

Q3-2016 Dermatology Update



M&A Overview

While dermatology transaction activity consisted mostly private equity firms investing into standalone platforms over the past few quarters, consolidation activity in the third quarter shifted to strategic acquisitions. Given the fragmentation within the industry, there a number of small, local dermatology practices that require transition plans for retiring owners, infrastructure to cope with new regulations, or access to capital to expand and hire additional providers. These practices offer prime acquisition opportunities for platforms with private equity backing to not only realize synergies from a business combination, but also use acquisitions to expand into new geographies. In light of the small number of quality, investable platforms within the sector, we expect private equity firms to start their investments with smaller practices, or use the strategy of rolling-up several small practices into a larger entity. For companies of size with robust infrastructure however, multiples will continue to be some of the highest in healthcare services given the pent-up demand for dermatology platforms.

Select Transactions

Month	Acquirer	Target Company	Details
September 2016	Dermatology Associates	Dr. Jerold Michaelson Dermatology	Dermatology Associates acquired Dr. Jerold Michaelson Dermatology, a dermatology practice based out of North Dallas. The transaction will provide Dr. Michaelson with personal liquidity and the infrastructure of a larger provider. Dermatology Associates continues to grow its dermatology services network in Texas and this acquisition will strengthen its leadership position in the market.
August 2016	Dermatology Associates	Powell Dermatology	Powell Dermatology, a dermatology services provider located in Sugar Land, Texas, was acquired by Dermatology Associates for an undisclosed amount. The practice will add one physician and two physician assistants to the Dermatology Associates network, which currently has over 70 dermatologists. This acquisition will also expand Dermatology Associates' network of dermatology services in the state of Texas, one of the fastest growing states from a population perspective in the U.S.
August 2016	Dermatology Associates	Medical Arts Dermatology	Dermatology Associates has acquired Medical Arts Dermatology, a dermatology practice with two locations in Texas. Dr. John Blitz and his two physician assistants provide dermatology services in both Corsicana and Waxahachie, Texas. The transaction marked one of several completed deals for Dermatology Associates following its recapitalization by ABRY Partners earlier this year.
August 2016	Dermatology Associates	Skin and Laser Surgery Associates	Dermatology Associates acquired Skin and Laser Surgery Associates, based out of Pasadena, Texas. Dr. Aaron Joseph, along with help from his two physician assistants, specializes in Mohs micrographic surgery for the treatment of skin cancer. The transaction will bolster Dermatology Associates' Mohs services as the group looks to provide care to an expanding population with skin cancers and related medical issues. The financial terms of the deal were not disclosed.
August 2016	Dermatology Associates	Highland Dermatology	Dermatology Associates, Texas's largest Dermatology practice, acquired Highland Dermatology based in Dallas, Texas. Highland Dermatology consists of two dermatologists who provide dermatology services to the Dallas area. The financial terms of this deal were not disclosed.
July 2016	Advanced Dermatology & Cosmetic Surgery	Denver Skin Clinic	Advanced Dermatology & Cosmetic Surgery, a dermatology practice with over 140 clinics in 12 states, acquired the Denver Skin Clinic for an undisclosed amount. The transaction will expand ADCS' footprint in Colorado and continues the company's acquisitive strategy following its recapitalization by Harvest Partners earlier this year.