McGuireWoods

Episode 136: Med Spa Growth and Capital Strategy, With Amanda Blank

Episode Summary

Amanda Blank, CEO of Founders Beauty Group, joins McGuireWoods partner and host Geoff Cockrell to discuss the growth of her strategic med spa platform, built on a hub-and-spoke model across four geographies through the acquisition of established, doctor-owned, cash-pay practices.

Amanda shares how she evaluated different capital sources during the company's growth, including her decision to partner with high-net-worth family offices rather than private equity investors at that stage of the business, and discusses the factors that informed that approach.

She also explores why specialized industry knowledge matters for investors in the med spa sector, why GLP-1s are unlikely to serve as an anchor service, where durable competitive advantages exist in a relatively low-barrier market and how her experience leading a woman-owned platform has shaped the company's growth.

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 (00:21):

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 joined by Amanda Blank. Amanda's the CEO at Founders Beauty Group Holdings, which has a pretty expansive med spa related business that covers a lot of different terrain. We're going to talk about how she's built that

and a bunch of choices along the way. But Amanda, thanks for joining and maybe give a little introduction of yourself and the company.

Amanda Blank (00:54):

Yeah. Sure. Thanks. Amanda Blank, CEO of Founders Beauty Group Holdings. We are a strategic med spa platform. My background's always been in investing, used to be a generalist, did more ops post-business school, and then decided a few years ago to take the crazy leap and do a med spa platform.

Geoff Cockrell (01:15):

Looking at med spa platforms, and I've seen a bunch of them, yours is built a little differently. I see a lot of narrower pure play platforms. Tell us a little bit about how you built your company.

Amanda Blank (01:26):

I think we've really been very thoughtful about our approach, not only because we want to be different than other players in the game, but we want to do what we think is best. So we built a hub and spoke model. So we have about four geographies in which we invest out of and each hub has a different brand and we really look for doctor-owned med spas, cash pay. We have a little surgical and derm in there, but that just was a great asset and we try to keep the integrity and culture and brand of the assets that we purchase.

Geoff Cockrell (02:08):

That's interesting. One of the companies scale, you're putting your finger on one of the choices that folks have to make along the way, and one is maintaining the integrity of the existing culture at a place versus instituting a centralized idea of the company. It sounds like you've bent that needle a little bit towards maintaining the identity in the markets that you're entering. How do you think about that choice?

Amanda Blank (02:33):

I think we do centralize a lot of operational things, accounting or marketing or insurance, et cetera. But every geography is a bit different and clientele ... Like someone in Chicago versus Orange County, those are very different consumer profiles versus Seattle. Maintaining the brand's integrity, we purposely go after practices that have been around 10 to 30 years and they have a strong brand because of that.

Geoff Cockrell (03:01):

How do you think about maintaining both the culture and engagement of the founder of the place that you're buying? That feels like a difficult needle to thread.

Amanda Blank (03:10):

Yeah. It really is. I think part of it is we're different in the sense that we're not looking to do a hundred acquisitions. We're looking to do 10 to 12 sizable acquisitions and that's 10 to 12 different business relationships with said founder doctor. And so part of the qualitative aspect of these deals is do I see myself working for the next X years with this individual? Can we get through whatever together? How engaged are they? And frankly, I do think that's a part of the investment criteria and we keep them engaged because there is a relationship that's built. There's an actual friendship that's built, a respect that's built for each other.

Geoff Cockrell (03:52):

And the founders that you're partnering with, when I talk with folks and set up structures, there's a lot of different approaches of how to maintain that alignment economically. Do you think about bringing people in with equity? Is equity at Topco level? Is it at a sub-level? Are you doing it just through compensation apparatuses? How do you think about economic alignment with those founders?

Amanda Blank (04:17):

Every seller has role in practice in the sub-MSO, not in the Topco per se, but because we want them truly invested in the growth of the practice that they know and love, that they grew for 10 plus years. And so they're economically incentivized. And again, I truly think you can just tell the personality that's hungry to learn and interested in growing something and collaborative. So they're economically incentivized, but I also think there's an intangible element as well, like a natural hunger to develop or to learn the business side from us as well.

Geoff Cockrell (04:55):

One of the break points I see in med spa businesses is around questions of how far down the medical spectrum do folks want to go versus more purely aesthetic elements. You mentioned that you've got aspects of even surgery, dermatology, other more heavier medical aspects of it. Do you think about that kind of infusing of more medical into the med spa business globally or is it on a market by market basis or how do you think about the more medical service lines?

Amanda Blank (05:26):

Well, I'll tell you what, I don't want to do anything with insurance. So love a cash pay business. If there was cash pay derm, would love that. The surgical is cash pay. Frankly, we're subject to CPAM regardless, and we have doctors that have been doing X, Y, Z forever so I feel comfortable with the medical. I do think that the providers have to be properly trained. At the end of the day, it's a lot of trust in the expertise of those doctors. And when I think of med spa, frankly, it depends on who you're speaking to. If I speak to someone I meet at a conference, they're going to think, "Oh, med spa. Are you getting massages and painting your nails? That's not medical, that's consumer discretionary." I'm like, "Let me tell you, I wish it was consumer discretionary. Then we would have a lot less legal bills, let me tell you when we're structuring." I think it already is very medical. I don't want to do derm. I'm okay with surgical. I think anything med spa is in theory medical if it's already ablative.

Geoff Cockrell (06:22):

How do you think about the competitive landscape in the med spa arena? A business line that to my eye doesn't have a lot of moats around it, meaning that the barriers of folks setting up another med spa in a particular market are relatively low. How do you think about living in that competitive environment where you exist?

Amanda Blank (06:45):

I would say one, I would argue that there are actually more moats in geographies that have higher CPAM regulation and restrictions. For instance, we're out of California, you can't have an aesthetician really do anything in California. Whereas in Nashville, Tennessee or Florida, they could be ... I always make the joke, I could be a doctor in Florida. They can do injections, they can do anything. So I think there is a moat based on the state you're in. I also think that there's not a moat necessarily when it comes to injectables, but when you're talking about a CO2 laser, something that's ablative or has the potential for more serious complications, you do need a trained provider. And so the moat really is having experienced NPs, PAs. We're not going to be hiring RNs or estheticians to do the more serious medical components.

Geoff Cockrell (07:33):

Once you've entered a market, is your growth strategy more de novo? So more M&A even in market?

Amanda Blank (07:39):

Heck no. Absolutely not. I would say I'm not the person who's going to buy land and build a house. Absolutely not. I'm realistic and know that if I'm going house shopping, not everything's going to be turnkey with my exact specifications in my budget, in my whatever. It's not going to have the right wallpaper, et cetera. But I do want it 80% of the way there, meaning I'm going to buy a practice that

has a great brand reputation. And then part of that spoke model is either acquire a nearby smaller practice and convert it to that brand or grow one that has already been maybe a year or two established and that's as close to de novo as I'll get. The reason why is the J-curve and the timeframe in which to become profitable and the spend required for marketing in whatever location to do a de novo, it doesn't align with our strategy. I also just know so many reasons just know. Costs a lot of money to do that.

Geoff Cockrell (08:36):

As folks have been building and expanding med spa businesses, the arrival of GLP-1 drugs on the scene transformed them quite a bit, and there was a period of time when they were on the shortage list and you could obtain them from a lot of different places. How do you think about GLP-1s in med spa universe and what does the future look like on that?

Amanda Blank (08:58):

I have mixed feelings on it. I think personally if I put my investor hat on and I'm evaluating the industry of GLP-1s, terrible. You don't want to go into that. You don't want a practice that has majority GLP-1 because it's on a whim. There's chewables, there's at-home injections, there's telehealth, there's just so much. Someone can just write a script and you're off. There's the insurance component, et cetera. But the way that I've though about GLP-1s in our practices, especially the ones up in Seattle has been more encompassing of an overall wellness service. GLP-1s, HRT, that's the big thing. Thinking about muscle loss. So we'll have machines that honestly a lot of men do and as well as females, but they'll put on ... It's like Emsculpt. It creates muscles and contracts and helps firm up your body as you lose weigh as well. And I think it's complimentary to increasing facial volume, so fillers or sculpture or something like that because GLP-1s make you look old and saggy in the face.

Geoff Cockrell (10:02):

The idea is you can lean into them a little bit, but don't rely on them from a long-term planning perspective. Is that part of the theory?

Amanda Blank (10:10):

That would be the more concise way of saying that. I think that it really depends on the team you have on the ground. It can't be your anchor service, but it's complimentary to looking at a patient from a more holistic or broader perspective, if that makes sense. It's a nice to have when you can speak to your patient about all the other things that they're going through. Hormonal shifts as you get older, it's harder to lose weight. If you could get a little help there, that's great. But how do you know about your hormonal shifts? You're thinking about HRT, you're having a doctor analyze your labs. That's how we view it, especially in our Seattle location as they have been rolling out HRT.

Geoff Cockrell (10:45):

There was a time when some of those newly available drugs were swamping the economics of med spa businesses completely. How do you think about that from your own internal planning and from an acquisition perspective?

Amanda Blank (10:58):

What was it? 2024? That's when it was more popular. I would see so many of these come to market and nothing can ever be too good. There's no free lunch. You would see these practices that all of a sudden in 12, 24 months made five, seven million of revenue and high EBITDA and you're just like, "Wow. These are high growths." Obviously something's going to fall. There's nothing so good. It's an industry that you know is going to have some issues. Whenever anything's too good like that, there is some mean reversion or some sort of shakeout or regulation or whatnot, and that's exactly what happened. So when those did come to market, frankly, especially if they were 50%, 40% of the business's revenue or let's say service mix immediately pass.

Geoff Cockrell (11:42):

And at a minimum, it's hard to pay a multiple on that sort of EBITDA in an acquisition context.

Amanda Blank (11:48):

And you know what? It's not worth the time trying to argue with a doctor or the owner of that practice on why you're going to carve it out in certain cases or not. It's a polite, no thank you, and walk away.

Geoff Cockrell (12:01):

Going back to the blending of aesthetic and medical, one of the evolutions that I see a number of different versions of is folks leaning more heavily into the wellness and longevity arena. And there's a lot of different formats of that from high-end concierge medicine to alternative medicine elements, nutraceutical type driven business models. How do you think about wellness and longevity in the context of your business model?

Amanda Blank (12:29):

I think that it's slightly different than more medical aesthetics med spa services. I don't think that you can do everything well, meaning I think that with locations that are purely med spa, you can add a wellness component as a service line expansion. I'm not going to be adding longevity to a more derm-focused practice, just different clientele or to a surgical practice. I think it's nascent just as an overall industry. I think that is more discretionary. And I think there's a lot that you have to do to educate the consumer first to convince them. I also think frankly, you're going after high-income individuals in that

regard. People that are going to spend more money on peptide shots. That I do think is more discretionary, unfortunately. So I don't know. I love it personally. I'm very personally interested in it. I just think it only makes sense in certain demographic with certain practices.

Geoff Cockrell (13:29):

Your expansion strategy has been acquisition heavy. Folks with that sort of growth model are often drawn towards the availability of capital that comes from private equity investors. You have thus far not partnered with any private equity fund. How do you think about that topic, especially in light of your growth strategy?

Amanda Blank (13:48):

I think it would be easier and harder at the same time partnering with more traditional private equity. I think back, there were so many times early on that we could have done that where we were given large checks that we declined. The reason being is I don't think that all private equity understands med spa. And I think that it's easy to look at a piece of paper or Excel printout and say, okay, we're just going to do this X, Y, Z. We're going to grow it this way. But to actually understand a business, each individual asset and understand what is actually practical or not or what makes a good asset or not, there's a lot of intangibles that aren't shown in the financials. And I never really wanted to feel pressure to do an acquisition I didn't feel comfortable with or grow it in a way I didn't think was smart.

(14:42):

I'll tell you what, it's really hard to get a lot of 500K, $1 million checks. We work with a lot of high net worth family offices. And frankly, I just think people who get it get it. It's harder, but it's easier from an operational strategic perspective in the long run. It sucks when we are looking at an asset and we are lining up capital in parallel and making sure that everyone's on board, but we already have existing investors and capital partners that do take their pro rata. So it is a bit easier in that sense.

Geoff Cockrell (15:16):

As you grow, it often gets harder to continue moving the needle with a whole series of smaller acquisitions. As you're looking forward, what does the future hold? Is it going to be larger acquisitions? Keep doing the small tuck-ins even though that's hard. What does the future hold?

Amanda Blank (15:34):

I guess it's all relative, right. The deals we do, so many people would call them small, but they're one to three million of EBITDA. So there is some room there, but we do grow them organically as well. We are very ops heavy and so we grow them and I would say our tuck-ins are about a million of EBITDA. And so we probably have four or five acquisitions left to go over the next one to two years and then consistently is focusing on strengthening our existing businesses. I keep using these housing

metaphors, but I always say the practices we buy are like you go house hunting ... I haven't even bought a house recently, so I don't know why I keep doing this. But it's like you're looking at houses built in the '80s that have a few things you're just like, ooh. So there's enough there to fix to make it really nice. It's not like we're buying these new build modern Architectural Digest homes. There's enough to fix where we are.

Geoff Cockrell (16:31):

So Amanda, as a woman-owned business that can have pluses and minuses, headwinds and tailwinds, how do you think about the impact of that and what opportunities has that created or headwinds has it created?

Amanda Blank (16:43):

Honestly, I think only tailwinds in the sense that honestly, our entire platform, it's all females. A lot of working moms, it's like you want something done, you give it to a working mom. And we all are the consumer, so we understand the patient experience. We've all been med spa experts for the past 15, 20 years as the consumer. So we really understand the clientele, the patient, what we want, what we don't want. I think that every single seller I speak to, without a doubt, tells me ... Because I'm the one that will go to the dinner and meet the doctor, et cetera. I will either hear I'm the only female that they've met with, only non-suit that they've met with. I do like a fashion moment. So I'm not showing up in a blazer suit and tie. The reason they want to work with us is because they don't have to explain to me what a Hydrafacial is or why they need to be giving water bottles in the waiting room. I understand their business. I've probably done 80 to 90% of their services. I know it. And that I think is really helpful.

(17:45):

And frankly, not as intimidating. All the providers are women. I actually don't think we have one male provider at any of our practices. They're all women. And let me tell you something, I am less threatening coming in, speaking on behalf of FBG than some other guy out in New York. No offense to guys out in coming in and being like, "Well, this is what we're going to do and here are your new legal forms." No offense to lawyers. So I think it's been only beneficial to be honest.

Geoff Cockrell (18:11):

As you look forward, do you see the future bright for the industry writ large or do you see headwinds coming for the industry?

Amanda Blank (18:19):

I think that for an industry as a whole, I think it is one of the ... Almost like don't want to say it because I don't want more institutional capital to flood in. I think it is the best industry. The millennial demographic is the largest demographic. All of a sudden now are able to work and make a ton of money. And guess what? They want to spend it on themselves. Congratulations. People care about the way they look, longevity. It is the best industry and I hope nobody else enters it. Everyone go away. It sucks. Don't do it.

Geoff Cockrell (18:48):

I don't think you're going to get your wish. Everyone go away. Amanda, this has been a ton of fun. I think we'll call it an end there. This has been super insightful and thank you for joining me.

Amanda Blank (18:58):

Of course. Thank you for having me. I could talk about it all day.

Voice over (19:04):

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