

Q4-2017 Dermatology Update

Market Overview

Investment and consolidation activity within dermatology showed no signs of slowing in the fourth quarter of 2017. An onslaught of add-on acquisitions characterized the final quarter of the year as four groups with private equity backing completed a total of ten disclosed transactions. Larger strategic consolidators have begun to venture into new states and geographies while relatively newer platforms continue to execute a regional, acquisitive growth strategy.

Going forward, in 2018 we expect add-on acquisition activity to continue its accelerated pace as groups aim to aggressively execute roll-up strategies throughout the country. The current pace of add-on acquisitions also leads us to believe that, as the market matures in the next 12-18 months, more private equity groups will exit their investments in order to realize a return for their shareholders. Overall, a combination of macroeconomic growth drivers, significant fragmentation within the sector and a scarcity of platform-caliber groups has created a supply and demand imbalance dynamic that we expect to keep valuations elevated and on the higher end of physician service specialties.

SELECT TRANSACTIONS:

Month	Acquirer	Target Company	Details
November 2017	Epiphany Dermatology	Academy Dermatologists Group	Epiphany Dermatology (ED), portfolio company of CI Capital Partners, announced the acquisition of Academy Dermatologists Group. The transaction expands ED's presence in Tucson, Arizona.
November 2017	Epiphany Dermatology	Dermatology Alliance	Epiphany Dermatology (ED) completed the acquisition of Fort Worth-based Dermatology Alliance, adding five clinicians to the ED platform which spans Texas, New Mexico, Oklahoma, and Arizona.
November 2017	Pinnacle Dermatology	Lee Institute of Skin and Laser	Pinnacle Dermatology has acquired Lee Institute of Skin and Laser Center. The transaction serves as Pinnacle's first add-on acquisition since completing a recapitalization with Chicago Pacific Founders earlier this year.
November 2017	Platinum Dermatology	Howsden Dermatology	Platinum Dermatology has announced a strategic partnership with Howsden Dermatology. Backed by Sterling Partners, Platinum continues to build regional density within the Dallas-Fort Worth market, adding three physicians through this transaction.
November 2017	US Dermatology Partners	Center for Advanced Dermatology	US Dermatology Partners (USDP), backed by ABRY Partners, acquired Center for Advanced Dermatology (CAD). With five providers based in Denver, CAD serves as USDP's foray into the state of Colorado.
November 2017	US Dermatology Partners	Medical Dermatology Specialists	USDP has announced the addition of Medical Dermatology Specialists, a three physician practice in Phoenix, Arizona. The transaction is USDP's fourth in Arizona in as many months and gives USDP a robust footprint in the Phoenix market.
November 2017	US Dermatology Partners	North Valley Dermatology	USDP completed a strategic partnership with North Valley Dermatology. North Valley's eight providers serving the suburbs of Phoenix expands USDP's presence in Arizona.
October 2017	Platinum Dermatology	Texas Dermatology Specialists	Platinum Dermatology has acquired Houston-based Texas Dermatology Specialists. The transaction adds 5 providers to Platinum's growing footprint and marks its first acquisition in the Houston market.
October 2017	US Dermatology Partners	Medical Center Dermatology	USDP acquired Houston-based Medical Center Dermatology adding three physicians to their platform which spans AZ, CO, KS, MD, MO and TX.
October 2017	US Dermatology Partners	Lakeway Dermatology	USDP completed the acquisition of Lakeway Dermatology, marking their first of five add-on acquisitions in the fourth quarter. The Bee Cave, TX-based practice furthers the regional density that USDP has built in Texas.