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

<table>
<thead>
<tr>
<th>Source</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>~$13 B</td>
<td>Current estimated market revenue for dermatology</td>
</tr>
<tr>
<td>~13,847</td>
<td>Estimated number of dermatologists in the U.S.</td>
</tr>
<tr>
<td>~5.2%</td>
<td>Annual market revenue growth for the next 5 years</td>
</tr>
<tr>
<td>10,130</td>
<td>Number of estimated deaths due to Melanoma, the most common skin cancer in 2016</td>
</tr>
<tr>
<td>70%</td>
<td>Industry revenue from treating patients age 40+</td>
</tr>
</tbody>
</table>

Projected Revenue Growth ($ in Billions)

General Dermatology 56%
Cosmetic Dermatology 21%
Mohs Surgery 15%
Dermatopathology 15%
Other 10%

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.

Sources: IBISWorld and industry articles
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 benefiting 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.

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.

For more information, please contact one of the representatives below:

<table>
<thead>
<tr>
<th>Gordon A. Maner</th>
<th>Ryan Loehr</th>
<th>Johnny Cross</th>
<th>Alex Carlson</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing Partner</td>
<td>Vice President</td>
<td>Analyst</td>
<td>Analyst</td>
</tr>
<tr>
<td>843-405-1106 Direct</td>
<td>843-405-1108 Direct</td>
<td>843-405-1107 Direct</td>
<td>843-405-1113 Direct</td>
</tr>
<tr>
<td><a href="mailto:gordon.maner@ambwealth.com">gordon.maner@ambwealth.com</a></td>
<td><a href="mailto:ryan.loehr@ambwealth.com">ryan.loehr@ambwealth.com</a></td>
<td><a href="mailto:johnny.cross@ambwealth.com">johnny.cross@ambwealth.com</a></td>
<td><a href="mailto:alex.carlson@ambwealth.com">alex.carlson@ambwealth.com</a></td>
</tr>
</tbody>
</table>

Healthcare Investment Banking

Securities Offered Through Allen Mooney & Barnes Brokerage Services, LLC (Member FINRA / SIPC)