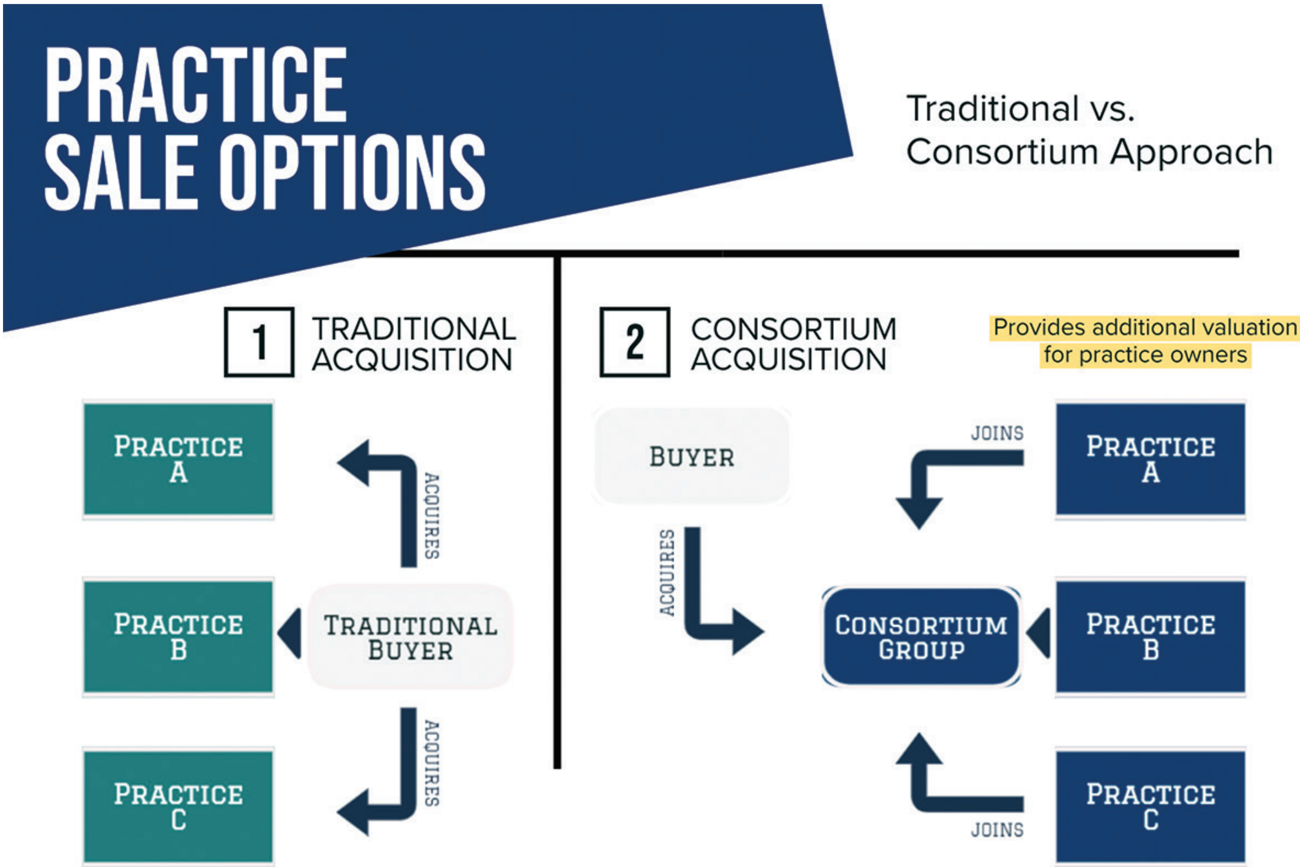
CURRENT M&A TRENDS

The M&A activity over the past couple of years highlights two major events transpiring in dermatology and aesthetics. The first occurrence is financial sponsors acquiring existing platforms from other financial sponsors. The buyers are paying strong valuations for these existing platforms, which then places pressure on those new financial sponsor owners to find creative and aggressive means to further grow their new investments and achieve the desired returns. A recent example is Anne Arundel's sale from NMS Capital to Ridgemont Equity Partners in October 2020. NMS sold Anne Arundel, a sizable platform in the dermatology and aesthetics market, at a presumed attractive valuation while Ridgemont successfully acquired the firm out of a competitive sale process.

The second notable trend is the acceleration of medium and smaller practices being acquired by the financial sponsors and their respective platform investments. This activity is, in part, a trickle-down effect of the above-mentioned platforms trading from one financial sponsor to another. To further the above example, Anne Arundel has closed on several new add-on acquisitions over the past 12 months in the Southeast, which is evidence of Ridgemont's intent

After a decade, mergers and acquisitions in the dermatology and aesthetics market continue, due in part to the resilience of and growth opportunities within the market. Among recent trends, financial sponsors are acquiring existing platforms from other financial sponsors. The buyers are paying strong valuations for these existing platforms, which then places pressure on those new financial sponsor owners to find creative and aggressive means to further grow their new investments and achieve the desired returns. Additionally, there is acceleration of medium and smaller practices being acquired by the financial sponsors and their respective platform investments.

the bottom line



to realize their return objectives through inorganic growth. There are currently more than 35 financial sponsor-backed dermatology and aesthetics platform investments across the United States (see the map on pages 44-45], and most of these organizations are aggressively seeking growth through M&A. Therefore, independent practices are receiving heightened interest, and the value of the add-on candidates continues to increase, especially where the buyers are appropriately managed and forced to compete for acquisitions.

DRIVERS OF INVESTMENT ACTIVITY IN THE DERMATOLOGY AND AESTHETICS SEGMENT

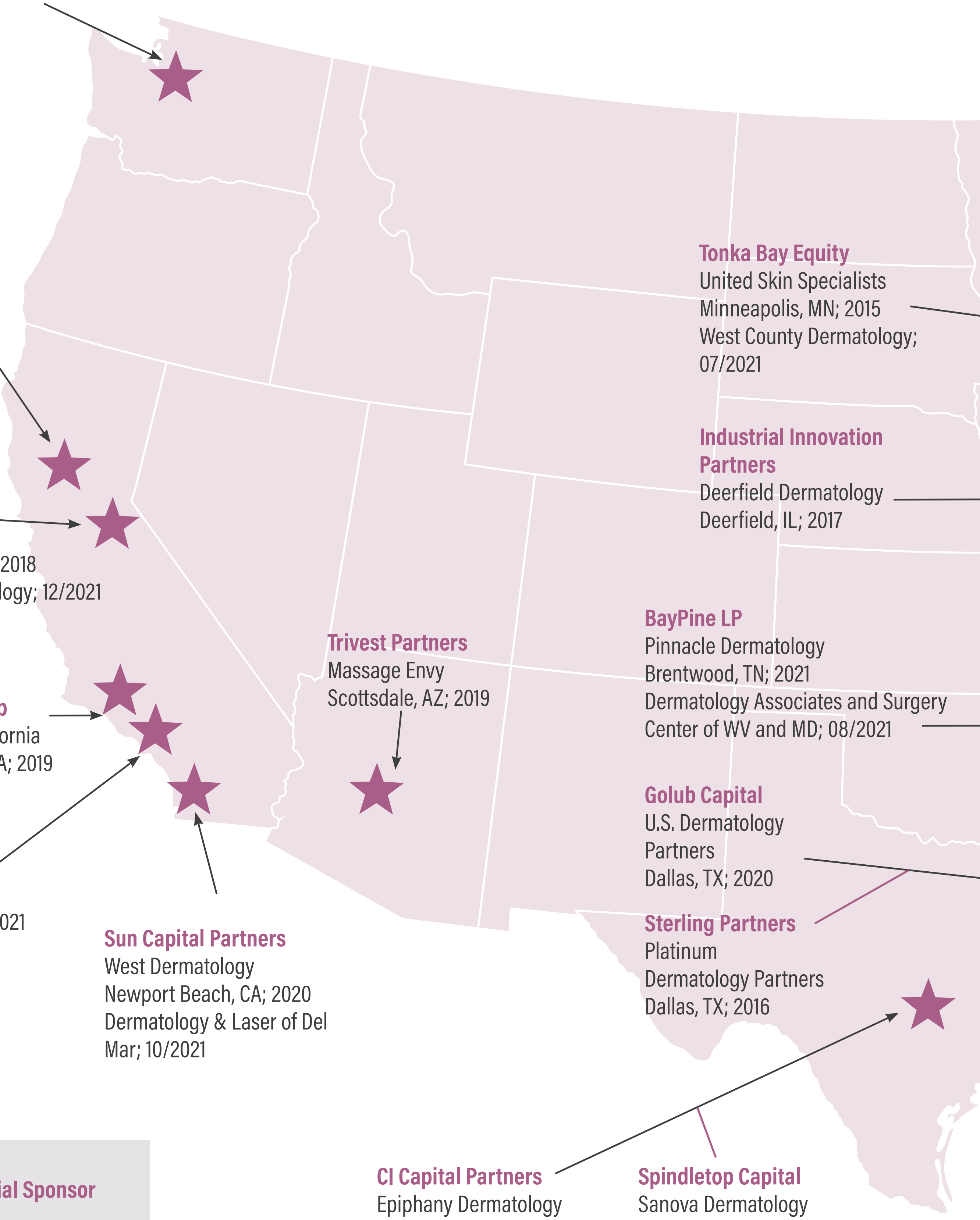
The reasons for the continued acceleration of investments in the dermatology and aesthetics market are numerous, but there are some key contributing factors to note.

Growth Market. While the dermatology and aesthetics market is a multi-billion dollar market, Bundy Group's conversations with numerous practice owners reinforce our conviction that most players, and the industry as a whole, continue to flourish. The growth-oriented nature of the market and the players within it are a magnet for return-driven financial sponsors. Dan Rodgers, President of Skin and Aesthetic Centers of America, which is backed by a financial sponsor, states, "The number of Americans aged 65 and older will more than double over the next four decades. Skin cancer rates continue to grow exponentially year over year, and the anti-aging market is well over $14 billion a year in the US. Therefore, the dermatology sector continues to prove reliable, growth-driven returns for ethically driven investors."

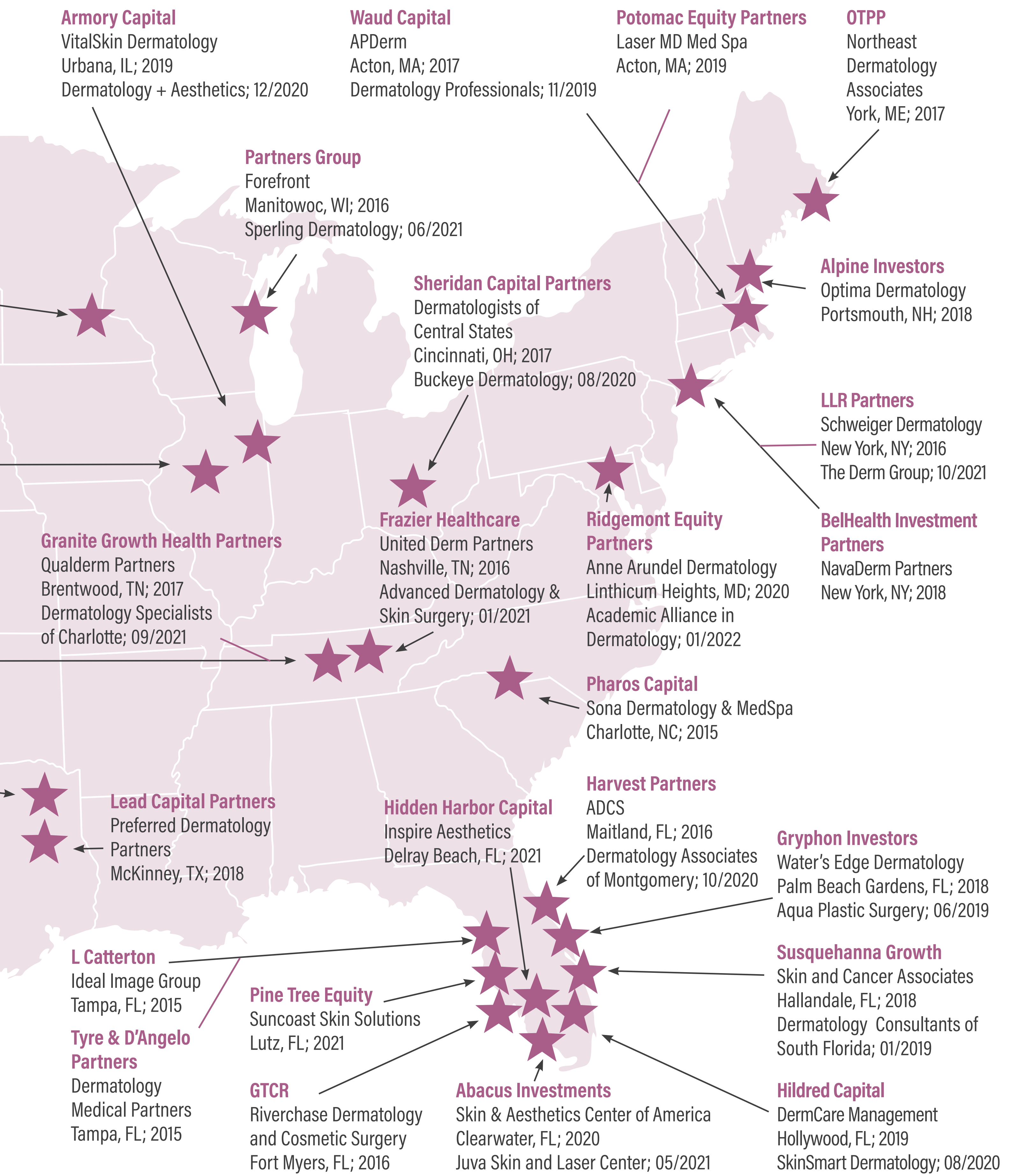
Durable Market. Financial sponsors, focused on protecting their capital, gravitate toward recession and extraordinary event-insulated industries. While the pandemic had an impact on the dermatology and aesthetics market, the industry bounced back quickly, thus proving the strong demand patients have for the services delivered by dermatology and aesthetics practices. Daniel Kobb, Chief Development Officer for Golden State Dermatology, a financial sponsor-backed dermatology platform in the Western US, commented, "After a brief slowdown during the initial months of the pandemic, we saw patients soon return to our practices for in-person treatments. We continued to

DERMATOLOGY AND AESTHETICS PLATFORM ACTIVITY

as of Feburary 22, 2022



KEY:
Leading Financial Sponsor
Platform Name
Platform HQ; Founding Date
Recent Acquisition; Closing Date


Armory Capital
VitalSkin Dermatology
Urbana, IL; 2019
Dermatology + Aesthetics; 12/2020
Waud Capital
APDerm
Acton, MA; 2017
Dermatology Professionals; 11/2019
Potomac Equity Partners
Laser MD Med Spa
Acton, MA; 2019
OTPP
Northeast
Dermatology
Associates
York, ME; 2017
Partners Group
Forefront
Manitowoc, WI; 2016
Sperling Dermatology; 06/2021
Sheridan Capital Partners
Dermatologists of
Central States
Cincinnati, OH; 2017
Buckeye Dermatology; 08/2020
Alpine Investors
Optima Dermatology
Portsmouth, NH; 2018
LLR Partners
Schweiger Dermatology
New York, NY; 2016
The Derm Group; 10/2021
Granite Growth Health Partners
Qualderm Partners
Brentwood, TN; 2017
Dermatology Specialists
of Charlotte; 09/2021
Frazier Healthcare
United Derm Partners
Nashville, TN; 2016
Advanced Dermatology &
Skin Surgery; 01/2021
Ridgemont Equity
Partners
Anne Arundel Dermatology
Linthicum Heights, MD; 2020
Academic Alliance in
Dermatology; 01/2022
BelHealth Investment
Partners
NavaDerm Partners
New York, NY; 2018
Pharos Capital
Sona Dermatology & MedSpa
Charlotte, NC; 2015
Harvest Partners
ADCS
Maitland, FL; 2016
Dermatology Associates
of Montgomery; 10/2020
Lead Capital Partners
Preferred Dermatology
Partners
McKinney, TX; 2018
Hidden Harbor Capital
Inspire Aesthetics
Delray Beach, FL; 2021
Gryphon Investors
Water's Edge Dermatology
Palm Beach Gardens, FL; 2018
Aqua Plastic Surgery; 06/2019
L Catterton
Ideal Image Group
Tampa, FL; 2015
Tyre & D'Angelo
Partners
Dermatology
Medical Partners
Tampa, FL; 2015
Pine Tree Equity
Suncoast Skin Solutions
Lutz, FL; 2021
Susquehanna Growth
Skin and Cancer Associates
Hallandale, FL; 2018
Dermatology Consultants of
South Florida; 01/2019
GTCR
Riverchase Dermatology
and Cosmetic Surgery
Fort Myers, FL; 2016
Abacus Investments
Skin & Aesthetics Center of America
Clearwater, FL; 2020
Juva Skin and Laser Center; 05/2021
Hildred Capital
DermCare Management
Hollywood, FL; 2019
SkinSmart Dermatology; 08/2020

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grow rapidly in 2021, both organically and through new partnerships."

Consolidation Opportunity. While there has been significant consolidation within the dermatology sector over the past decade, there is still a critical mass of independent, physician-owned practices within the dermatology sector. To provide a macro view, approximately 50 percent of physicians still work in practices that are wholly owned by physicians.[1] Bundy Group continues to maintain relationships with a sizable group of independent physician practices, many of whom would consider a sale or a recapitalization at some point in the future.

EMERGING TRENDS IN THE DERMATOLOGY AND AESTHETICS INDUSTRY

In addition to the above-mentioned trends and growth drivers for the dermatology and aesthetics market, Bundy Group is involved with some unique new industry developments.

Physician owners selling practices or raising capital as a part of a consortium. An innovative transaction strategy that Bundy Group is utilizing is the grouping of independent practices together and presenting them in a competitive M&A process as one platform-worthy acquisition candidate. We refer to this as a consortium sale, and it is applying the same roll-up strategy principles that financial sponsors are applying. However, the additional valuation, or arbitrage, benefits are shifted to the practice owners, instead of the financial sponsors and/or buyers, in a consortium sale. Presenting several practices as one platform acquisition accomplishes the following:

- More value is created for each individual practice owner, as platform-worthy acquisitions sell at higher valuations relative to traditional, independent add-on acquisitions.
- A larger and more diverse market of buyers can be generated, which then creates more buyer competition in a sale process.
- Additional capital options are available with platform transactions, which can include strategic buyers, private equity groups, family offices, minority equity-focused, and debt-focused investment groups.

While complex to execute, the consortium sale provides an outstanding value creation opportunity for many independent physician practice groups, including within the dermatology and aesthetics market. From our work in the past, and our pipeline of new consortium opportunities, Bundy Group sees this as a creative option for physician practice owners to consider as they seek new ways to gain more value.

Plastic Surgery and Medspa Consolidation. While the dermatology segment has been in the midst of a consolidation trend for a decade, the plastic surgery and medspa sectors have only more recently garnered interest by the strategic buyer and financial sponsor communities. Specifically, financial sponsors have taken note of the fragmented nature of these segments and the recurring-like revenue of cosmetic procedures and offerings. To further the point, from 2015-2021, there were 330 aesthetics clinics and care center transactions (ie, an M&A or capital raise event) and 150 aesthetics-driven plastic surgery practice transactions.[2] A recent financial sponsor transaction example is Hidden Harbors' 2021 investment into Inspire Aesthetics and Garramone Plastic Surgery, two separately owned plastic surgery and aesthetics practices in Florida. There is a significant amount of consolidation runway to still be realized in the plastic surgery and medspa sectors, and Bundy Group team anticipates additional financial sponsor investment in these segments in the future. ■

Clint Bundy is a Managing Director with Bundy Group, a boutique investment bank. He specializes in representing practice owners in business sales, capital raises, and acquisitions. Clint and the Bundy Group team have an extensive track record in the dermatology, aesthetics and health care markets advising practice owners and physician groups. www.bundygroup.com; clint@bundygroup.com

1. Kane, Carol. Policy Research Perspectives: Recent Changes in Physician Practice Arrangements. American Medical Association. May 2021.
2. Leclerc, Oliver. From extreme to mainstream: The future of aesthetics injectables. McKinsey & Company. December 2021.