



## PLASTIC SURGERY: THE NEXT BIG THING FOR PRIVATE EQUITY?

Unlike dermatology, ophthalmology, and dentistry, plastic surgery has yet to see meaningful interest from private equity buyers; however, that is about to change. EdgePoint is aware of four private equity groups that have recently completed, or will soon complete, a “platform” acquisition, the initial investment around which they plan to grow. In addition, EdgePoint has had discussions with more than a dozen other private equity groups that have expressed strong interest in plastic surgery should they be able to find the right partner.

Creating a large plastic surgery platform won’t be without it’s challenges given how highly fragmented the industry is. Most practices consist of one to three physicians, and don’t have the administrative overhead necessary to operate a larger organization. By pulling together multiple practices and investing financial and human capital, private equity groups hope to build businesses that have the scale to leverage purchasing power, enhance branding and marketing, and

ultimately drive sustained growth. This growth will be achieved both organically (e.g. by adding surgeons or expanding med spa services), as well as through add-on acquisitions. This will create opportunities for smaller groups and even solo practitioners to secure a superior exit value than the traditional sale to a junior partner.

The benefits of entering a platform early, or being the platform yourself, include the ability to drive strategy and influence the culture. It also affords the business owner an opportunity for “multiple bites of the apple” by rolling over equity and staying invested through the second or even third sale of the company as its profitability grows and attracts buyers willing to pay a higher valuation multiple.

If you are planning for retirement in the next 5 to 10 years, or would like to partner with other practices to increase your growth potential, we think now is the time to begin exploring your options.

## Buyers Establishing Platforms

*Names have been changed to protect confidentiality.*



## Frequently Asked Questions

### My state restricts the corporate practice of medicine; how can Private Equity buy my practice as a non-physician?

Financial sponsors participate by creating what is called a Management Service Organization or MSO. Physicians continue to own their professional corporations; but enter into long-term management agreements with the MSO that effectively shift the profits of the practices into the MSO. Private equity firms and physicians can jointly own the MSO.

### How will I be compensated after a transaction?

Acquirers look to normalize physician compensation at market rates, typically based on productivity. To maximize the value of your business, you'd want to minimize your compensation; however, as a practical matter, your compensation cannot be lower than the cost to hire a physician, or physicians, to replace you.

### How will the transaction be structured?

Transaction structure can vary greatly depending on the buyer, expected growth, perceived risk, etc. Most commonly you will receive a portion of the total enterprise value in cash at closing, an earnout paid later contingent upon achieving some milestone (e.g. profitability after one year), and retaining, or "rolling over," equity in the MSO. Seller debt is also not uncommon where the buyer agrees to pay a portion of the purchase price over time, typically paying interest only until the business is sold.

### When do I realize my "second bite of the apple?"

Private Equity's typical hold period can range anywhere from three to seven years. The timing of when an exit is made is driven by a multitude of factors including the performance of the business itself, and the broader market in general.

### What is the current value of my business?

EdgePoint will work with you, under a non-disclosure agreement, to conduct a Market Assessment which will include an expected value range for your business. If that valuation is compelling, and the time is right for you, EdgePoint would then propose terms for an engagement to represent your interests in a possible transaction.

## Representative EdgePoint Healthcare Transactions

<p><b>Projects Kalon &amp; Bellissimo</b></p> <p>West coast cosmetic surgery practices</p> <p>Current Engagements</p>	 <p>has been acquired by</p> 	 <p>has been acquired by</p> 	 <p>has been acquired by</p> 	 <p>has been acquired by</p> 
 <p>has been acquired by</p> 	 <p>has completed a capital raise</p>	<p>Select Assets of</p>  <p>has been acquired by</p> <p>An Undisclosed Private Company</p>	 <p>has acquired</p> 	 <p>has been acquired by</p> <p>A Private Equity Group</p>



EdgePoint is an **independent, advisory-focused, investment banking** firm serving the **middle market**.

