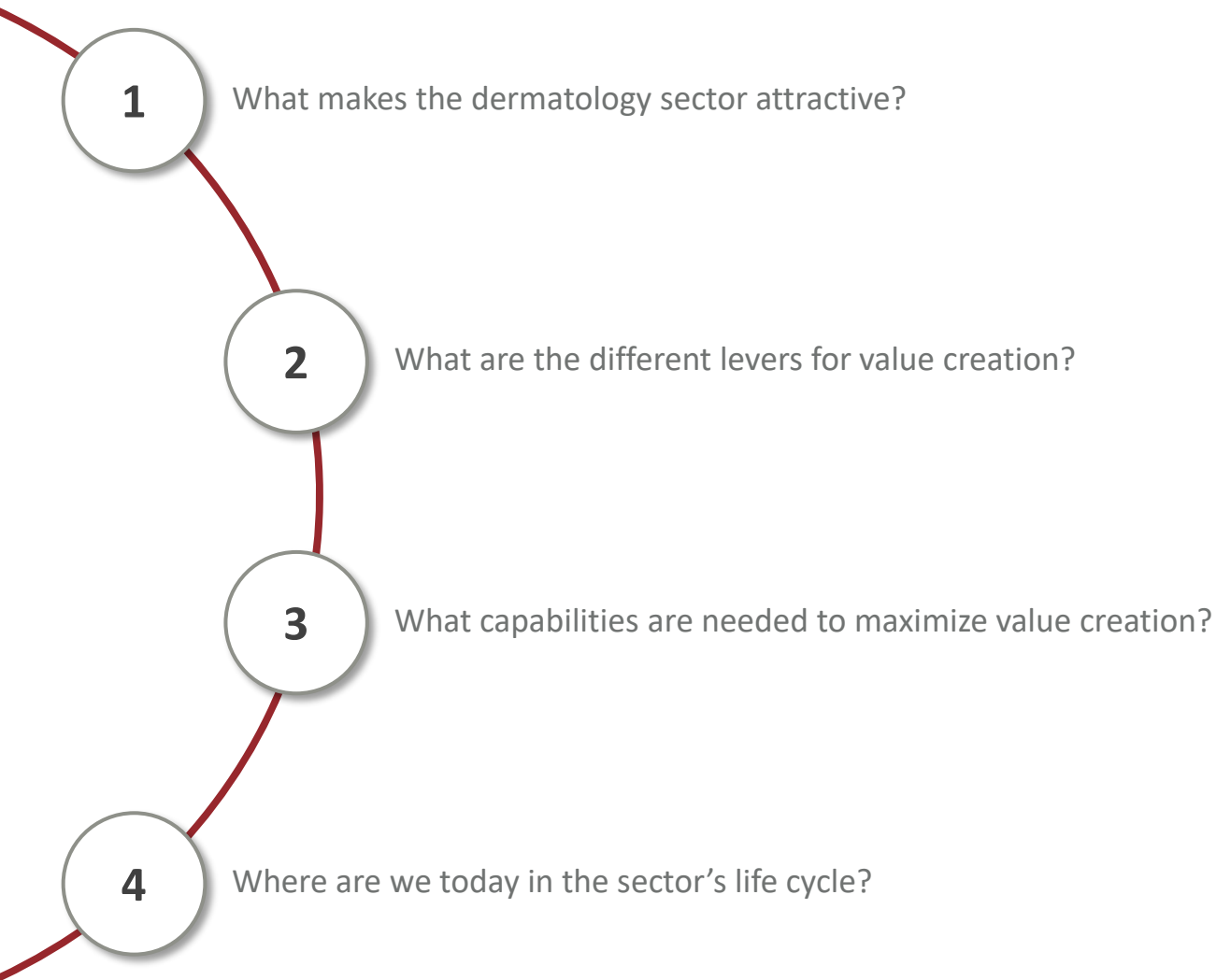


# Exploring the Dermatology Landscape

March 2022

# Setting the Table



# Exploring the Dermatology Landscape

Dermatology is a highly attractive physician practice management (PPM) sector with a long runway for sophisticated investors to be successful.

## Strong Fundamentals Create an Attractive Investment Opportunity...

- ~\$20 billion industry expected to grow at a ~13% CAGR through 2023P
- Attractive sector dynamics provide a favorable backdrop for long-term industry growth, with proven recession and pandemic resilience
- Growing awareness around skin cancer prevention and the appearance of the skin are driving sustainable demand
- The dermatology landscape is an ideal environment for platforms of scale to thrive, with structural forces driving independent practices toward larger platforms
- Investments in key people, processes, and systems allow platform of scale to unlock growth opportunities that are less accessible to independent practices

## ...but the Sector Has Evolved Significantly and Offers Even More Opportunity Today

- The dermatology sector has traditionally been defined more narrowly as medical-surgical dermatology
- However, investors and operators alike have significantly broadened their thinking and recognize the larger addressable market opportunity, including aesthetic dermatology
- Consumerization trends will unlock opportunities for platforms to enhance organic growth by interacting with their patient populations in new ways
- The “land grab stage” has ended, but the sector is still in the early innings of its evolution and remains highly fragmented
- Many platforms are still only scratching the surface on a diverse array of opportunities that exist along the continuum of value creation

# Dynamic Dermatology Ecosystem...

Dermatology is a ~\$20 billion sector comprised of core medical and surgical services and a rapidly growing aesthetic market opportunity.

- Emerging aesthetic dermatology opportunity allows platforms to inflect same clinic and de novo organic growth by tapping into a broader addressable market

## Core Dermatology Industry Today

The core medical dermatology industry is expected to grow at a steady ~4% CAGR through 2023P, driven by strong long-term industry fundamentals

### Core Medical and Surgical Dermatology

**\$6.2B**

- Core medical and surgical dermatology represents the entry point into the dermatology ecosystem and generates downstream referrals for other ancillary dermatology services

### Dermatopathology

**\$0.8B**

- Dermatopathologists provide critical pathology support for dermatologists
- In-house, centralized labs are a key differentiator and create the ability to provide integrated care and realize meaningful revenue synergies from acquired practices

### Aesthetic Procedures

**\$0.7B**

- Many providers perform aesthetic procedures in addition to general dermatology services
- Rapidly emerging opportunity for medical/surgical-focused platforms to expand their service offerings

Nascent Aesthetic Dermatology Opportunity  
**\$12B+**

**~18% CAGR through 2023P**

- Aesthetic procedures continue to comprise a larger share of industry revenue as more dermatologists begin to offer aesthetics
- Rapidly emerging opportunity for medical/surgical-focused platforms to expand their service offerings and maximize the revenue opportunity from their captive patient populations

**Total Dermatology Industry Opportunity  
~\$20B**

- The broader ~\$20 billion dermatology ecosystem is expected to grow at a ~13% CAGR through 2023P, driven by the rapidly growing aesthetic dermatology market opportunity

# ...That Checks All Boxes Across Key PPM Themes

Dermatology checks all boxes across key PPM themes.

## Broad Physician Practice Management Themes

## Key Dermatology Sector Dynamics



### Aging Population

- 69% of dermatology patients are age 40+
- ~9,500 people are diagnosed with skin cancer every day in the U.S.
- Non-melanoma skin cancer affects more than 3 million Americans each year



### Inelasticity of Demand

- Growing awareness around the importance of skin care
- Consumers are increasingly focused on the appearance of their skin
- Demonstrated resilience through COVID-19 and a rapid recovery to pre-pandemic levels



### Favorable Supply/Demand Dynamics

- Significant unmet need for care
- Limited supply of board-certified dermatologists
- Opportunity to get more leverage out of board-certified dermatologists



### Stable Reimbursement Environment

- No significant changes expected to Medicare and commercial reimbursement rates
- Inherently insulated from cost-cutting measures affecting higher-acuity settings of care and other sectors that represent a disproportionate share of Medicare spend



### Fragmented Landscape

- Highly fragmented landscape with no national platforms today
- Limited competitive threat from health systems
- Structural dynamics support continued consolidation of independent practices

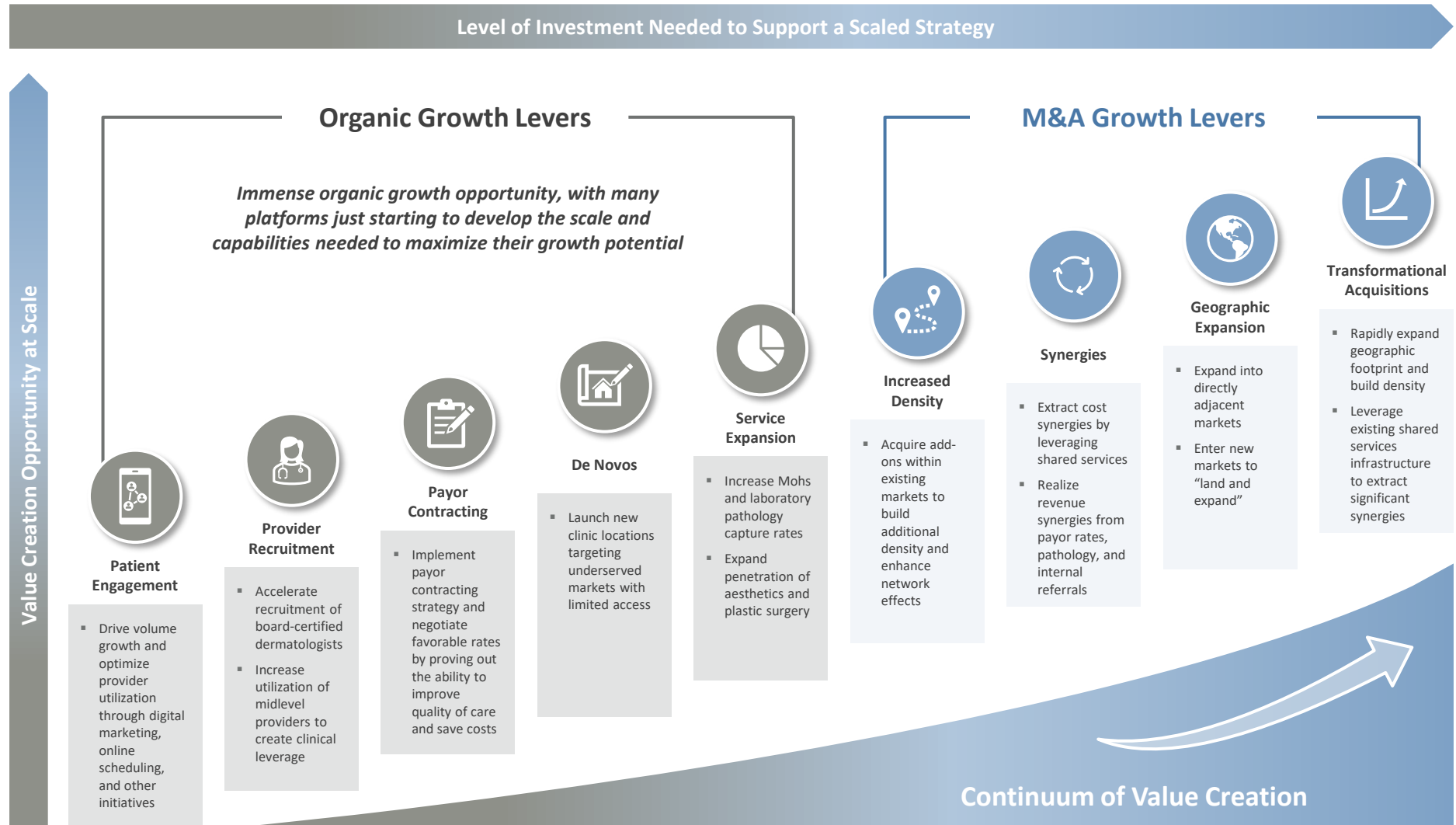


### Platform Value

- Sponsor-backed platforms more effectively fulfill key provider needs relative to other practice models
- Scale and platform infrastructure unlock significant value creation opportunities over and above what smaller practices are able to realize independently

# Favorable Sector Backdrop Creates Opportunity for Investors...

Given the attractiveness of the underlying structural dynamics in the dermatology sector, investors can drive value creation through diverse organic and M&A growth levers.



# ...With a Long Runway for Continued Value Creation

Even the largest, most sophisticated platforms are just beginning to scratch the surface of the immense opportunity for value creation that exists within the dermatology ecosystem.

Growth Lever	Value Creation Opportunity			Commentary
	Nascent	— ● — +	Mature	
Patient Engagement				<ul style="list-style-type: none"> <li>The patient experience is becoming increasingly important as consumerization accelerates</li> <li>Many platforms are borrowing consumer retail strategies to develop new approaches for engaging with their patient populations</li> <li>Focus on leveraging technology to improve connectivity with patients</li> </ul>
Provider Recruiting				<ul style="list-style-type: none"> <li>Scaled players are developing strategies for getting more leverage out of board-certified dermatologists given supply constraints</li> <li>Increased utilization of midlevel providers represents a viable opportunity for platforms to accelerate the pace of provider recruiting</li> </ul>
Payor Contracting				<ul style="list-style-type: none"> <li>Regionally strong platforms have been successful at bringing commercial payors to the table by demonstrating quality and cost savings with data</li> <li>Future opportunity for scaled players to implement national contracting strategies</li> </ul>
De Novo Expansion				<ul style="list-style-type: none"> <li>Despite significant white space in underserved markets, provider recruitment has historically been a rate limiter</li> <li>Pace of de novo activity will likely accelerate as more platforms develop the provider recruitment capabilities needed to execute de novos at scale</li> </ul>
Service Mix Expansion				<ul style="list-style-type: none"> <li>Platforms are looking for opportunities to wrap complementary products and services around core medical and surgical dermatology services</li> <li>Aesthetics has rapidly emerged as a growth opportunity, and platforms are in various stages of developing strategies to tap into aesthetics at scale</li> </ul>
M&A				<ul style="list-style-type: none"> <li>The dermatology landscape remains highly fragmented</li> <li>The “land grab stage” has ended, and a successful M&amp;A strategy requires tangible value creation rather than pure asset aggregation</li> <li>Prevalence of regionally strong platforms creates the opportunity for consolidation of the consolidators</li> </ul>

# Investments in Key Capabilities...

Investments in key people, processes, and systems allow platforms to unlock growth opportunities that are less accessible to independent practices and progress along the value creation continuum.



## Executive & Clinical Leadership

Dyad leadership model composed of a professional management team and clinical leadership body



## Facilities Management

Dedicated resources focused on managing existing clinics, procurement decisions, and launching de novo locations



## Core Administrative Functions

Key shared services including finance and accounting, RCM, legal, compliance, human resources, IT, and marketing



## Business Development & Integration

Scalable resources and well-defined processes associated with M&A sourcing, execution, and integration efforts



## Technology Infrastructure

Integrated technology infrastructure supporting clinical and corporate operations, including standardized EHR and practice management systems



## Payor Contracting

Dedicated team of specialists to manage payor contracts and data capabilities to needed demonstrate quality and cost savings to payors



## In-House Dermatopathology Lab

Centralized dermatopathology lab to capture revenue from internal specimens and create synergy opportunities from in-sourcing lab volume from acquired practices



## KPI Reporting

Centralized tracking of financial, operational, and clinical KPIs and ability to generate reports in real time, including clinic and provider-level metrics



## Provider Recruiting

Dedicated provider recruiting team and internal sourcing capabilities, including residency affiliations



## Digital Marketing

Ability to directly target and engage with patients through online, social media, and other digital marketing strategies

# ...will Unlock Value Creation Opportunities as the Sector Matures

The dermatology industry is in the early innings of its evolution, creating an opportunity for investors to partner with practices and add value as physicians navigate the shifting landscape.

Stage		Innings 1 – 3 The Land Grab Stage	Innings 4 – 6 The Professionalization Stage	Innings 7 – 9 The Consumer Stage
State of Play		<ul style="list-style-type: none"> <li>Mix of independent and small, newly created sponsor-backed platforms</li> <li>Early-stage M&amp;A activity paired with de novo strategy to complement growth</li> <li>Investment focused on management and basic infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Focus on building scalable platforms and driving operational improvements</li> <li>Invest in systems and infrastructure to support expansion and manage clinical quality</li> <li>Still highly fragmented market supports robust M&amp;A strategy</li> </ul>	<ul style="list-style-type: none"> <li>Presence of multiple large regional and national platforms in the space</li> <li>Greater emphasis on using technology and business analytics to optimize operations</li> <li>Shift in focus toward improving the patient experience and maximizing revenue opportunity</li> </ul>
Level of Sophistication	Clinical Efficiency		<i>Focus on professionalization and building scalable platform infrastructure to support growth</i>	
	Physician Experience			
	Back-Office Capabilities			
	Technology Infrastructure			
	Recruiting Capabilities			
	Payor Contracting		<i>Focus on service mix expansion, patient engagement, and operational optimization leveraging business analytics, with significant opportunity for investors to continue adding value</i>	
	Ancillary Service Offerings			
	Business Analytics			
	Patient Engagement			
Key Capabilities Developed		<ul style="list-style-type: none"> <li>Core administrative functions</li> <li>Financial management operations</li> <li>Equipment and supplies</li> </ul>	<ul style="list-style-type: none"> <li>Technology infrastructure</li> <li>Provider recruitment</li> <li>Payor contracting</li> </ul>	<ul style="list-style-type: none"> <li>Marketing, branding, and patient acquisition</li> <li>Patient experience</li> <li>Business analytics</li> </ul>

# Looking to the Future

The evolution of the dermatology sector and lessons learned from the first wave of private equity investment will drive strong activity in the coming years.



Dermatology has always been a fundamentally attractive sector with sound structural dynamics.



Landscape remains highly fragmented, and independent dermatologists are increasingly moving away from solo practices.



Rapidly emerging aesthetic dermatology opportunity and broader consumerization trends create new avenues to accelerate organic growth.



Sector maturation will be driven by continued consolidation and development of key capabilities needed to unlock growth opportunities.



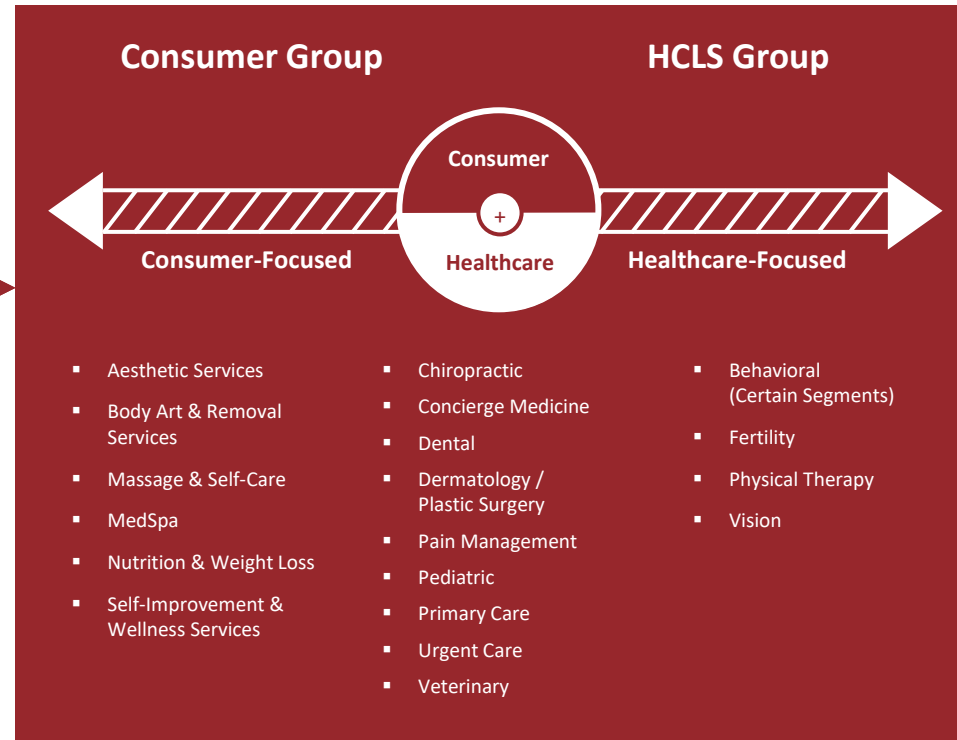
Strategies that effectively align capital and resources with the highest-value growth opportunities will maximize value creation and result in the most successful outcomes.

# Harris Williams Consumer Healthcare Overview

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	Aerospace, Defense & Government Services		Consumer
	Building Products & Materials		Industrials
	Technology		Specialty Distribution
	Business Services		Healthcare & Life Sciences (HCLS)
	Energy, Power & Infrastructure		Transportation & Logistics

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**SELECT HW CONSUMER HEALTHCARE EXPERIENCE**

*Pending*

**FOREFRONT DERMATOLOGY**

a portfolio company of

**OMERS**

has been acquired by

**Partners Group**

**WALKER EDGE DERMATOLOGY**

has been recapitalized by

**GRYPHON INVESTORS**

**NVISION EYE CENTERS**

has received an investment from

**ONTARIO TEACHERS' PENSION PLAN**

**RGW THE RETINA GROUP**

has partnered with

**PRISM Vision Group**

a portfolio company of

**QUAD-C**

**ICRM FERTILITY**

a portfolio company of

**TA ASSOCIATES**

has established a strategic partnership with

**UNIFIED WOMEN'S HEALTHCARE**

a portfolio company of

**ALTAS PARTNERS** and **ARES**

**Alliance Animal Health**

a portfolio company of

**LIGHTBAY CAPITAL**

has been acquired by

**CATTERTON**

**pathway vet alliance**

a portfolio company of

**Morgan Stanley Global Private Equity**

has been acquired by

**TSG CONSUMER**

**American Dental Partners**

a portfolio company of

**JLL Partners**

has been acquired by

**HEARTLAND**

a portfolio company of

**KKR**

**Midwest Dental**

a portfolio company of

**FFL PARTNERS**

has been acquired by

**AMERISOURCE**

a portfolio company of

**DAVITA**

**UPSTREAM REHABILITATION**

has been acquired by funds affiliated with

**REVELSTOKE CAPITAL PARTNERS**

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