McGuireWoods


# Episode 139: Investing in Precision Health, With Chris Dorn

## Episode Summary

Demand for concierge and functional medicine is surging, fueled by the GLP-1 boom and by healthcare costs increasingly shifting onto consumers. Fifth Third Securities managing director Chris Dorn describes this space, also known as “precision health,” as a consultative healthcare model where patients get more time with their physician and access to treatments standard primary care won't provide.

In this conversation with McGuireWoods partner and host Geoff Cockrell, Chris digs into the details investors weigh: how much GLP-1 exposure sinks a deal's appeal, and who actually buys these businesses once they reach real scale. Tune in for where the opportunity — and the traps — lie in one of healthcare's fastest-emerging markets.

## 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 joined by Chris Dorn. He's managing director of Fifth Third Securities. And Chris, if you could kind of introduce yourself and Fifth Third a little bit for the uninitiated, just to orient everyone.

Chris Dorn (00:43):

Yeah, happy to. Thanks for having me, Geoff. Excited to be here. I'm managing director on our Healthcare Investment Banking Team. I've been doing investment banking here in Nashville most of the time since 2007 and joined Fifth Third about two years ago to build out our practice. For those

that don't know, Fifth Third is now the ninth-largest bank in the United States post our acquisition of Comerica. Legacy bank, been around for hundreds of years, based in Cincinnati, and then the Comerica acquisition expands our reach from the Midwest and Southeast where Fifth Third is really strong to the West Coast where Comerica has been really well known. So excited about that, brings a lot more capabilities to our team.

Geoff Cockrell (01:21):

Chris, we're going to talk today about an interesting and wide-ranging intersection. It goes by a number of different names, precision health, longevity, wellness, some amalgam of those things. Within that general overlay, how would you describe that kind of far-flung intersection, which can range from very light, almost med spa type businesses to high end concierge, full medicine? How would you describe that intersection generally?

Chris Dorn (01:51):

I'm struggling for the best way to describe it as well. I think functional medicine comes in there a lot when you talk about the root cause of the issue, and that's sort of how I was introduced to it. I think we had previously worked with a functional medicine clinic-based business and patients looking for the root cause of their trouble were how they described their patient base. And so it was either someone who had been to many different doctors and hadn't had success treating a chronic condition or someone who really wanted a more holistic and I think maybe consultative approach with their physician, more time with their physician.

(02:26):

So the concierge practice comes in a lot when you get to spend more time with your doctors than what we typically hear about in primary care to people looking for access to more treatments than their primary care doctor might not be willing to give them. So those are some of the themes that we hear a lot when we talk about this space. And I think precision health is what we call it and what our white paper was titled, just best name that we're all trying to find for this approach.

Geoff Cockrell (02:51):

What makes this intersection attractive to private equity investors?

Chris Dorn (02:56):

Number one is probably the demand for it is off the charts. I think the GLP-1 boom had something to do with that. People are looking for perhaps more ways to access GLP-1s. But I think the biggest thing is more of this, the cost of healthcare is shifting to the consumer. Even if you're at a big employer, you might have a high deductible healthcare plan, you have an HSA that your employer contributes to and it's like, "Hey, here's a bunch of money. Go seek healthcare in the way that you

want it done." And so these physician practices that are opening up to say, "Hey, we're offering concierge level care with nutraceuticals and additional treatments you can purchase during your visit," I think that's driving the growth, number one. And then so you're seeing 20, 30% annual growth rates for a lot of these businesses.

(03:49):

And then I think the cash pay dynamic of these consumers is a big part of that as well. So a lot of these functional medicine providers don't take insurance or they'll hand you a super bill that you can take to your insurance for some of your lab tests. But I think those are the two biggest drivers here for investors.

Geoff Cockrell (04:05):

And where does this sit in the market in the sense of I'm in Chicago and literally the floor right above me is a high end version of this and their intro rates are 25, $30,000 a year. I know that's the tippy top of the market, but how much money is it on a kind of per patient basis or what's the range of what people's experiences can be?

Chris Dorn (04:30):

We've seen some clinics where there might be a $250 monthly charge and that gets you maybe one consultation virtually and certainly a quarterly in-person visit. So I think, and access to care I think is increasing through these. I think all these doctors and clinicians are going to try to find a way to make this much more profitable for themselves. If they have that much demand, I think that's appropriate. But we are seeing that this is not just driven solely by access for the rich. I think there's a lot of lower end consumers, if you will, who are willing to spend capital to take better care of themselves and have better access to care. So we're seeing a broad array of accessibility for folks.

Geoff Cockrell (05:14):

And who leads these businesses at the formation? Does it tend to be a primary care doctor, others? What does that look like?

Chris Dorn (05:22):

Our experience has been that a lot of primary care doctors want to practice, you could say at the top of their license or have more time with patients. They want to be able to dedicate more time with patients. So that's what we've seen a lot of, is a primary care practice physician leaving a primary care practice and starting up their own concierge-like practice. I do think you do see, your comment about med spas, you see some nurses starting up their own practice and they can get access to labs and order labs through a lot of different platforms where you can use the NPI of a physician if they're

not licensed in that state to order labs. So I think it's mostly physicians, but we've seen a number of different other clinicians creating these practices.

Geoff Cockrell (06:06):

Is the model generally one that is replacing an existing primary care relationship or does this tend to be supplemental on top of that?

Chris Dorn (06:17):

I think it's mostly replacing. If you're able to sit down with someone who you trust with your care, and I think more importantly, sit down with them every quarter, get your labs done every quarter, have a conversation about your lab tests and have a conversation about how you can take better care of yourself, be more proactive in your care. I think this is definitely a replacement for some of the primary care relationships people have had in the past.

Geoff Cockrell (06:39):

In many healthcare services businesses, one of the main drivers from an investor perspective is the ability to internalize what had been kind of external revenue streams, whether that's building a lab, building an ASC. Given the array of services of these sorts of businesses, what are some of the ancillary service lines that are available beyond just a higher cost consultative relationship?

Chris Dorn (07:08):

Selling nutraceuticals in the office, I think you can take a markup on lab tests and other products that you might be able to sell to consumers. Obviously, I think the GLP-1 boon has been beneficial to not just the specialty pharmacies that are compounding them, but to the doctors who are directing the order flow their way. You see a lot of other products that physicians are viewing or getting marketed to them as here's something else you can sell into your practitioner base, if you will.

Geoff Cockrell (07:41):

This feels like a kind of early innings developing market where there's not a lot of these platforms built out. There are a few. How would you describe the state of evolution of that market?

Chris Dorn (07:55):

I definitely think "early innings" is the correct terminology. I think we know of maybe two or three clinics of scale, call it $25 million of EBITDA plus. I think the EMRs are very early as well. I know there's two in the market now. They're around 20 million of ARR. But the biggest problem for the EMR

market and for myself as a software banker is trying to find EMRs of scale. You don't need RCM services as much here. You don't need CPT code billing at all here.

(08:28):

And so are there opportunities for EMRs of scale to gain market share here? I think that's the harder thing to envision, but there's certainly a lot that are chasing after this market. There's lab businesses where you sell into the clinic base, they have a website that they can go to and save all their favorite labs that they want to get done for every patient because they view that as more beneficial to their patient base of I want to do these functional labs, standard labs, and then I want to add a few esoteric tests that help me really understand my patient better. I think there's a lot of room for growth for not only the practices, but all the services and software being sold into these practices.

Geoff Cockrell (09:10):

What do you think are the drivers of this emerging business? Is it all patient demand driven? What's pushing this?

Chris Dorn (09:18):

I think it is patient demand driven. People are frustrated that they go to a primary care doctor that's affiliated with the largest hospital in their town. They get 15 minutes. They do a testosterone test and it comes back, your normal range is, I don't know what it's supposed to be, but let's just say it's 50 to 150 and their number is 60 and the doctor says, "Great, you're in the normal range."

(09:44):

But what optimizes my feelings of peak performance? I'm 46, maybe I want my testosterone a little bit higher or I want my CBCs to be better. I don't even know what all that means sometimes, but having access to a physician or a clinician who can spend more than 15 minutes with me and I can tell them, "Look, I have two children, 14 and eight. I play one sport once a month and I coach two teams, but I don't feel at my best. I don't sleep at my best. What are other ways we can optimize this?" Those are conversations that I think take time and not every primary care physician has the time to do that. And so I definitely think patient demand is driving almost all of this growth right now.

Geoff Cockrell (10:28):

My own experience is similar to that in a sense you go to the doctor once a year, the tests that they're doing are kind of narrowband in the sense of really focused on the most likely things from a population perspective that's going to kill you, but not a lot beyond that. And that's kind of just the end of what they do. So I definitely think that there's an emerging patient recognition that there is more that is available and some of that is emerging from watching things on YouTube, right? So how much of this evolution is driven by celebrity personalities and is that a necessary component?

Chris Dorn (11:04):

It's an interesting question because I think 20 years ago, I think everything was still driven by advertisements, right? Advertisements have just evolved in a different format to say I have an algorithm on Instagram and it's going to show me something and I pay attention to something for more than the average time, they're going to show me something similar to that. And so you got paid advertisements now on Instagram and they use celebrity influencers and I see some of them and I'm sure in some fashion I've been influenced by these, but when I see the ones talking about stuff that, the peptide craze right now that's going on. I, for one, would not inject myself with something off of Amazon, but that might work for others. And so as humans, I think we see advertisements in different formats and respond to them in different ways. I just think that's a part of what is driving this, but I don't think it's 100% driven by celebrity influencers.

Geoff Cockrell (11:59):

Are there many barriers to entry? Think of in the early innings of any of these kind of arenas, there's a bit of a land grab as there's some first or early mover advantages, but a lot of different types of businesses think like med spa is a good example where in addition to there being a lot of activity from an investor perspective, you end up with a flood of lower level market participants because there are very few barriers to that entry. How would you describe those dynamics in this arena?

Chris Dorn (12:33):

I think that is, for private equity and growth equity, institutional investors broadly, I think that's the biggest concern is, I think the term that we've heard and used ourselves is not investing with a "cowboy" or a "cowgirl." You want someone who's licensed to do what they're doing and practicing in a way that is not problematic. You don't want to be in the news one day for giving injections of something that doesn't have as much clinical evidence, or doesn't have safety profiles, or you're not practicing safely yourself as a clinician. So I do think that is a big concern for a lot of investors in this space.

Geoff Cockrell (13:12):

How significant is the evolving GLP-1 universe? I've seen this in the med spa arena and this has, I think, corollaries here of that can be a very lucrative part of a business, but it's also one that given the branded distribution channels, it's unclear the sustainability of some of those from a perspective of there are a lot of participants that are making boatloads of money and were kind of relying on something being on the scarcity list or other dynamics that could go away. How much of the economics in this arena is driven by that and how fragile do you think that is?

Chris Dorn (13:50):

Broadly, I don't have an answer to how much economics are driven by that. I will say that I think investor interest in a business where most of the profits are coming from GLP-1s, I think that lowers the level of interest. So I think we've seen businesses come to market, 99% of their revenue and EBITDA is coming from directing patients to a compounding pharmacy for GLP-1, and that has not gotten a lot of interest. If GLP-1 revenue and EBITDA is a part of your story, but let's call it 25% or less, I think there's still investor interest. We all look to Hims in the public market as I think the best barometer right now, and we saw that they pointed more of their patients toward branded, their profitability declined, the stock declined as a result. I do think that continues to be a part of the story, but we're seeing more and more of these clinics.

(14:43):

Number one, if they have a great care network around the patient who might be on a GLP-1, that there's other economics to be gained of keeping your patient healthy, keeping them coming back to your clinic, supplementing that with, "Hey, you probably need to take creatine and start lifting weights a little bit more," doing some body weight exercises because when you're not eating on a GLP-1, you lose fat and muscle, and so we want to maintain that muscle. But having that care management piece around the patient, directing that patient to other ways that they can improve their health on a GLP-1, I think that gets a lot of interest from investors and takes away some of the risk of GLP-1s making up most of your revenue in EBITDA.

Geoff Cockrell (15:25):

Given the early innings dynamic, how many things are there out in the market to buy of sufficient scale to be an entry point, which in my world, even on the bottom end of that is probably $3 million of EBITDA, is probably the minimal viable target size for a lot of things. How much is there out there to buy?

Chris Dorn (15:45):

On the $3 to $10 million of EBITDA, I think there's probably a little bit more. Does it get to the level of interest that you would hope? I think that's the bigger question because that could be coming from one clinic and I don't know if one clinic doing three of EBITDA is investible for a lot of private equity. There are an increasing number of search funds out there and lower middle market PE funds that might have a thesis in the space and be interested. But certainly as you get a little bit higher into 10 to 20, very few clinics that we've seen that have that kind of scale or revenue diversity, to the previous question on GLP-1s that gets interest. I just think this market's going to continue to grow. It's not all about GLP-1s, it's more about patient demand as we talked about earlier, and I think that's going to lead to more assets over time. But right now, I'd say there's a limited number of assets of investible quality right now.

Geoff Cockrell (16:34):

One of the dynamics on pricing that I see, especially when an area is getting a lot of interest, is the split between the multiples for something that's big versus something that is small. And when there's tons of interest in a space, even the smaller things start to trade on multiples that you would think about bigger. How would you describe both the multiple range for assets in the, let's call it north of 10 million, and what do you think the range is for the three to 10?

Chris Dorn (17:02):

So there's been some concierge medicine practices that have traded recently, certainly in the teens EBITDA range, mid-teens, let's say. They had diverse number of states, and practices, and physicians. As you get a little bit smaller, I certainly think you're looking at eight to 10 on the top end. I think some of these funds would like to push it a little bit lower than eight if you have one clinic and not a lot of diversity of revenue. But I do think as you scale, the multiples should increase rapidly because of the dynamics we've talked about before of just the high level of growth and the cash pay of this business should make it a much more attractive multiple than your standard physician practice management roll up.

Geoff Cockrell (17:44):

One of the questions in almost every provider services business is now starting to look at the back end of these deals. If something gets big, namely very big, who buys that? Given the early stages, there's a lot of room for a five to $10 million EBITDA business to grow, and there's a lot of room for transactions among financial buyers and private equity funds. Those sizes of businesses are all within their scale. Eventually these questions become driven by, well, who buys the big thing? And that can be a pressure point. Who buys something in this arena that is big?

Chris Dorn (18:21):

It's a great question. I think we haven't seen a lot of private equity investment in these businesses before. I think the analogy that we're all thinking about is physician practice management roll-ups of any kind, and you saw every private equity firm had an investment and now they're sort of struggling to figure out where they go next. But I still think there's a lot of PE interest in the cash pay dynamics of this business and not many people have been exposed to it previously that I still think private equity is the logical buyer. Can a cash pay primary care physician roll up of these types of businesses go public? I don't know if I know enough history as to why physician practice management businesses failed back in the '90s and why IPOs are never on the table for them now, but I think some of those dynamics might be mitigated in these kinds of practices. But again, I'm not entirely sure.

Geoff Cockrell (19:11):

Yeah. As I've seen and worked with a lot of physician provider businesses, one of the drivers of risk in it is when you've got a group of providers that are really driving the revenue versus a branded idea where the brand is driving the revenue. Because if it's a whole group of physicians, it puts immense pressure on alignment ideas with that group of physicians. And those can be difficult to land, expensive to land. They're kind of vulnerable to retirements of people that are driving business, vulnerable to kind of labor market pressures, and those can be difficult. One of the things that's interesting in this arena, I think, is that the revenue driver tends to be more branded. I think about some of the kind of longevity or functional medicine businesses here in Chicagoland, and I know them all by name, not by people. So it may be that this kind of takes some of the pressure off of some of those dynamics, but we'll have to see.

Chris Dorn (20:11):

Yeah, maybe that's a benefit to the celebrity branded culture around some of these.

Geoff Cockrell (20:16):

Well, Chris, we could talk for a while on this topic, but let's end it there. I think we're going to see a lot more interest and activity in this space as this evolves, but thanks a ton for joining me. This has been real fun.

Chris Dorn (20:29):

Enjoyed it, Geoff. Thanks for having me.

Voice Over (20:32):

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