



HEALTHCARE & LIFE SCIENCES SPECIAL REPORT

Skin in the Game

Growing Private Capital Investment in
Dermatology Practices

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Dermatology practices continue to attract private equity interest and outside capital investment. Beginning with Audax Group's October 2011 recapitalization of Advanced Dermatology & Cosmetic Surgery, six dermatology platform investments have been made by private equity sponsors. Over the past year, the number of new funds seeking an investment in dermatology has grown dramatically. Existing platforms have continued to expand, and a number of sponsors have tapped operating executives to build platforms. Investment activity has expanded outside traditional dermatology hotbeds such as Florida and the Southwest, with acquisitions in the Midwest and Great Plains fueled by a strong capital markets environment and a sense of urgency for funds to deploy capital. We believe that the level of investment in the sector will continue to grow in the coming quarters.

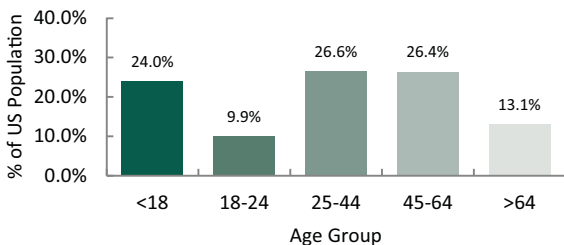
Numerous factors contribute to the attractiveness of dermatology practices as investment platforms. Dermatology remains a highly fragmented market, and the multi-site, multi-unit structure of group practices is ideal for pursuing buy and build strategies. Elective, cash pay, ancillary services in cosmetic dermatology allow for direct-to-consumer marketing, while medical dermatology provides a solid foundation for recurring cash flows. Practice branding lends well to physician transition, unlike other medical specialties where the practice goodwill resides predominantly with the physicians. Scale is key not only in terms of geographic reach but also number of providers. Achieving a certain level of scale affords the ability to bring pathology lab services in-house and provide additional ancillary services and products. Market timing appears to be favorable from a reimbursement stability standpoint given that the technical component of pathology recently underwent a major cut in 2013. In addition, in 2007, under the multiple procedure payment reduction policy, reimbursement for subsequent surgical procedures (including Mohs closures) performed during the same operative session by the same physician was reduced by 50 percent. Additional attributes drawing investor interest include the proper balance of MDs/DOs to physician extenders, sound operational and financial reporting capabilities, in-practice ancillaries, strong brand recognition, standards of care across locations, a proven track record of provider recruitment, audited financials, integrated EHR/practice management platforms, and proven ability to expand through acquisitions and de novo locations.

INDUSTRY DYNAMICS

Ageing Population. The U.S. population is growing older as the baby boomer generation ages. The older population (defined as persons 65 years and older) numbered 41.5 million in 2012, representing 13.4 percent of the U.S. population. According to estimates from the Department of Health & Human Services, by 2030 there will be about 72.1 million older persons, more than twice the number from 2000. The aging population is a favorable dynamic for the dermatology industry given that approximately 42 percent of dermatologist patients are age 60 and older.

Demographics Support Growth

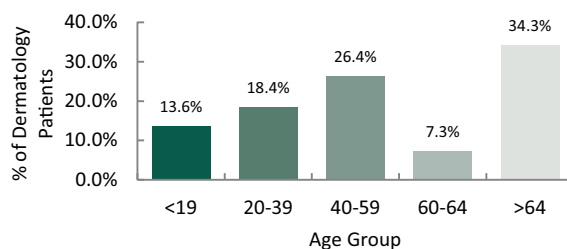
U.S. Population is Aging



Source: U.S. Census Bureau and IBISWorld.

Major Market Segmentation

42% of dermatologist patients are over the age of 60.



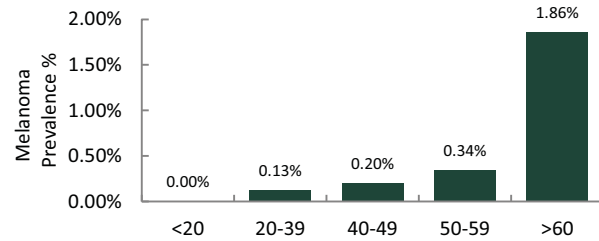
Increasing Prevalence of Skin Cancer. Incidence of skin cancer is rising due to a number of factors, one of which is the aging U.S. population. Melanoma, the most serious type of skin cancer, is expected to account for more than 81,000 cases of skin cancer in 2014, and its incidence rates have been rising for the past 30 years. The average age at the time melanoma is detected is 61 years old. Melanoma incidence is also rising among individuals under the age of 30. The high exposure to UVA and UVB rays, especially through the growing use of tanning beds, will likely see rates of melanoma and other forms of skin cancer among younger individuals continue to rise.

Reimbursement Environment. Dermatology has experienced steep reductions in reimbursement in recent years, particularly Mohs surgery and pathology, which represent meaningful sources of recurring revenue for the industry. The Centers for Medicare & Medicaid Services (CMS) has proposed changes for 2015 that include a process modification which will enable more transparency and further the possibility to provide input before payment rates are set. The Patient Protection and Affordable Care Act (PPACA) has been beneficial to the industry with the increase in covered lives, however, there is still uncertainty surrounding reimbursement adjustments in dermatology. Electronic surface brachytherapy has emerged as an alternative to Mohs procedures in the past couple of years, especially for cosmetically complex treatment areas on the face. Given the variance in reimbursement in comparison to Mohs, it is uncertain whether the reimbursement levels for brachytherapy will experience pressure. While reimbursement pressure continues to be a focus of concern, it appears drastic cuts in the short-term are unlikely.

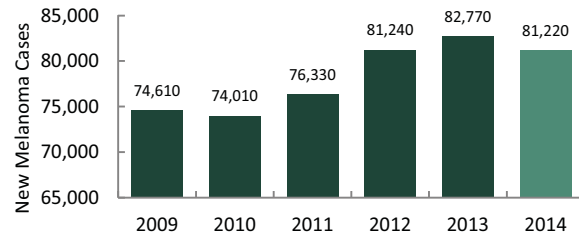
Fragmented Industry and Physician Scarcity. The dermatology industry remains highly fragmented, with the four largest practices estimated to hold less than a 2 percent share by revenue. Within the healthcare industry and particularly dermatology practices, the pace of consolidation has accelerated due to margin pressures, capital requirements, and scale advantages that group practices hold over solo establishments. According to the American Academy of Dermatology's Dermatology Practice Profile Survey, 44 percent of dermatologists reported practicing solo in 2007. By 2012, that number had declined to 38 percent. Dermatology practices are experiencing increased difficulty in recruiting new providers due to the continued shortage of dermatologists. The demand for new dermatologists continues to outpace the number of dermatologists coming out of residency programs.

Increasing Prevalence of Skin Cancer

Prevalence Rates By Age



New Cases of Melanoma Skin Cancer Estimated Each Year

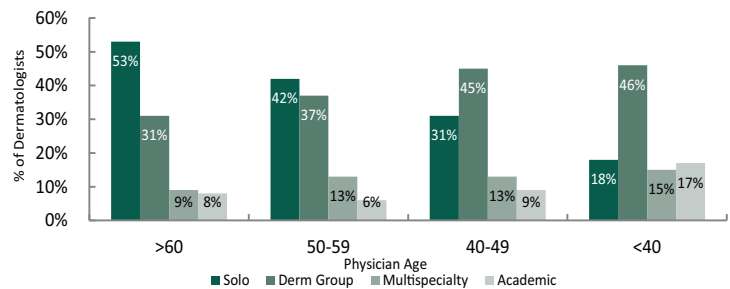


Note: Numbers reflect estimates of diagnosed cases.

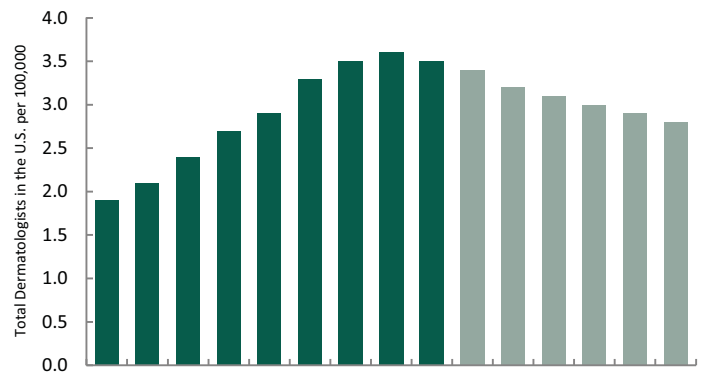
Source: American Cancer Society.

Fragmented Industry and Physician Scarcity

Dermatologist Setting by Age Group



Dermatologists per 100,000 people in U.S.



Source: Dermatology Foundation.

PRIVATE EQUITY PLATFORMS

Interest from the private equity community is fueling consolidation. Private equity has invested in a number of platform companies, some of which are the most active consolidators in the industry. Consolidation is not limited to sponsor-backed practices, as larger independent groups are actively looking to expand through acquisitions.

Advanced Dermatology & Cosmetic Surgery (Audax Group) Audax Group recapitalized Maitland, Florida-based Advanced Dermatology and Cosmetic Surgery (ADCS) in late 2011. Since the investment by Audax, ADCS has made 15 add-on acquisitions in multiple states as part of their buy and build strategy. ADCS owns practices in five states including Florida, Ohio, South Carolina, Nevada, and now Michigan with the acquisition of The Grekin Skin Institute in July 2014. In addition to its owned practices, ADCS provides billing, collections, and coding management services for over 80 independent dermatology practices across the country under the Ameriderm trade name.

DermOne (Westwind Investors) DermOne, a New Jersey-based dermatology group previously operating under the name Accredited Dermatology, partnered with Westwind Investors in 2012 to help facilitate a national growth strategy. Westwind has made five add-on acquisitions since its initial investment, expanding DermOne's footprint to include locations in New Jersey, Texas, North Carolina, Pennsylvania, and Virginia.

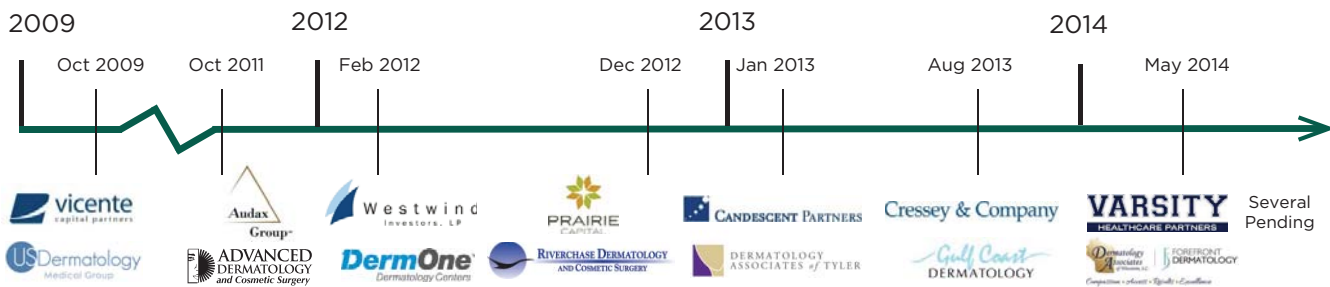
Riverchase Dermatology and Cosmetic Surgery (Prairie Capital) In 2012, Prairie Capital partnered with the founder of Riverchase Dermatology and Cosmetic Surgery to recapitalize the company to take advantage of multiple organic growth and acquisition opportunities. In addition to opening de novo locations, the Naples, Florida-based practice made a significant add-on acquisition when it acquired West Coast Dermatology in April 2014, adding seven locations and expanding Riverchase's geographic reach north along Florida's west coast.

Dermatology Associates (Candescent Partners) Candescent Partners invested in Dermatology Associates, based in Tyler, Texas, in early 2013 as a platform to pursue a buy and build strategy through a combination of strategic acquisitions and organic expansion. Candescent made a significant add-on acquisition with the May 2014 addition of Dermatology & Skin Cancer Centers, which added eight locations in Kansas and Missouri.

Gulf Coast Dermatology (Cressey & Company) In October 2013, Cressey & Company recapitalized Panama City, Florida-based Gulf Coast Dermatology. Gulf Coast Dermatology has locations in northern Florida, Alabama, and Georgia. The company has not yet made any add-on acquisitions. Cressey has established Dermatology Solutions Group as a dermatology services organization providing management services and growth resources to dermatology groups.

Dermatology Associates of Wisconsin / Forefront Dermatology (Varsity Healthcare Partners) Varsity Healthcare Partners partnered with the shareholders of Manitowoc, Wisconsin-based Dermatology Associates of Wisconsin in May 2014. Forefront Dermatology is a division of Dermatology Associates of Wisconsin, established for the expansion efforts outside of Wisconsin. The practice, which now has locations in Wisconsin, Michigan, Indiana, and Iowa, plans to continue pursuing an acquisition growth strategy through the addition of dermatology practices and de novo expansion in smaller cities, a strategy that helped facilitate rapid growth prior to the investment from Varsity.

Private Equity Platform Acquisition Timeline



GLOBAL HEALTHCARE & LIFE SCIENCES

FOCUS AREAS

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|---|---|--|
| DIAGNOSTICS & RESEARCH TOOLS <ul style="list-style-type: none"> Instruments and Devices Point-of-Care Diagnostics Controls, Reagents, & Consumables Lab Equipment & Supplies Life Science Tools | MEDICAL PRODUCTS <ul style="list-style-type: none"> General Devices & Equipment Implantable Devices Surgical Tools Disposables Medical Supplies | OUTSOURCING & INFORMATICS <ul style="list-style-type: none"> Functional Outsourcing Clinical Solutions & Outsourcing Payor Services Pharmaceutical Services Distribution Staffing Wellness |
| HOSPITALS & HEALTH SYSTEMS <ul style="list-style-type: none"> For-Profit & Not-for-Profit Health Systems Academic Medical Centers Specialty Hospitals Rural Health Providers | POST-ACUTE CARE <ul style="list-style-type: none"> Long-Term Care Hospitals Rehabilitation Providers Senior Living Home Health & Hospice | OUTPATIENT SERVICES <ul style="list-style-type: none"> Ambulatory Surgery Centers Diagnostic Imaging Centers Laboratory Services Other Ancillary Service Providers Primary Care & Specialty Medical Groups |

WHO WE ARE

- Independent investment banking advisory firm focused on the middle market since 1989
- Senior bankers with significant experience and tenure; partners average over 20 years of experience
- Offices in Chicago and Cleveland
- Founding member and U.S. partner of Global M&A Partners, Ltd., the world's leading partnership of investment banking firms focusing on middle market transactions
- Deep industry experience across core sectors of focus, including: Healthcare & Life Sciences, Consumer Products & Retail Services, Energy & Environmental Services, Industrials, Metals & Metals Processing, Plastics & Packaging, and Real Estate

COMPREHENSIVE CAPABILITIES

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| M&A ADVISORY <ul style="list-style-type: none"> Sell-Side Advisory Acquisitions & Divestitures Public & Private Mergers Special Committee Advice Strategic Partnerships & Joint Ventures Fairness Opinions & Fair Value Opinions | PRIVATE PLACEMENTS <p>All Tranches of Debt & Equity Capital for:</p> <ul style="list-style-type: none"> Growth Acquisitions Recapitalizations Dividends | FINANCIAL ADVISORY <ul style="list-style-type: none"> General Financial & Strategic Advice Balance Sheet Restructurings Sales of Non-Core Assets or Businesses \$363 Auctions |
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CASE STUDY



COMPANY OVERVIEW:

NORTH FLORIDA DERMATOLOGY ASSOCIATES (“NFDA” OR “THE PRACTICE”) IS A DERMATOLOGY PRACTICE WITH NINE PROVIDERS AND FOUR OFFICES IN JACKSONVILLE AND THE SURROUNDING MARKETS. THE PRACTICE HAS AN INTEGRATED SUITE OF SERVICES, INCLUDING MEDICAL AND SURGICAL DERMATOLOGY, COSMETIC SURGERY, AND A DIVERSE SET OF AESTHETIC SERVICES AND PRODUCTS. IN ADDITION, NFDA CONDUCTS CLINICAL RESEARCH STUDIES AND PROVIDES PATHOLOGY LABORATORY SERVICES.

TRANSACTION OVERVIEW:

BGL SERVED AS EXCLUSIVE FINANCIAL ADVISOR TO NFDA. BGL WAS ENGAGED TO PRESENT STRATEGIC ALTERNATIVES TO THE PRACTICE INCLUDING VARIOUS MAJORITY RECAPITALIZATION OPTIONS. BGL ULTIMATELY COMPLETED THE SALE TO ADVANCED DERMATOLOGY AND COSMETIC SURGERY, A PORTFOLIO COMPANY OF AUDAX GROUP. BGL WAS ABLE TO SOLVE FOR CERTAINTY, TIMING, AND VALUATION THROUGH THE PROCESS.