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Dermatology Market Overview

August 2013

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Dermatology Market Overview

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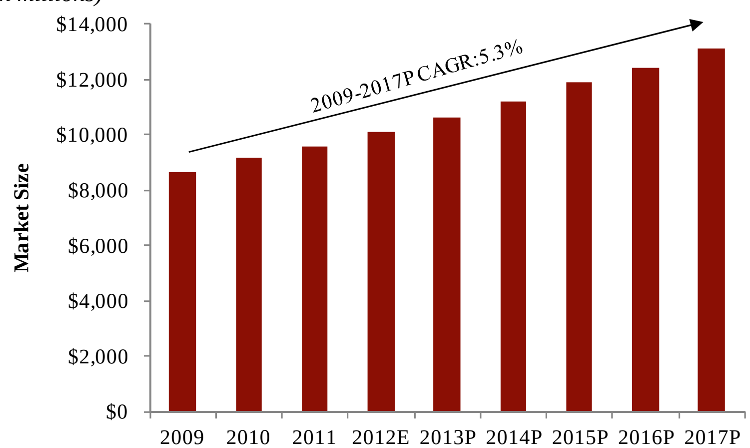
The $10.1 billion U.S. dermatology market is expected to grow to $13.1 million by 2017, representing a 5.3% CAGR.

- Today, there are an estimated 9,600 dermatologists and 7,800 dermatology practices in the U.S according to IMS Health.
  - 34% of industry establishments are solo practices.
  - 48% of industry practices include three or more physicians.
- There is a current shortage of dermatologists that is expected to persist for the foreseeable future.
- Increasing demand for dermatology services driven primarily by rising occurrence of skin cancer, in particular melanoma, and the aging of the population.
- The dermatology industry is highly fragmented with consolidation expected due to rising costs and complexity.
  - Young dermatologists are increasingly choosing multi-physician settings over solo practices.
- Attractive financial profile with profit margins averaging 20%+ in 2012.

Market Size Growth

For the Years Ended and Ending December 31, 2009-2017P

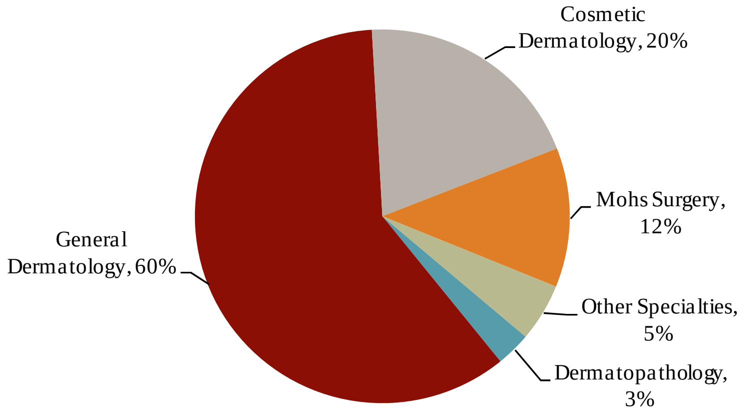
($ in millions)



Source: IBISWorld.

Dermatology Market Segmentation

For the Year Ended December 31, 2011



Source: IBISWorld.

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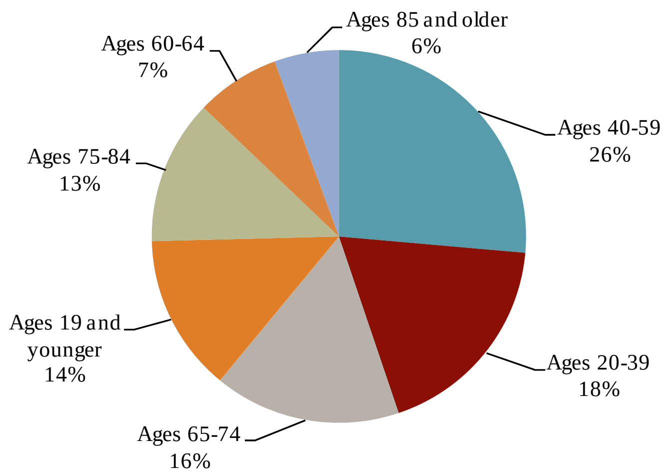
Demand for Dermatology Services

Increased access to dermatologists, greater health awareness, and favorable demographic trends are driving demand for dermatologic services.

- Increasing occurrence of skin cancer is a primary driver of rising demand for dermatology services.
  - According to the American Cancer Society, there are more than 2 million annual cases of basal and squamous cell skin cancer (non-melanomas) in the U.S.
  - The occurrence of melanoma, the most dangerous form of skin cancer, has increased from 47,700 diagnoses in 2000 to 75,000 in 2009.
- While demand for cosmetic dermatology decreased during the recession, the economic recovery combined with an aging population is driving a resurgence of demand for cosmetic procedures.
  - 42% of dermatology patients are 60 years or older and 68% are 40 years or older.
- The Patient Protection & Affordable Care Act ("PPACA") could also contribute to industry growth due to an increased number of covered lives and 100% Medicare coverage for annual preventative sessions for seniors.

Consumers of Dermatology Services

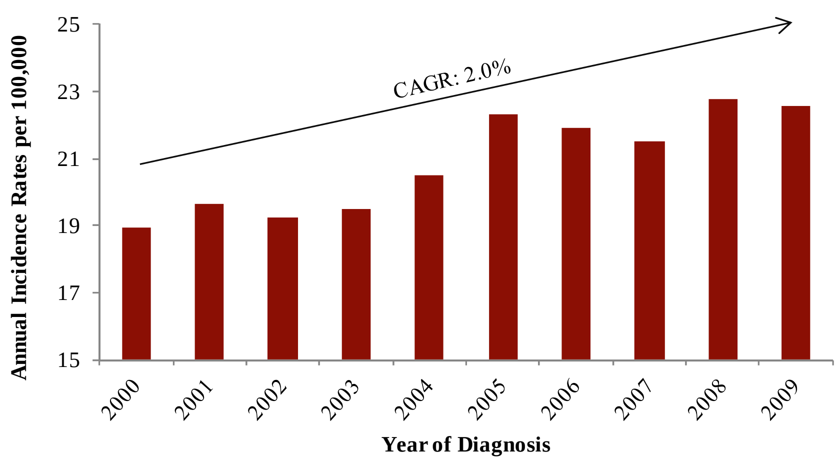
For the Year Ended December 31, 2011



Source: IBISWorld.

Growth in Melanoma Diagnoses

For the Years Ended December 31, 2000-2009



Source: SEER Cancer Statistics Review.

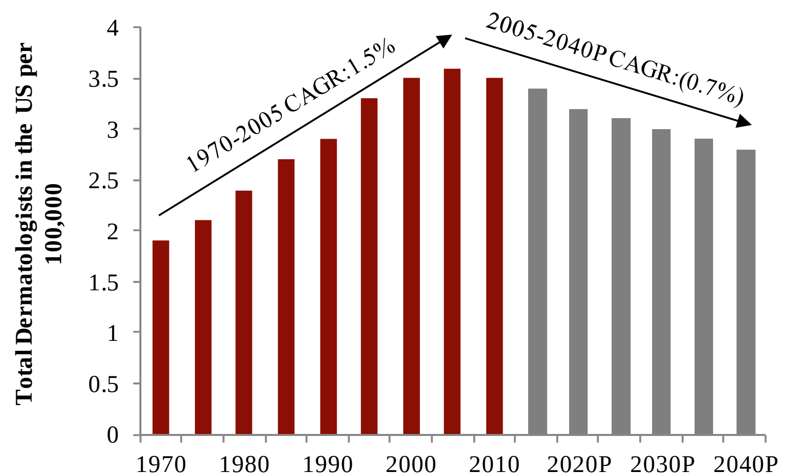
Shortage of Dermatologists

Demand for dermatology services is outstripping the number and availability of dermatologists.

- According to the American Medical Association, the ratio of dermatologists to the U.S. population will continue to decrease over time, particularly in rural areas of the country.
  - Shortage driven primarily by static residency training capacity for new dermatologists with only 32 dermatology residency positions offered in 2012.
  - Dermatology training, including medical school and residency, takes between seven and nine years to complete.
- Dermatology practices are hiring non-physician clinicians ("NPC") to provide a greater number of patient services.
- Proliferation of minute clinics and other non-dermatologists catering to skin disease has not alleviated demand as fewer than 30% of visits for medical dermatology complaints are seen by dermatologists or NPCs.[1]

U.S. Dermatologists per 100,000 People

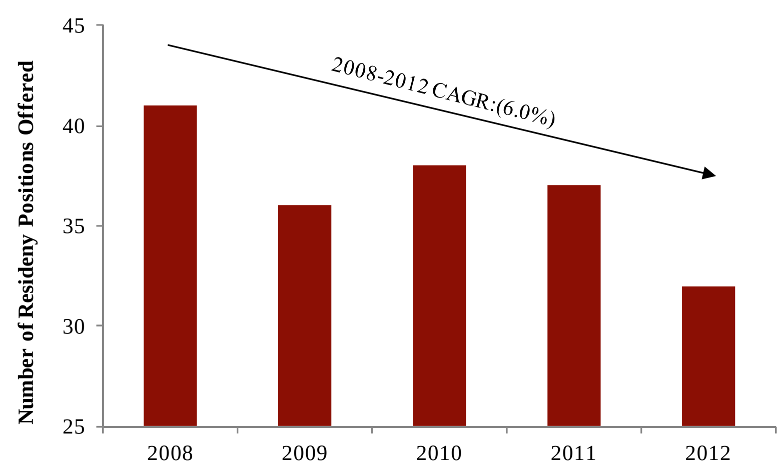
For the Years Ended and Ending December 31, 1970 -2040P



Source: US Census Bureau & AMA.

Number of Dermatology Residency Positions

For the Years Ended December 31, 2008-2012



Source: National Resident Matching Program: Results and Data 2012.

(1) The Dermatology Workforce: One Small Specialty's Experience with an Ongoing Shortage, Jack Resneck Jr, MD.

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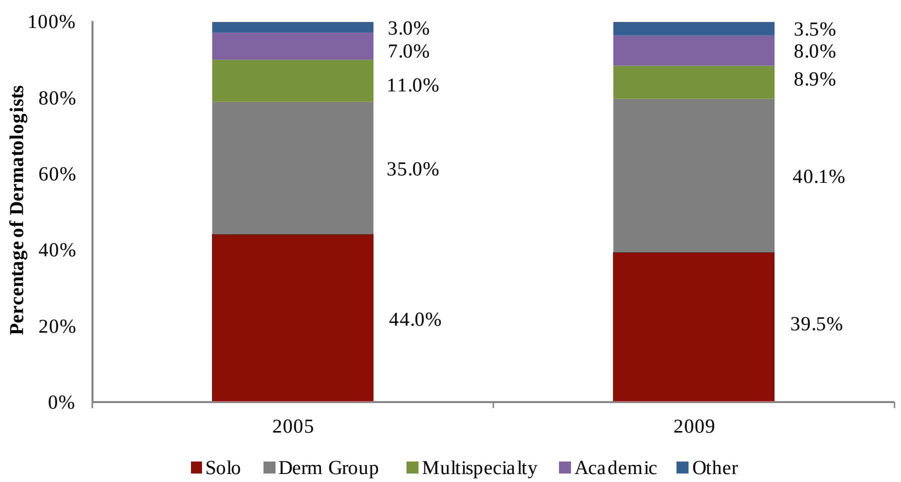
A number of additional trends will change the landscape of the dermatology industry going forward.

- The number of physicians that practice independently has been declining at a steady rate of ~2% per year.
  - This rate is expected to increase to ~5% by 2013.(1)
- While dermatologists have been relatively slow to abandon solo practice, new dermatologists favor employment at a multi-physician site or in an academic setting.
  - Only 5.3% of dermatology residents plan to practice solo and only 13.0% of dermatologists within eight years of residency ("young dermatologists") currently have an independent practice.(2)

Dermatologists Abandoning Solo Practice(2)

For the Years Ended December 31, 2005 and 2009



Multi-Physician Site Growth Drivers

- ✓ Earn income immediately.
- ✓ Focus on patient care rather than administrative and management duties.
- ✓ Leverage established infrastructure.
- ✓ Utilize community of physicians and tackle more complex cases.
- ✓ Eliminate initial and recurring capital outlays related to solo practice.

(1) Accenture Dermatology Survey 2011.
(2) 2009 AADA Practice Profile Survey.

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Healthcare Reform Impacting Dermatology

The Patient Protection & Affordable Care Act will impact the reimbursement landscape in the dermatology industry.

- Delivery and reimbursement of dermatology services will remain in the spotlight as PPACA is implemented and healthcare reform continues.
  - Dermatologists account for only 1% of the U.S. physician population, but comprise nearly 4% of overall Medicare expenditures.
  - Skin cancer has become the sixteenth most costly Medicare diagnosis accounting for $2.9 billion annually.
- PPACA will have both positive and negative affects on the dermatology industry:
  - \+ Increase in number of covered lives; ~32 million incremental consumers will gain coverage.
  - \+ 100% Medicare coverage for annual preventive dermatology sessions for seniors aged 65 and older, a group of patients that generates over a third of industry revenue.
  - − Mandated increased payments to primary care providers could negatively impact specialty providers such as dermatologists.
  - − Lack of reform to Medicare's sustainable growth rate formula and the creation of the Independent Payment Advisory Board will most likely lead to continued annual reimbursement adjustments and uncertainty for physicians, including dermatologists.

Source: American Academy of Dermatology (AAD) 70th Annual Meeting.

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Industry Landscape and M&A

The dermatology practice management industry remains fragmented and ripe for consolidation.

- As the regulatory landscape changes, many independent dermatologists are seeking alternative practice models, catalyzing an industry shift towards consolidation.
- Integrated Dermatology Group, a practice management company, continues to expand by executing a nation-wide roll-up acquisition plan and acquiring practices of dermatologists looking to exit the field.
- Group Purchasing Organizations ("GPOs"), such as Dermatology Alliance, provide independent dermatology practices with leverage in order to remain independent.

M&A Activity 2011 – 2013YTD

Date	Target Company	Acquirer	Date	Target Company	Acquirer
May-13	North Shore Dermatology SC	Dermatology Associates of Wisconsin S.C.	Nov-12	University Dermatology Associates of Washington, D.C.	Integrated Dermatology Group
Apr-13	Independent Practice	DermOne, Inc.	Oct-12	Alta Dermatology Group	Integrated Dermatology Group
Apr-13	gloProfessional, Inc.	Swander Pace	Feb-12	Nautilus Health Care Group, LLC	Healogics, Inc.
Jan-13	Dermatology Associates of Tyler	Candescent Partners	Oct-12	Center For Dermatology & Skin Surgery, Inc.	Advanced Dermatology & Cosmetic Surgery
Jan-13	Atlantic Dermatology Associates, P.A.	Dermatology Clinics of Southwest Virginias	Sep-12	Southeastern Plastic Surgery, P.C.	Piedmont Plastic Surgery & Dermatology
Dec-12	Naples Center for Dermatology & Cosmetic Surgery	Prairie Capital	May-12	Milwaukee Skin Center, S.C.	Dermatology Associates of Wisconsin S.C.
Dec-12	Independent Practice	DermOne, Inc.	Feb-12	Advanced Dermatology & Cosmetic Surgery Inc.	Audax Group; Brentwood Capital Advisors
Nov-12	Two Clinics located in Florida Keys	Advanced Dermatology & Cosmetic Surgery	May-11	Evolve Med Spa	The Yash Birla Group

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Notable Industry Participants

Company	Ownership	Description	# of Offices	# of Physicians
Advanced Dermatology & Cosmetic Surgery Inc.	Audax Group	Advanced Dermatology and Cosmetic Surgery (ADCS) is the largest dermatology group practice in the United States. ADCS has 84 offices throughout the United States, 63 of which are located in Florida.	84	147
Dermatology Associates of Tyler	Candescent Partners	Dermatology Associates of Tyler provides skin care services. The company specializes in the provision of science-based therapies and treatments. The company also sells skin care products through its aesthetics center. The company was founded in 1996 and is based in Tyler, Texas.	7	10
Dermatology Associates of Wisconsin S.C.	Private	Dermatology Associates of Wisconsin S.C. provides acne skin care treatment, laser skin and rosacea treatment, and skin cancer surgery services to patients of all ages in Wisconsin. The company is based in Manitowoc, Wisconsin.	30	48
Dermatology Clinics of Southwest Virginias, PLLC	Private	Dermatology Clinics of Southwest Virginias, PLLC offers dermatology services through skin care centers. Dermatology Clinics of Southwest Virginias was formerly known as Derm One, PLLC. The company was founded in 1994 and is based in Bluefield, Virginia.	5	7
Dermatology Consultants, P.C.	Private	Dermatology Consultants, P.C., a dermatology practice, provides medical, surgical, and cosmetic care services in Georgia. It offers medical dermatology and aesthetician services. In addition, its services include diagnosis and treatment of skin diseases, preventative skin maintenance, and treating skin problems due to internal disease.	3	7
Integrated Dermatology Group	Private	Integrated Dermatology Group owns, manages and operates dermatology practices throughout the United States. The company has created a program that provides succession planning to dermatologists looking to retire or provides practice management services for active dermatologists.	NA	NA
Naples Center for Dermatology	Prarie Capital	Naples Center for Dermatology & Cosmetic Surgery, P.A., doing business as Riverchase Dermatology and Cosmetic Surgery, operates as a dermatology practice that offers treatment for various types of skin disorders and cosmetic concerns in southwest Florida.	8	10
Northeast Dermatology Associates	Private	The practice specializes in general, surgical and cosmetic dermatology, in addition to skin cancer treatment, including Mohs surgery and dermatopathology. Northeast Dermatology Associates operates a total of eight offices and 14 doctors are associated with the practice.	8	14
U.S. Dermatology Medical Management, Inc.	Vicente Capital	U.S. Dermatology Medical Management, Inc., a management services organization, provides medical office management services to dermatology practices that are owned by physicians.	3	NA
West Dermatology	Private	The practice treats various conditions, including skin cancer, acne, eczema, psoriasis, and rosacea. Originally established in Redlands, CA, the company operates over 30 offices in California, Arizona, Nevada, West Virginia, Pennsylvania and Idaho. In 2002, West Dermatology merged with Las Vegas Skin & Cancer Clinics.	30	NA