

Q4-2016 Dermatology Update



M&A Overview

Dermatology M&A activity in the fourth quarter marked a continued trend of strategic consolidation and secondary private equity recapitalizations. As more private equity dollars flow into the dermatology sector due to favorable growth drivers such as improved skin health awareness, rise in dermatologic diseases & skin cancers, and favorable payor mix dynamics, platform practices will seek to augment their size and scale through add-on acquisitions. Given the absence of large practices within the sector, private equity firms have either acquired other private equity-backed dermatology practices or come downstream to begin their investment thesis. While this market fragmentation has moderated deal volume this quarter, valuations for dermatology remain at all-time highs due a significant level of buyer interest in organizations of size that are interested in exploring market options.

Private Equity Exits in 2016

The most notable trend in dermatology in 2016 was the rapid pace of private equity-backed dermatology exits, as five of the largest dermatology practices traded financial partners or added investors in 2016 alone. The rapid succession of transactions should not be taken as waning investor sentiment in the sector. In all cases, larger private equity firms ultimately acquired these businesses with an eye towards providing greater capital resources and support to management teams and physicians for future de novo growth and acquisitions. In addition, while typical private equity holding periods are between 3-7 years, all transactions listed below were effected in four years or less. This indicates not only the ability of private equity to help quickly scale dermatology platforms, but also that high valuations allowed shareholders to efficiently achieve their desired rate of return, which typically equates to 3-5x initial invested capital. As more private equity firms realize that significant returns are achievable in dermatology, we expect no shortage of interest from groups in partnering with practices for growth.

Dermatology Practice	Private Equity Firm	Investment Date
Advanced Dermatology & Cosmetic Surgery	Audax Group	2012
	Harvest Partners	2016
Riverchase Dermatology	Prairie Capital	2012
	GTCR	2016
Dermatology Associates	Candescent Partners	2012
	ABRY Partners	2016
Forefront Dermatology	Varsity Healthcare Partners	2014
	OMERS	2016
Schweiger Dermatology	SV Life Sciences	2015
	LLR Partners	2016

Select Transactions

Month	Acquirer	Target Company	Details
October 2016	United Skin Specialists	Skin Care Center of Southern Illinois	United Skin Specialists has acquired Skin Care Center of Southern Illinois, a two clinic practice. The transaction will serve as United Skin Specialists' initial platform in the state of Illinois, and provide Skin Care Center with additional infrastructure and capital resources for continued expansion.
October 2016	GTCR	Riverchase Dermatology	Riverchase Dermatology, a 25 location dermatology practice in Florida, has been acquired by GTCR, a private equity firm with significant experience investing and scaling healthcare service businesses. The transaction will serve as an exit opportunity for Prairie Capital, which had initially invested into the business in 2012. With their new private equity backing, Riverchase seeks to expand its presence nationally via acquisitions and de novo growth. Financial terms of the transaction were not disclosed.