

Dermatology Overview

January 2017

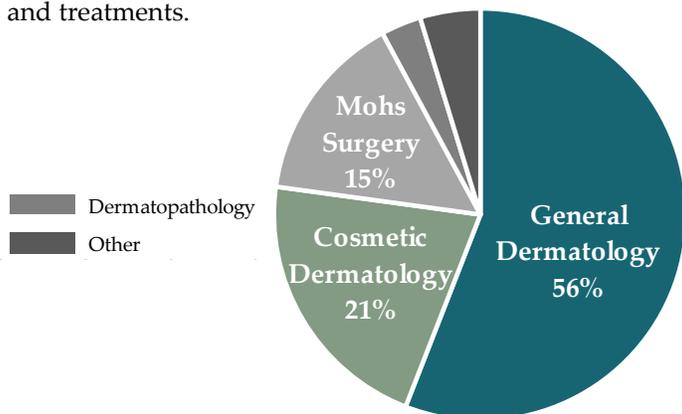
Executive Summary

Market Overview

Growth in the dermatology market is expected to accelerate in coming years due to a confluence of factors including an aging population, rising disposable incomes and increased health insurance coverage. Due to positive outlook and unmet demand, the industry has undergone impressive growth and consolidation, largely driven by private equity. The market is currently characterized by high fragmentation, growing volumes and high multiples.

Segmentation

The dermatology market is largely separated into three different segments; general, cosmetic and Mohs surgery. Of these, general dermatology is the largest segment by revenue as it encompasses the greatest variety of diseases and treatments.



Sector Spotlight

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Current estimated market revenue for dermatology

~13,847

Estimated number of dermatologists in the U.S.

~5.2%

Annual market revenue growth for the next 5 years

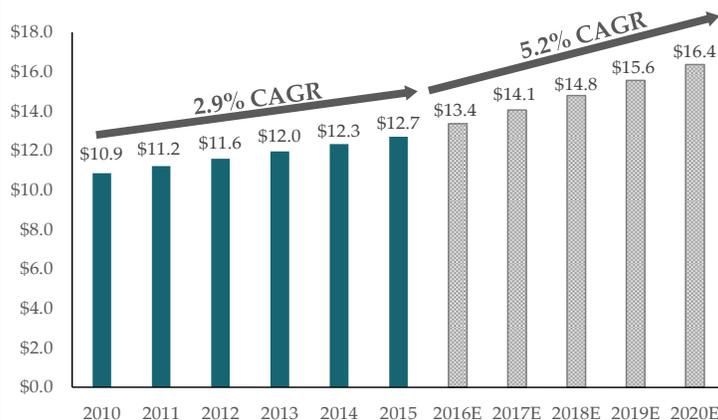
10,130

Number of estimated deaths due to Melanoma, the most common skin cancer in 2016

70%

Industry revenue from treating patients age 40+

Projected Revenue Growth (\$ in Billions)



Segment Breakdown

General

General dermatology comprises the majority of conditions, including athlete's foot, dermatitis and eczema. This segment accounts for 56 percent of total dermatological revenues or \$7.1 billion. The market for general dermatology services has seen strong growth due to the aging US population and increased insurance coverage

Cosmetic

Recently, cosmetic dermatology has also seen an increase in both revenues and visits due to such catalysts as increased care for physical appearance and increasing disposable income in the United States. This segment accounts for 21 percent of total dermatological revenues or \$2.7 billion.

Mohs Surgery

Mohs surgery is a procedure in which layers of cancerous skin are removed safely and microscopically until the area of skin is cancer free. The surgery is growing in popularity and seen as a very safe and effective alternative to major surgery for removal of cancerous cells. Mohs surgery accounts for about 15 percent of industry revenue or \$1.9 billion.

Key Tailwinds

The dermatology sector is positioned for strong returns and consolidation in the near future due to a variety of favorable tailwinds.

Adults aged 65 and up account for one-third of industry revenue. Since 2015 this group has been growing at a faster rate than the general population. In addition, increased funding of via Medicare and Medicaid and improved coverage from the ACA are helping to address access issues. Although there is potential for an upcoming ACA repeal, legislators will be pressured to retain these gains in coverage to some extent.

Rising disposable incomes are also driving demand, particularly in cosmetic dermatology. In 2016, the estimated value of per capita disposable income rose to \$39,139, with projected growth of 1.9 percent over the next five years.

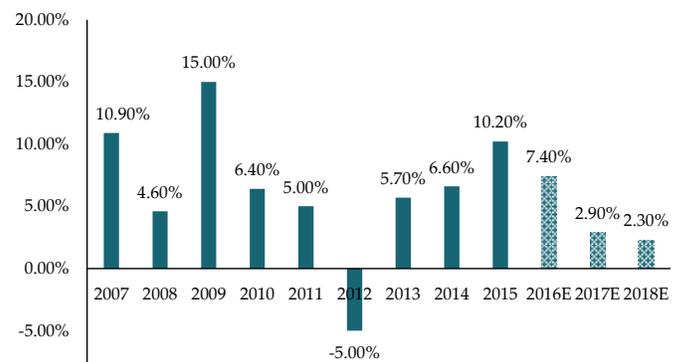
Due to historical concentration of dermatologists in major metropolitan areas, there is substantial “greenspace” left for new practices in many rural and suburban markets across the US. Mid-level provider strategies are especially useful for platforms seeking growth in underserved markets.

Regulatory Environment

Preventative care is a major theme of healthcare reform and population health. One of the key provisions benefitting dermatology is full coverage of preventative care. Preventative care is especially important to reducing costs in dermatology due to the highly manageable nature of skin cancers that are caught early.

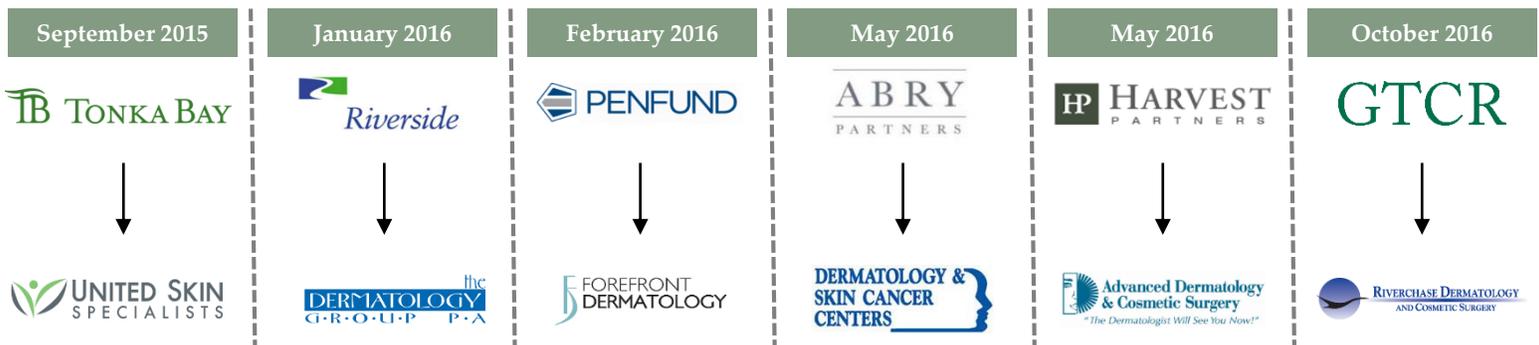
Medicaid expansion will continue to be a positive regulatory development if upheld in 2017, as many underserved markets exhibit high Medicaid prevalence. However, many of these communities are concentrated in the Southeast states that have not expanded Medicaid.

Annual Change of Federal Funding for Specialist Doctors



Platform Investments

Private equity is very active within the dermatology sector, backing several of the most established platforms. Despite growing competition, the market remains exceptionally fragmented, creating a favorable environment for continued investment. Strategies include regional / national branding, expansion into historically underserved areas and utilizing mid-level providers to control costs and enable expansion into markets with lacking dermatologist populations.



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