The dermatology industry is expected to continue at an annual growth rate of 2.4% reaching $16.1 billion in 2021\(^1\). As the demand on dermatologists increases, many are exploring opportunities for consolidation including a partnership with a private equity investor. This document outlines the key reasons why dermatology practices continue to draw attention from private equity firms, and how Paragon Health Capital can represent you as specialists through the investment process.

With 36.8% of dermatology patients being over the age of 65 and 68.9% being over the age of 40\(^1\), the growth of the elderly population in the United States is a key factor in the demand on the dermatology industry.

According to the US Census, the population percentage of the 65 and older group is expected to double by 2060. As this group grows, the number of patients requiring care for skin cancer will increase as well as the number of patients desiring cosmetic dermatology procedures. Centers for Medicaid estimates that an elderly patient spends five times the average American on healthcare.
There are several additional industry dynamics leading to the peak in private equity interest in dermatology. These include:

**FRAGMENTED MARKET:** With one third of dermatologists still practicing on their own, there is considerable opportunity for consolidation.

**SKIN CANCER:** Growth in melanoma diagnoses per year increase by 2.0% yearly.

**PHYSICIAN SHORTAGE:** Physician demand is expected to increase 17% by 2025 due to retirement and lack of residency opportunity.

**COSMETIC PROCEDURES:** Cosmetic procedures account for 21% of dermatology procedures, and allow for a diversified revenue stream.

While industry tailwinds are positive, dermatologists are overwhelmed by high operational costs, complex government regulations, implementation of new technology, decreased leverage compared with large health systems, and a demand on their time to handle administrative tasks. Many physicians are exploring opportunities for consolidation to alleviate these burdens. This is often accomplished by joining several small practices to form a larger practice group with centralized technology and administrative efforts, and increasing the ability to add additional revenue streams including lab services and additional cosmetic procedures.

While there are several options for consolidation including a partnership with a health system or hospital, the majority of physicians believe that this is a negative trend that ultimately, will not increase the quality or decrease the cost of healthcare in the United States.
Committed funds raised by private equity firms reached an all-time high in 2016, with undeployed reserves at almost $541.8 billion nationwide. A record-breaking number of healthcare deals were closed in 2016, and dermatology practice continues to appeal to these firms making a transaction with a financial investor more attainable than ever.

A private equity firm raises and manages an investment fund of capital from private investors. These are experts in investing in private companies who then use this fund to research and acquire portfolio companies and manage them for five to seven years before selling the improved company for a profit.

The investment process has a series of steps and required due diligence and generally lasts four to six months. Working with an investment bank like Paragon Health Capital can ensure you get the most for your business and can save you time and resources navigating the negotiation process. As healthcare and dermatology experts, we can smooth the transition to a partnership with the right kind of private equity firm for your practice.

Partnering with a private equity firm is an option with many benefits for a dermatology practice looking to sell. This partnership would allow a dermatologist owner the ability to monetize partial equity while remaining involved in the practice, avoid hospital employment, yield great future returns, and improve practice efficiency to focus on patient care and realize the full potential of the practice.

Private equity partners are dedicated to honoring and preserving the integrity of the practice. They’ll work together with the management to identify key strategic goals to reach longer term growth goals. In most cases, general partners at a private equity firm have invested not only investor money, but their own as well. They’ve also promised investors a strong return on their investment and their success in accomplishing that will determine the future success of the firm. This ensures an incentive for private equity firms to carefully consider what steps are in the best interest of the practice while ultimately meeting their goals.

Finally, private equity firms have access to a broad network of contacts and experts available for advisory council. They’re also able to draw on knowledge gained from growing and bettering their other portfolio companies. Physicians can trust their business expertise and dedicate more time to focus on their patients.
You only sell your practice once. Trust the dermatology transaction specialists at Paragon Health Capital to secure that perfect balance of the best price, the optimal level of physician autonomy, and helping ensure your practice, your life’s work, pursues the right option to grow to the next level for even greater returns over time. Experience matters, so choose the specialists when it comes to selling your practice.

- The experts at Paragon Health Capital are physician advocates - we have spent our careers working with physicians and deeply understand physician practice operation.

- As a full-service, FINRA designated investment bank with offices in Manhattan and Dallas, we have completed in excess of 100 physician transactions over the past twelve years with deep experience in the physician transaction market. We specialize in the development of a powerful Growth Thesis, which may increase the EBITDA multiple.

- We are dermatology practice investment banking “specialists,” bridging a deep knowledge of dermatology with extensive private equity experience. We are not generalists. Given our understanding of dermatology practices, we can assist the practice in revenue and expense optimization prior to the sale. We have existing relationships with many dermatology practices, dermatology platform companies, and private equity firms.

- When selling your practice, you will need a professional negotiator when addressing potential purchase price alterations and other points of contention to preserve a positive relationship with your new partners. We can ensure the best long term outcome for your ongoing income.

- Unmatched experience representing physician’s best financial interest and unparalleled knowledge of undervalued or non valued components of dermatology practices.
Jim Palazzo  |  President

Jim Palazzo is the founder and president of Paragon Health Capital.

Jim has worked in the healthcare industry for nearly 30 years. As a physician group administrator, he developed a deep understanding of the unique factors that lead to organizational success including: effective governance, strategic positioning, developing measurable clinical excellence, operational efficiencies, IT management, revenue cycle management, contracting, recruiting, and staffing. He also participated on the senior leadership team of a hospital reporting to the CEO. His leadership and management experience with both physician practices and hospitals has allowed him to facilitate successful partnerships between the two. Jim has long been involved in advocacy – offering leadership to professional associations, speaking at national and regional meetings, and monitoring and supporting state and federal legislative activities.

He founded a hospital/physician consulting, transaction, and interim management firm starting in 2007 – and ultimately sold the business to a nationally recognized publicly traded healthcare consulting firm in 2011 – where he worked post-acquisition in a national senior leadership position. While leading various national healthcare consulting enterprises, he came to experience many different markets across the United States working with doctors, hospitals, systems, payers, and government. His primary focus over the years has been in support of optimizing and bringing greater value to physician practices.

Paragon Health Capital was founded to offer investment banking and business brokerage services focused on the physician practice, in addition to offering more traditional transaction and provider consulting services. Paragon takes great care in matching physician practices with the right kind of optimal outcome for practice owners, primarily with private equity firms through management recapitalization.

Dan Creger  |  Managing Partner, Dermatology Division

Dan has established himself as a comprehensive authority in dermatology acquisitions. He has worked for three of the largest dermatology platforms in the nation, as Director of Strategic Initiatives and Executive Vice President. In January 2014, he founded Dermatology Practice Consultants, Inc., a leader in private equity/investment banking consulting within the Dermatology space. There he provided consulting services to private equity firms seeking to purchase dermatology practices AND privately held dermatology practices seeking to better prepare for sale to larger platforms.

With this unique combination of experience, Dan was able to provide strategic advice on missed revenue opportunities, create the investment thesis for private equity board of directors, oversee final due diligence in the purchase of practices, and establish internal valuations (how much the practice is worth to the private equity firm POST acquisition) of physician owned dermatology practices.

Dan has unmatched experience in representing:

• Dermatology practices selling to larger dermatology platforms.
• Regional dermatology platforms selling to private equity backed firms.
• Dermatology platforms (both national and regional) buying independent dermatology practices.
• Private equity firms buying regional physician owned dermatology platforms.

Paragon Health Capital represents the physician owners in the sale of their dermatology practice. Paragon protects the short and long term interests of the physician owners via extensive knowledge of the transaction process, including the value to the platforms (the buyer of the practice) post acquisition. Paragon truly understands the unknown key attributes of underlying value drivers of the private equity’s financial interests.
References


2 - American Cancer Society.

3 - SEER Cancer Statistics Review.
