

Market Overview

Consolidation activity within dermatology has been particularly robust as private equity backed practices continue to aggressively pursue acquisitive growth strategies to expand their presence in select markets. The increase in strategic investment activity that has characterized the last few quarters continued to take form in Q2 2017, as the preponderance of deal activity focused on bolt-on acquisitions to existing private equity-backed practices. Provident fully expects add-on acquisition activity to continue its rapid pace as newer platforms aim to build regional density and more mature organizations seek to increase their national presence. For providers, a strategic alignment typically offers more cash at close, day-one administrative support, access to ancillary services, and augmented payor rates. With three new private equity firms joining 20 other groups in backing dermatology practices for similar roll-up strategies, demand for acquisitions heavily outweighs the supply of quality organizations, especially as more practices have taken advantage of favorable valuations and mitigated future risk by going through a transaction event. Due to this massive supply and demand imbalance, Provident expects valuations within dermatology to continue to be amongst the highest within physician services, offering a compelling environment for organizations to consider their M&A options.

SELECT TRANSACTIONS:

Month	Acquirer	Target Company	Details
June 2017	Epiphany Dermatology	Dermatology Associates of Oklahoma	Epiphany Dermatology has acquired Dermatology Associates of Oklahoma. The organization now operates four locations in Oklahoma, in addition to 18 locations in New Mexico and Texas.
June 2017	Triangle Capital	Schweiger Dermatology	Triangle Capital closed a \$20 million unitranche debt investment in Schweiger Dermatology. Schweiger Dermatology, backed by LLR Partners, is the largest provider of dermatology services in the New York City area.
May 2017	Sheridan Capital	Dermatologists of Central States	Sheridan Capital Partners has invested in Dermatologists of Central States (DOCS), a Dayton, Ohio-based dermatology practice management company. DOCS serves dermatology clinics throughout Ohio with over 30 affiliated dermatologists.
May 2017	Platinum Dermatology Partners	Dermatology Consultants of North Dallas & Dermatology Associates of Uptown	Platinum Dermatology, a Dallas based dermatology practice, completed two transactions in the month of May, adding Dermatology Consultants of North Dallas and Dermatology Associates of Uptown. The company increased their add-on acquisition count to four since being recapitalized by Sterling Partners in May of 2016.
May 2017	US Dermatology Partners	North Texas Dermatology	US Dermatology Partners (USDP) has acquired North Texas Dermatology, increasing its regional density in the Dallas-Fort Worth area.
May 2017	Riverchase Dermatology	Bowes Dermatology & Dermatology Consultants of Broward	Riverchase Dermatology completed two transactions in May. The organization acquired Bowes Dermatology and Dermatology Consultants of Broward. The company now has 30 locations and 66 providers throughout the state of Florida.
May 2017	Goldman Sachs	California Skin Institute	Goldman Sachs' Special Situation Group has acquired a majority stake in California Skin Institute (CSI). CSI is the largest dermatology practice in California and marks Goldman Sachs' second investment in the sector, having previously invested in Forefront Dermatology.
April 2017	Epiphany Dermatology	Medical Arts Dermatology & Las Cruces Dermatology	Epiphany Dermatology acquired Medical Arts Dermatology and Las Cruces Dermatology expanding its presence in the New Mexico market.