CEO Leadership Series: Vol 11

PALM VASCULAR CENTERS

Palm Vascular and the Vascular Market

May 13, 2022

10 Key Actionable Takeaways within the Vascular Market

1. Recent reimbursement cuts, while disruptive, do not change the larger opportunity
2. Define your market potential and maturity by the number and size of your national competitors
3. Our largest competitor remains physicians who decide to remain solo practitioners in small independent practices
4. Opportunity to differentiate through broadening range of services built around a primary foundation – in this case a vascular offering
5. Consider horizontal expansion across clinical specialties with a heavy focus on managerial expertise that needs to be added for new service lines. Do not assume your existing team knows the nuances needed to succeed in every new business line
6. Beginning to see greater focus, appreciation and results negotiating strategic partnerships with local hospital groups
7. Sophisticated marketing programs provide a powerful tool for empowering organic growth and de novo growth opportunities
8. Focus on an attractive equity partnership model to ensure long-term loyalty among providers
9. Don't underestimate the value of stable long-standing executive team when it comes to allowing a CEO to focus on the greatest value creation opportunities
10. There are plenty of new trends that will have an enormous impact on the category for years to come from the emergence of AI-based decision-making, to robotic surgeries, new EMRs, and the inclusion of new clinical programs such as hyperbaric oxygen therapy and cardiovascular outpatient procedures

Palm Vascular – Key Introductory Facts

Palm Vascular was founded in 2010 and currently operates a network of six state-of-the-art vascular OBLs, 20 podiatry practices and employs approximately 30 physicians primarily across the Florida market. The Company is one of the largest providers of integrated peripheral vascular care in Florida.

The CEO's Journey:

Post a career in equity trading and investment banking, I partnered with an individual, who at the time, was the chief vascular surgeon of North Shore LIJ, as well as a highly regarded Staten Island University professor and vascular surgeon. We built that business from one center when I joined to six centers. I worked there for three years as the Director of Operations and learned the business. I did everything that was related to operations from

HR, inventory, supplies and equipment to the clinical aspects to scheduling and revenue cycle. It was a very dynamic learning experience, but I knew it wasn't a a long-term fit for me. I then found a new opportunity in the vascular market through a Mount Sinai physician based in Miami, Florida, and that's how Palm Vascular began in 2010. From there, we grew Palm Vascular into the largest peripheral company in the state of Florida. Last year, we completed our first affiliation with a large podiatry practice, so now we have 20 offices in podiatry as well.

The Evolution of Palm Vascular

We evolved from originally being a dialysis access business, which at the time was the only procedure that you could do in our centers. In 2013, we shifted to the peripheral market where we built services around peripheral angiograms, atherectomies, stent placements. Today, we focus on peripheral vascular disease, which is the clogging of your lower extremity arteries.

Peripheral vascular disease is related to the heart disease that everybody knows, but peripheral arterial disease is actually just as prevalent. It's one of the most fatal diseases, beating out most cancers. It's a very aggressive disease and we specialize in revascularization. We open the blood flow to the low extremities to prevent limb amputation. Our limb salvage program is the Company's main focus, representing approximately 85 to 90% of our business by revenue. We also provide other services including dialysis access, veins and spider veins, venous ablations, radio frequency ablations and uterine fibroid embolization. So, we offer a variety of services, with our primary focus still being on peripheral vascular disease.

> We focused on developing a very generous business model with our physicians, which attracted a lot of talent. We brought our providers in as equity partners and not as employees. This was differentiated to our local competitors who were offering far less upside and more traditional employee packages.

Competitive Edge

In addition, we are very focused and dynamic with our marketing. As a result, we are very strong in developing new practice locations. We've tapped into multi-layered marketing tactics that are highly effective, and we've honed those skills over the years.

Competitive Landscape

There are a few big aggregators out there - there's Modern Vascular, Fresenius' National Cardiovascular Partners, there are a couple of other larger players. But, these companies haven't really competed with us in our focus markets. They haven't entered our focus markets and we haven't entered theirs.

I follow their strategies and their business models just to see if there are ideas that we could implement. And, we have successfully learned from some of them, especially as it relates to deepening our strategies and services within nursing homes.

Those large aggregators notwithstanding, I'd say our greatest direct competition remains individual physician practices, i.e., the provider practices that chose to remain independent. Doctors who think that bringing on a management partner simply equates to, "I have to give up some equity and some control, and I just don't want to do that." Catering to this sentiment, there's this cottage industry of consultants out there that charge fees to help doctors build independent vascular practices to remain independent. I'd say that's our greatest direct competition in our niche.

Challenges Entering Hospital Strategic Partnerships

We've been in deep talks with several hospital systems. You could imagine the immense amount of red tape and bureaucracy that we face, so those processes are always very slow. They also take significant ownership, whether it be 10, 20, 30 plus percent of the equity. And then there's always the control of key decisions that we have to negotiate. It's proven to be such a slow cumbersome process that we've mostly avoided. However, I think that hospitals are beginning to change their thoughts on the value of partnering with leading outpatient management platforms. As three-party agreements between hospitals, physicians and outpatient platforms become more prolific, and we see more of these hospital vascular programs joining companies such as ours, these partnerships will become even more common. Both hospital administrators and their employed physicians are seeing the value that this three-party business model can reap. Physicians can get the best of both worlds - they benefit from a dynamic, experienced operator in the outpatient world, the opportunity for ownership, and they still retain the reimbursement contracts and the safety of their hospital employment.

Recent Reimbursement Headwinds Won't Prevent The March Toward Value Creation

We are facing some headwinds with recent, sizable reimbursement cuts. This has forced me to dive into our company operations to manage the impact on our margins and business strategy. We are, as a result of these cuts, rethinking components of where we're heading, but we will navigate through these changes. Despite some of the drawbacks and the recent cuts, there's still enormous growth potential in this category. Our industry, even in the OBL space, still only has approximately 900 labs across the US and one could easily justify 10x that number based on current opportunities to migrate suitable in-patient volume to outpatient settings. And so, there's just a lot of runway for growth.

In addition, we are rapidly evolving into cardiovascular outpatient, a category that literally didn't exist more than one or two years ago. A lot of what we do is still in its infancy stage. I know the focus is often on, for example, orthopedics because it's more lucrative, or the HMO market offering within primary care that provide significant managed care incentives. But, I view these markets perhaps as more mature with large national operators. The unique opportunity in our market is that we continue to remain very fragmented with very few large competitors.

In general, having the same executive team with me for over eight years has been very fortunate. This has afforded me the opportunity to mostly focus on the Company's development and growth, as well as funding sources to support that growth. In our market, which has gone through several phases of evolution, this ability to concentrate on strategy & growth has served as a mitigant to the inevitable obstacles to performance that come up along the way.

How Has Your Approach To Leadership Helped Your Organization

The way I operate plays into an adapting market, which is very much what our market is. We are always thinking out of the box - I call it our little black box fund.

We are always experimenting, whether it's vertical integration, horizontal integration, new technologies, new procedures - we're constantly trying to be forward thinking.

And that's one of the things that separates us from some of the competition. When opportunities arise, we're very flexible and nimble and ready to respond.

And we have responded well over the years. We shifted rather rapidly from a dialysis access only company to a dominant peripheral company. And we're ready to take on whatever challenges are next.

I will also tell you though, it's not always as successful as it may seem from the CEO's perspective. For example, I may have this strategy and vision in mind about opening up podiatry centers and, in theory, that sounds great, but in practice execution is always full of challenges.

Recognizing The Limitations Of Any One CEO and His/Her Existing Team

I currently own a wound care center and previously opened up primary care practices, with the assumption they would be synergistic with our platform. Both endeavors failed and, the reality is, I didn't know these market as well. In fact, our recent partnership with a large podiatry practice came about when I realized that when you have expertise in one field, it doesn't necessarily translate into another. So while I'm more of a "stay-in-your-lane" type CEO with a narrower focus, I still try to find ways to execute on synergistic opportunities I see in the market that benefit both the patient and the Company by adding on other specialized management teams, including through partnership & acquisition.

The Complexities of Synergy

It's been very positive to see how the entire circle of care works across our vascular surgeons and podiatrist partners, as well as our partners in cardiology and interventional radiology. But, we have to be particularly cautious about how we implement our strategy from an outward facing perspective as we expand the circle of care we participate in. For example, we have to balance maintaining relations with the 60 or so podiatrists that are now our partners while remaining just as engaged in servicing the 500 or so unaffiliated referring podiatrists that we continue to serve. Similarly, when it comes to cultural integration, we're going to allow a relatively large degree of independence across our existing partner practices, given that there's not a lot of overlap in their service offerings, and that podiatry and vascular have many differences between them.

Future Trends Worth Getting Excited About

Just one of my personal tenets is that we don't bet our business on other people's businesses. It's kept us out of harm's way in a lot of opportunities, that we would've failed in. That being said, we have been in very close contact with our industry partners to monitor evolving technologies, particularly, in the diagnostic space.

> There is a constant push, including within homecare, to try to figure out how to get better diagnosis earlier in order to improve care outcomes and reduce overall associated cost.

In our field, the longer the disease progresses, the more complex the patient is and the more expensive the patient is. If we diagnose the disease early, it's a much more cost-effective way to provide care. A lot of the technologies in our space have evolved around the concept of early detection. ABI machines are constantly being upgraded and simplified. There are home mats that read a patient's blood flow to the bottom of their feet, and then automatically upload results for remote monitoring. Remote monitoring is gaining steam and traction in a lot of different industries. So, we are continuously watching evolving technology solutions.

Also, with regard to hyperbaric oxygen treatments, this too is a real area of focus. Getting the timing right is important, but we are actually deep into exploring that as a potential new business model and service offering. I think if you want to get a bit longer-term and more philosophical, artificial intelligence is going to replace a fair amount of what we do. There's no getting around it. If you look at AI, I think the latest studies have shown incredible amounts of detection and accuracy far beyond what a human is capable of. In a field like ours, where you have to interpret things, that would dramatically reduce costs, and improve diagnosis. As far as the surgical aspects I've seen some robotics companies that are trying to think of ways where talented physicians can do these procedures from afar, but they are still in their infancy and are nowhere near market penetration. EMR's have been evolving, but they're still very cumbersome and very clunky. We've been fortunate that some of our EMR systems have sped up our process and communication with texting with patients and scheduling and some of the front-end software. I'm hopeful that at some point, more solutions will present themselves because we are facing massive cost increases with labor, with rent, with other items. And so, we can definitely benefit from technology solutions that help our productivity.

Special thanks to Eric Rogers for his insights in this discussion.