Private equity firms are suddenly buying dermatology practices — here's why

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Justin Thomas sprays himself with sunscreen during the first round of the 2016 The Masters golf tournament. Rob Schumacher/USA Today Sports/Reuters

Private equity firms are snapping up dermatology practices across America.

In the past two years, there have been over 200 deals involving physician practices, with about 30 of those transactions in dermatology.

Investors are attracted by profitable new cosmetic procedures offered by many dermatologists, and are placing premium values on high-performing, well-positioned practices.

Some of the recent deals have been huge.

New York-based private equity firm Harvest Partners recently purchased Maitland, Fla.-based Advanced Dermatology & Cosmetic Surgery, the largest U.S. dermatology practice, in a deal reportedly worth more than $600 million.

Varsity Healthcare Partners sold dermatology practice Forefront Management Holdings to the private investment arm of pension fund giant Ontario Municipal Employees Retirement System in a deal worth more than $450 million.

The Wall Street Journal reported that the transaction valued Forefront, with more than $30 million in earnings before interest, taxes, depreciation and amortization (EBITDA) last year, at about 13-times EBITDA.

We can expect more deals.

That’s especially true because dermatology is a fast-growing specialization. The market is expected to increase to $13.1 billion by next year, according to a 2013 Harris Williams & Co. study.

There is a dermatologist shortage that will likely persist for years even as a growing number of medical students pick the specialization.

To private equity firms, there are several factors that make dermatology practices more attractive than other medical practices.
**Demographics.** By 2019, there will be 54 million Americans over the age of 65, up from 46 million-plus today, according to a report by the U.S. Department of Health and Human Services’ Administration on Aging. Skin cancer, particularly melanoma, is on the rise too, striking about 3.5 million people annually, according to the American Cancer Society.

**Healthcare access.** More and more Americans have access to healthcare thanks to the Affordable Care Act. About 20 million people have gained insurance coverage between the passage of the law in 2010 and early 2016, boosting demand for dermatology.

Dermatologist Dr. Deanne M. Robinson and a patient. Dave Kotinsky/Getty Images

**Financials.** Common medical and surgical dermatology procedures are typically well reimbursed. Additionally, high-margin cosmetic procedures tend to be paid out of pocket by consumers and are not as reliant on discounts made to insurance providers as many other types of medical care. Notably, most dermatology work is conducted outside of hospitals and as such is not subject to the push for cost-savings underway at hospital systems.

**The upsell.** Many dermatology practices have a cosmetic component, offering everything from Botox, Restylane, micro-dermabrasion and laser correction, CoolSculpting (a non-surgical fat removal process), high-end skin creams and other services. Investors like the idea of training doctors to do a better job of upselling such offerings so that patients who might come to have a mole removed are likelier to sign up for more lucrative services.

Historically, physicians may have viewed the full or partial sale of their practice as the loss of independence or control.

Today, many doctors embrace the idea of being able to spend 100 percent of their time providing patient care.

The consolidation of back office functions — like billing, scheduling, and insurance contract negotiation — is a huge motivation to sell.

Some physicians with thriving practices are teaming up with investors to become consolidators, acquiring other dermatology practices and getting an equity stake in the larger entity.

Some have joined or formed multi-physician dermatology practices with several locations and additional specializations.

In the end, consolidation should be good for patients. Ultimately, it ensures that doctors spend more time with them.

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