



Episode 105: Scaling Medical Aesthetics, With Annie Hockey

Episode Summary

As the founder of Skytale Group, a boutique healthcare-focused investment banking and management consulting firm, [Annie Hockey](#) has a high-level view of what makes medical aesthetics businesses ready for private equity transactions. In this episode, she shares her observations with McGuireWoods healthcare partner [Amanda Roenius](#), taking over hosting duties from [Geoff Cockrell](#).

"I think the best time to transact is fully dependent on the owner and their life goals. It's such a personal decision," Annie says. Tune in for insights about preparing for transactions, managing regulatory risk and building scalable medical aesthetics practices.

Transcript

Voice over (00:00):

This is The Corner Series, a McGuireWoods series exploring business and legal issues prevalent in today's private equity industry. Tune in with McGuireWoods partner Geoff Cockrell as he and specialists share real-world insight to help enhance your knowledge.

Geoff Cockrell (00:19):

Thank you for joining another episode of the Corner series. I'm your host Geoff Cockrell, a partner at McGuireWoods. Here at The Corner Series, we try to bring together deal makers and thought leaders at the intersection of healthcare and private equity. Today I'm going to be turning the reins of the podcast over to my partner, Amanda Roenius. Amanda is in the healthcare group here at McGuireWoods, and she's going to have an interesting discussion with Annie Robertson Hockey, who's president and head of consulting, and also the founder and advisor at Skytale Group.

(00:48):

Amanda, I'll turn it over to you, and I think it's going to be a fantastic discussion.

Amanda Roenius (00:51):

Hi everyone. I'm Amanda Roenius, a healthcare transactional attorney with McGuireWoods with a focus on private equity transactions. I've spent the past decade advising funds and founder-led businesses across a wide range of healthcare specialties, from med spa to dental to behavioral health, to everything in between. I work closely with our clients not just on getting deals done, but on navigating the strategic and operational challenges that come with scaling in this space. So I'm excited to dig into the real-world insights Annie brings from her work at Skytale.

(01:22):

Annie, for those who might not be familiar, can you share a bit about yourself, Skytale, and your role there?

Annie Hockey (01:28):

Absolutely. Thanks so much, Amanda, for that introduction and very much excited to be here. Skytale Group is a boutique healthcare-focused investment banking and management consulting firm. So on the investment banking side, our team does both buy-side and sell side work. However, in the medical aesthetic space predominantly is representing sellers as they go to market many times for the first time. So it'd be a provider, founder or owner who is taking on outside capital or selling outright to, say, private equity for the first time, which is a really exciting transition.

(02:03):

On the management consulting side, we consult across the spectrum, so folks who are just getting perhaps... I'm going to focus a little bit more on medical aesthetics today, but really all sorts of retail healthcare folks who are getting a practice up off the ground, oftentimes folks will come to us if they're looking to scale and really get their business to a next level or even thinking about getting ready for a transaction.

(02:28):

That said, we also do a lot of work with financial sponsors themselves, so whether it's a firm diligencing an asset, looking for more industry knowledge, maybe wanting help with an integration plan, integrating that asset, and we do a lot of work there, and then of course on the back end of a transaction, portfolio strategy, which is really fun to see life all the way pre-sale to post-sale and helping ensure that businesses are thriving and their people are doing well.

Amanda Roenius (02:55):

It really sounds like you get the full picture of the clients that you're working with. What are some of the most common challenges that you're brought in to help solve, whether it's on the front end of the transaction or maybe afterwards?

Annie Hockey (03:08):

It's such an interesting question, Amanda. It's changed over time. I would say a while ago that the questions from financial sponsors that we would typically get would be around key person risk, where maybe you have one provider, maybe a founder who's really responsible for a large part of the revenue, and then regulatory risk helps sort of navigating the regulatory environment, which we can certainly speak to, but it's moving and it's fragmented, I think is the sort of takeaway there. Really, it differs state by state.

(03:38):

So those historically were focused areas. I'd say more recently, the question has been around consumer sentiment and demand and how that might be shifting in light of the macroeconomic environment. These are financial sponsors just wanting to ensure that the demand will be there if they put a very sizable chunk of capital into an investment. And so we've done market studies, patient survey work, all sorts of things to really help understand if there might be softening and if so, where that softening might be coming from.

Amanda Roenius (04:10):

That's interesting. I think both you and I had just attended a McGuireWoods healthcare private equity conference that we had last week, and that was one of the things that I was speaking to folks with as well. I do a lot of work in the med spa space and just kind of the shift in dynamics not only just to kind of traditional aesthetics, but a larger kind of wellness and longevity kind of take on it as well.

(04:31):

I guess similar to that, from your experience then, what kind of distinguishes groups that execute well, whether it's on the transactional front or afterwards in terms of integration just with these shifts that you're seeing in the market?

Annie Hockey (04:47):

Yeah, it's a great question and it's so dynamic, which is really fun in this industry. It's incredibly new. We're still really on the first bite, so the first time platforms are either rolling up or purchasing an asset or de novoing around it, et cetera. And again, we were both at this conference. It was interesting. One of the things that I heard was on the one hand, investors were really excited about the lack of reimbursement risk of this type of asset. It's all cash pay. That's phenomenal. That said, when it's cash pay, is there a world in which it's looked at as less necessary? My sort of anecdotal takeaway is once you start injections, people don't stop.

(05:23):

But I think getting to your question more specifically, the regulatory schema, it's difficult because it is state by state, so making sure if you do have a national platform, that you have a team that is really well-versed in or has incredible legal counsel, yourself included, on how to navigate the state differences, but secondly, I think really having an ear to the ground in terms of what might be changing. So had a client in the past week or so receive a cease and desist regarding compound formulations for GLP-1s.

(05:58):

So there's that piece, and I think realistically speaking, the best platforms are the ones that are building sound, stable, great businesses. And one of the things that a really sound business of any size should focus on is diversification. And so having GLP-1s as a part of your portfolio is incredible. There are many, many benefits to it. However, maybe making sure it's not 80% of your revenue to reduce exposure. So I think just focusing too on some of the really basic building blocks of what makes a business or a practice resilient against really any changes in a market.

Amanda Roenius (06:36):

This is just kind of a market that has continued to garner such high investment interest for the reasons that you just discussed, particularly that there isn't kind of that reimbursement pressure. I guess when you're kind of working with clients, what's kind of the most important non-financial indicators that a group is ready for a transaction and how does Skytale kind of work with them to hone those so that they're best positioned in the market to find that investor?

Annie Hockey (07:08):

We spend so much time with practices and practice owners thinking about when is the right time to transact? Do I go now? Do I keep building? And candidly, I think my answer after having seen so many folks go through a transaction and also going through M&A myself, right, operationally in a former life, is that I think the best time to transact is fully dependent on the owner and what are their life goals, what are their energy levels? Do they really want to build? Are they feeling a little bit tired and want to take a step back? It's such a personal decision and it is exhausting and in many ways sort of a flip will switch when folks are really ready to have just a little bit of backup and not be fully carrying the bag in terms of responsibility, whether that's from back office functions or HR liability or navigating the regulatory schema or just having capital to grow.

(07:58):

So that's kind of the qualitative answer, but I think if we're getting into business fundamentals, I think in a perfect world, being able to prove out to a former or a potential owner that you have an ability to put your secret sauce in a bottle and do it again. And so can I scale this practice? Can I open another location and have a similar successful ramp up? Can I do that even in a separate state? Just really proving out that this isn't a one-time spark, but it is in fact something that you can grow and create a bigger business from because ultimately that's what their goal will be.

Amanda Roenius (08:35):

And you talked a bit about some of the headwinds that we're seeing, all of the changes in state regulations. You mentioned the GLP-1s and the cease and desists that are coming along with those. Can you talk a little bit about whether it's more headwinds, but some of the tailwinds that we're seeing as well in this space and just what is continuing to make it so interesting for investment? I'd be curious to get your position on that.

Annie Hockey (08:59):

Absolutely. I mean, at the end of the day, any industry has its question marks and its downsides, and I think this industry is still accelerating in an incredibly fast-paced, really, really exciting way. In my perspective, the most exciting headwind is demand is rapidly increasing every day. We see that with demographics, so the folks who are interested in these types of services is growing really exponentially. That's a male market, which the percentage of the market that was male doubled within the last one or so years. That's younger. We're seeing Gen Z folks receiving treatments and not only facials and injectables, but even upselling to preventative energy-based devices or lasers and even lasers coming out that can treat different skin tones, which again, just unlocks a larger and larger market.

(09:52):

And so when you have a TAM that's accelerating at this pace, it's ripe for innovation and players and different ways of doing things and even wellness and weight loss I think are unlocking a new patient type that maybe wouldn't have come in just purely based on the need for an aesthetic treatment, but now that they are focused really on that inner health, right, and longevity. Maybe if they are feeling like they're 25 again, maybe you want to look a little bit like you're 25. Well, maybe not 25, but making sure that those two things are sort of reflective and go hand in hand. And so that's been really interesting too, to see a whole different wave of folks who are coming in the door just based on different treatment modalities.

Amanda Roenius (10:37):

Truly, I mean, the technology and just all of the different offerings just continues to change and we find something new in every deal that we had never heard of before. And so it feels like the opportunities are endless in terms of what's out there.

(10:50):

We talked a bit about Skytale's role kind of in preparing clients for transactions. I guess once a client goes through, they close the deal, I know you all come in and can kind of engage as well on the tail end of that. Kind of post-transaction, what are the first few areas that typically need the most attention and how do you all kind of tackle that?

Annie Hockey (11:12):

Yeah, the weeks, right, months, post-transaction I always find to be such a special time because it's so delicate. Two parties just got married and really want to make something magical, but change is hard. And so it's honestly an honor for us when we are brought into those situations because I know the stakes of that transition into a moment really are so delicate and key for the long-term viability.

(11:41):

One of the big question marks when a practice is purchased typically that we will see is what should be consolidated or consistent across the platform versus not, so questions around tech stack. Should my PMS EMR be consistent across my platform? Brand. Which of these practices am I going to change the brand or maintain? Do I have a regional brand? Do I have a national brand? Do I allow

folks to maintain their brand because that's really special? Any of these answers can be viable answers, really just depending on the overarching strategy of the platform.

(12:16):

And then even down to other things, right? Membership model, pricing strategy, compensation plans, all sorts of things. I think it's a matter of both optimizing those within any given practice, but also then sort of exploring the ways in which it interplays between different practices that one financial sponsor might own because candidly, folks talk. And so if there's one comp plan that's incredibly lucrative, everyone will know. And so those tend to be sort of the key focus areas that we really partner with both the newly acquired asset in the platform to make the right decision for both parties.

Amanda Roenius (12:52):

Annie, one piece of advice that you wish more founders would hear earlier in their journey versus kind of after going through and working with you all?

Annie Hockey (12:59):

I think counter-intuitively that the less relevant you can make yourself as a leader in many ways is much better. And so what we need to build is a viable business that can self-sustain and not be fully dependent on any one person, founder included, because that is risk and sponsors are in the business of mitigating risk, rightly so. That's everything from production, diversifying production across multiple providers to running operations, making sure you're really delegating to your team.

(13:32):

That shows up even in things as simple as branding, right, and comms. So maybe I wouldn't name my med spa Annie's Med Spa because life should exist post Annie, so it's counterintuitive when you're building because you need to inspire and motivate and your job as a leader is really to be there with your team. But underneath that, I think making sure that you are putting in place the people and the processes and the systems to allow things to really exist without you, and I assure you in five years when you want to go on vacation, you'll be very, very happy that you set it up this way so you can actually unplug.

Amanda Roenius (14:06):

That's great. And I guess finally, Annie, for our audience of investors as well, what's something that they should be asking, whether it's their platform companies or companies that they're looking to make an investment in, but they often don't?

Annie Hockey (14:20):

I think there are two KPIs that personally I think share a lot about the operations of a business, and I'll get to a more qualitative question they should be asking as well, but if you were to look at just a handful of data points, things I would really focus on would be provider retention and patient retention. Candidly, if those two things are where they should be and make sure that you're partnering with folks

to benchmark those numbers, if those metrics are where they should be, most likely, the operations behind the business are working quite effectively. Everything from your service mix and your pricing model and your membership program to, again, your compensation, all of those things working together cohesively.

(15:04):

I think the sort of last piece to really make sure that you dig into is just the culture of the business. When you get married, that's where the culture will really shine and come out and tone from the top is a huge thing, especially in change management, right? The exact same thing if signaled from a CEO, that's like, "Look, we are partnering with this financial sponsor. It's so exciting," yada, yada, yada, that's a really different message than, "Okay, there's going to be a lot of change. Buckle up." I would say don't over promise, but just making sure that the tone from the top and the ethos of the firm is where you want it to be, it's amazing how those connective tissue that matters during transition moments for any sort of business, this one included.

Amanda Roenius (15:48):

Well, Annie, thank you so much for joining us on The Corner Series podcast. Always appreciate your insights, and a great day when I get to connect with you, so we really appreciate it.

Annie Hockey (15:57):

Likewise. Thank you so much for having me.

Voice over (16:02):

Thank you for joining us on this installment of The Corner Series. To learn more about today's discussion, please email host Geoff Cockrell at gcockrell@mcguirewoods.com. We look forward to hearing from you.

(16:15):

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