



## BNA's Health Law Reporter™

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## Health-Care Transactions Update – November: Dermatology Practice Deals Remain Hot



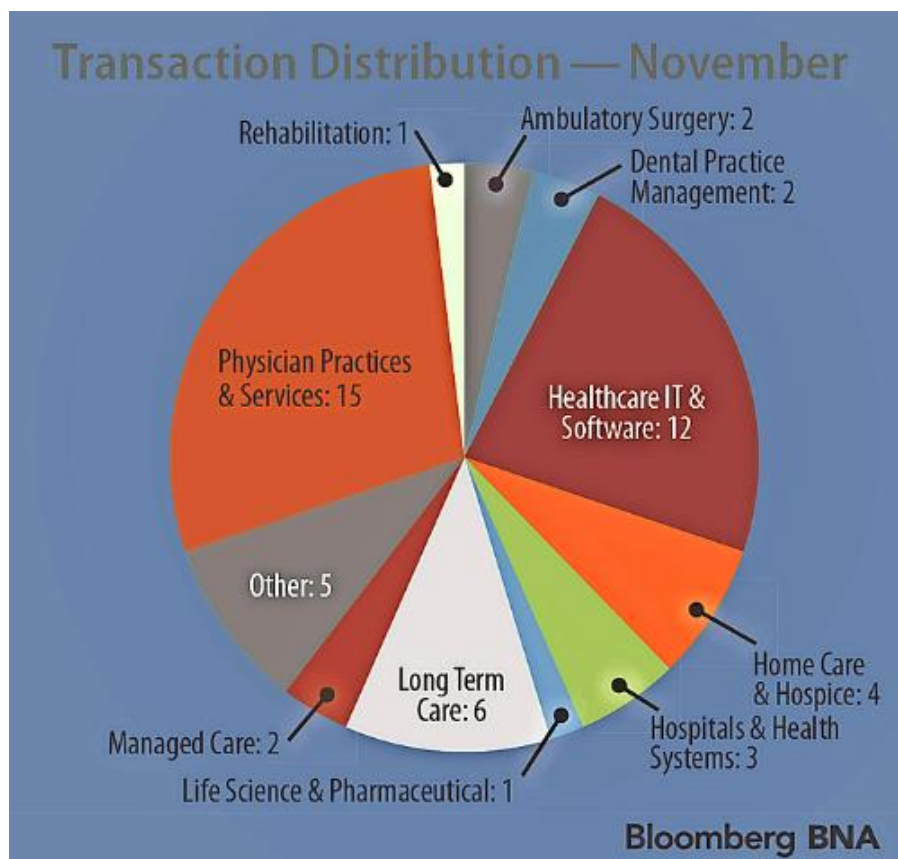
By Gary W. Herschman, Kevin J. Ryan, Victoria Poindexter, Robert Aprill, Michael J. Tierney, and Michael Mahoney

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Deals involving Physician Practices/Services, dominated the healthcare transactions announced or closed in November, which saw a decrease in total transactions from October. Compared with November 2016 numbers, the [month](#) and [year-to-date](#) data compiled by the Bloomberg Law Health Care Transactions Editorial Committee shows that health-care dealmaking in general, and in the physician practice arena in particular, remains robust. In addition, November saw a number of deals focused on orthopedic practices, one reflecting distressed provider survival strategies, and a number of mega-health system deal proposals that likely presage the future of acute-care hospital survival initiatives in an unpredictable and uncertain legislative and regulatory environment.

### Dermatology Deals Spike Again

Physician practices and services is always a very active category for transactions. In fact, in November it was the category that saw the highest number of transactions. Of the 53 transactions reported in November, 15 were in this category. However, what is even more significant is that 7 of those 15 Physician Practices transactions involved dermatology practices. These acquisitions all involved private equity companies or dermatology platforms associated with private equity companies.

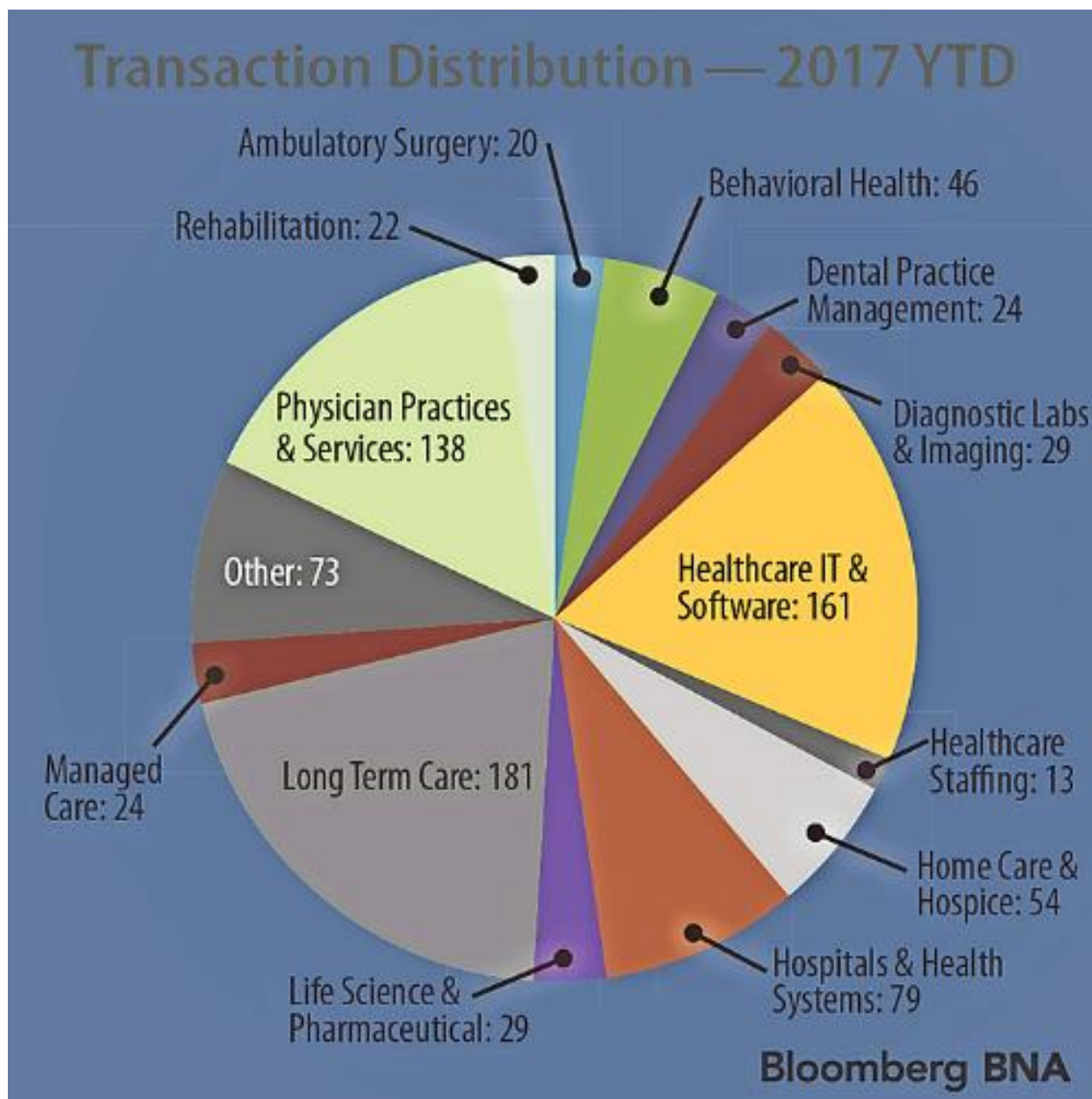


This demonstrates that dermatology practice acquisitions, which have been going on for a few years, are still “hot” and very much a continued target for private equity investment. Interest in dermatology acquisitions is predicated on growth factors, such as an increase in skin cancer incidence, skin health awareness, and favorable reimbursement mix dynamics. In addition, revenues can be significantly increased with the introduction of ancillary services, such as cosmetics, surgery centers, and laboratory services.

The interesting thing about the dermatology roll-ups, is that the practices are often small when compared to other physician transactions. The practice profile of the dermatology practices is significantly different than the other physician practice acquisitions in November. A review of the dermatology transactions in November shows that the practices acquired ranged from one physician up to eight providers (four physicians and four additional providers). In addition, some of the acquired practices operated from single sites, while others had multiple sites spread across a region. The dermatology practices involved in November transactions offered a full range of dermatological services including general, surgical, and cosmetic services. The dermatology practices acquired in November also were spread across the country from Illinois to Arizona with some private equity platforms purchasing practices in multiple states. This pattern demonstrates that if the practice is in the right medical specialty and location, no practice is too small to be involved in an acquisition. It is expected that the dermatology roll-up trend will continue into 2018.

#### **Orthopedic Deals Also Hot**

One interesting physician practices and services transaction in November saw Varsity Healthcare Partners complete a transaction with Gainesville, FL-based Orthopaedic Institute. Orthopaedic Institute is a 33 physician, 6 location orthopedic practice that offers its patients general orthopedic services including walk-in clinics, ambulatory surgery centers, physical therapy, and a number of other ancillary services. As one of the largest orthopedic providers in the state of Florida, Orthopaedic Institute will look to leverage the expertise and experience of Varsity Healthcare Partners to grow in their region and beyond. Varsity Healthcare Partners has established itself as one of the most successful investors in physician services and has a strong track record of working with physician-led teams. With successful exits in the ophthalmology and dermatology spaces (EyeCare Services Partners and Forefront Dermatology respectively), Varsity has a deep understanding of how to grow a multi-site, provider-based business.



Utilizing previous experiences, Varsity Healthcare will look to help the partners at Orthopaedic Institute aggressively expand their geographic footprint over the next 3 to 7 years (average investment horizon for a private equity group). Typical with any private equity investment into a physician group, Varsity's approach to accomplish this will include making acquisitions of independent orthopedic practices in surrounding geographies and rolling them into the Orthopaedic Institute platform. In addition, the partnership will look to expand the breadth of ancillary service offerings across the entire network of locations. This transaction represents only the second of its kind in the orthopedic sector (the first being Candescant Partners acquisition of The Southeastern Spine Institute in March of 2017), but is likely an indication of many similar transactions to come in 2018.

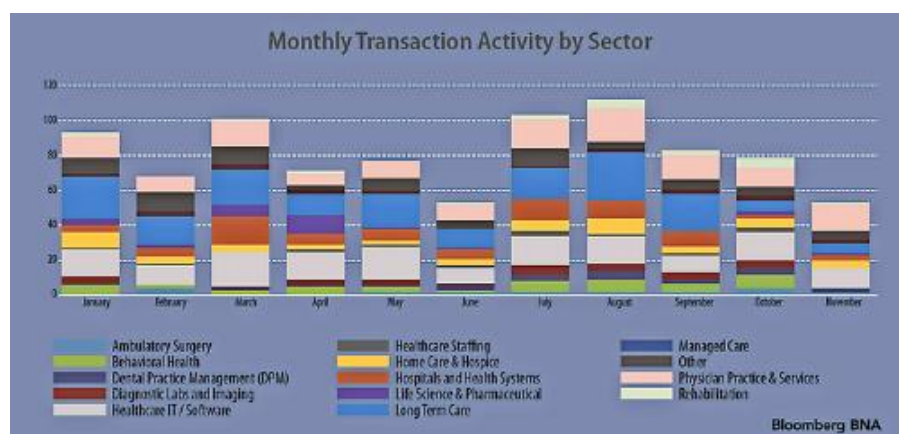
#### Threatened Hospital Saved

The Morehead Hospital sale to UNC Health Care was another very interesting transaction this month. Morehead, a 108 acute-care bed hospital and 121-bed skilled nursing facility located in Edens, NC, is a rural health-care provider that has operated through a period of financial distress for some

time. Consistent with many rural health-care providers, Morehead struggled with reimbursement pressures, an unfavorable payor mix, and limited access to capital. The economic situation continued to deteriorate in 2017, threatening the hospital's viability and limiting its strategic options.



In July, Morehead filed for bankruptcy protection, citing on-going financial pressures, and, from the outside, the situation looked dire. Finding a partner appeared like it was going to be difficult for a rural provider with limited resources facing a challenging operating environment. However, the bankruptcy filing provided Morehead with the opportunity to restructure its obligations and allowed a new sponsor to start fresh. Morehead utilized an auction process and found two very interested acquirers—Empower iHCC and UNC Health Care. After deliberations and an improved bid, UNC was selected. The sale was a significant success for the community, as the residents will now benefit from continued access to quality health care provided by the UNC system.



This transaction is an excellent example of how options for hospitals are not always reflective of the current situation. For the right assets in the right market, the opportunity afforded by the partnership often outweighs the historical operating performance challenges or compromised balance sheet. The bankruptcy option, while not popular, can serve as a valid rescue vehicle and help deliver the optimal outcome.

## Mega-Health Systems

Finally, it appears that the next wave of mega-hospital consolidation is here based on announced deals involving Catholic Health Initiatives/Dignity Health, Advocate Health Care/Aurora Health Care and most recently Ascension Health/Providence St. Joseph Health. This is a sign of more mergers and acquisitions among mega-health systems in adjoining states and regions. While these deals are sure to attract state and federal regulatory scrutiny, they reflect the need for these health systems to expand their geographic reach and respond to corresponding consolidation on the payer side. Given these conditions, we expect these and similar collaborative venture proposals to continue to make news.

## For More Information

The lists of select transactions involving health-care providers, managed care and services companies for November 2017 and for 2017 year-to-date were compiled by health-care investment bankers using publicly available information, including articles, websites, and press releases.

The November list is at <http://src.bna.com/u23>.

The year-to-date list is at <http://src.bna.com/u21>.

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Epstein, Becker & Green PC did not comment on any particular transaction or party discussed or listed in this article.

