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ALLERGY PARTNERS

Market Insights from a Highly Effective National MSO CEO

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Key Takeaways

Monitoring anti-competitive behavior across the provider market is warranted but most MSOs have not yet reached the scale where this is a concern. In the meantime, corporate MSOs in the middle market are actually improving healthcare by creating MSOs that run the organizations better, creating capacity, etc. And, the bigger concern from an anti-competitive perspective is with payer-provider organizations that continue to consolidate the market.

- Much of the private equity market in healthcare services is operating in the middle market. Anti-competitive behavior at this scale is less of a threat.
- That being said, there is merit to monitoring anti-competitive behavior, especially amongst larger players in the select few sub-specialty markets that have already achieved meaningful consolidation. Leveraging scale for strategic gain is not unique to private equity – payers, health systems and other non-private equity backed consolidators have relied on similar tactics historically.
- From a competitive standpoint, the bigger concern as a patient and as a consumer is the consolidation going on in the payer front. If non-payer owned MSOs don't achieve a certain level of scale in their markets, payer-providers may ultimately be in a position to make it very difficult to run corporate MSOs successfully.
- Payers are playing the long game. That's where you see the big disconnect in healthcare. You've got a lot of folks playing a five-year game, and you've got the big payers who are rapidly consolidating playing the 30-year game.

MSOs and Their CEOs Have a Vested Interest in Contributing to the National Dialogue

While controls around anti-competition are healthy for the market at large, the negative narrative around private equity MSOs is over-stated.

- I have a strong belief that a lot of private equity, certainly in the middle market, is actually improving healthcare by creating MSOs that run the organizations better, creating capacity, etc.

MSO and their CEOs should take an active interest in helping to ensure that corporate MSOs are portrayed correctly in the national dialogue as future policy decisions are made that will shape the future industry landscape.

- I'd probably spend 5% of my time on it.
- If I use myself as an example, we were very active in Washington, DC, in both of my last organizations, and most of that was at the regulatory level. We also created a coalition of the top platforms in dermatology. The purpose of that coalition was educational - for instance, educating the market on the value of a MOS surgery or other areas of dermatology where there was a negative bias or drive to promote a narrative centered upon "why don't you just do excisions on everyone because there are a little bit cheaper."

Partnering with the right owners and choosing the optimal ownership model ranks high on the list of influences contributing to ultimate business strategy, outcomes and success.

How is your private equity fund partner likely to influence your business' strategy and trajectory? From practical experience working across different ownership models and private equity funds, key differences to evaluate between different fund alternatives:

- Is the fund a hands-on operator or more hands-off owner that defers to its management team?
- Where is the fund in its fund lifecycle? This can determine how much capital the fund will have available for your investment.
- How are the fund's other investments performing? This can determine how much pressure the fund will place on your asset to demonstrate outsized returns or overly aggressive growth.
- How much access to equity capital does the fund have? This can determine how capital-constrained growth plans will be, as well as whether the fund will be pressured into over-relying on debt financing to support future growth.

Ownership horizon as a competitive differentiator. Long-term ownership in and of itself can be a competitive advantage in a market where many business owners are operating with relatively finite ownership hold timelines.

- Payers have successfully played the long-game while much of the market is operating on a five year ownership timeline
- Family offices can sometimes have long-term hold horizon.

Provider ownership. In the provider market, alignment with providers remains key to overarching business success.

- There is a high level of variance across platforms in terms of achieving successful alignment – structurally and from a communication standpoint - with providers.
- While many factors contribute to alignment, provider ownership and compensation remains top of the list in terms of importance.

Is California a state to avoid? There is compelling opportunity for investors willing to face market regulatory complexities.

Is it our easiest market? No, but you cannot beat the growth opportunity.

- The market is obviously quite large.
- It's very heterogeneous, so there is no such thing as a California market; you find yourself actually in regional markets. The payer environment in California is actually much more fragmented than it is in some other states, which creates its own opportunities.
- Like Florida, California has been a laboratory for new approaches with payers. Whether it's IPAs or capitation, a lot of those things have been tried on for size out in California.

Perspectives on Dermatology, Allergy & ENT

These sectors face a supply / demand imbalance – the key challenge for the MSO is to create the capacity to meet demand.

- Allergy
  - Remains highly fragmented with limited number of consolidators of scale.
  - Biggest challenge in the market is that we have many more patients to serve than we have the capacity to serve.
  - Limited procedural volume and, as a result, lower average revenue per encounter as compared to derm and ENT.
  - Opportunities to capture emerging therapeutic pathways - innovation is occurring in allergy to try to move away from shots to other forms of therapy like sublingual.
  - Limited private equity investment to-date.
  - Limited regulatory pressure.
  - Limited payer focus – not a high-cost market.
- ENT
  - Patients are more episodic than recurring in nature.
  - Higher acuity care – more surgery – which leads to higher average revenue per encounter.
  - Compelling ASC opportunity.
- Dermatology
  - High recurring patient volume.
  - High procedural volume. ASC adoption is mixed across the market.
  - More competitive and saturated market as compared to allergy.

Background

I'm currently the CEO of Allergy Partners. I began that role in September, so I'm new to the role. But, for the prior two years, I've been on the board at Allergy Partners, helping facilitate the growth and the transition from a physician-led platform to a family office-owned platform. Prior to that, I was the CEO at West Dermatology from 2014 to 2021. When we stepped into West Dermatology in early 2014, it was a very small derm group that was losing money, but we saw the clinical excellence, we saw a clinical footprint that we thought made sense, and we were able to successfully grow that business over time and have a wonderful exit to Sun Capital with Jefferies as the banker. I took a year off after that and then, of course, got back to work. And then prior to West Derm, I was the CEO of a DME home sleep therapy business called Pacific Pulmonary. I was there for quite some time - I actually started my healthcare career there in 2002 in the marketing team and then went out to become the VP of Government Affairs and spent a few years in Washington and other state capitals, before becoming the COO. Then, we went through a transaction and sold to Tassian, which is a Japanese multinational with a very large global respiratory footprint. After that successful transaction, I became the CEO and then transitioned out of that role after a three-year agreement to stay and lead the transition and allow them to do some things with the business around mergers and acquisitions. And then, prior to that, I had completely different careers. I was in sales marketing and PR for eight years for a technology business. Prior to that, I ran an outdoor retail business in Palo Alto, California. So, it is a completely linear career path, as they say.

How do you think about the different ownership classes that you've been accountable for and how they've influenced you? Do you have a favorite, a least favorite? What are your thoughts?

If I start with private equity, I've seen a few and worked for a few. I think the commonality in private equity - for the most part, although there are some big funds like Carlyle and others playing a long game, more family office type investments, but they're still in the minority - the big similarity I see is somewhat obvious, which is they're all on fund cycles and depending on where you land in their cycle and how the overall fund is performing and other issues that can truly be independent of your own organization have a huge impact on how the private equity engages with your organization.

And that brings me to your point: ownership really does drive outcomes.

I mean, you can have a wonderful business and a wonderful team and still find yourself in a challenging spot because, in private equity, there are other dynamics at work - what I call the weather system in private equity - that you really can't influence.

One of the other big differences I see is differences in how investors show up in the business on a weekly or monthly basis. I've worked for very hands-off investors who truly want a monthly update, and they'll certainly be curious, they'll ask good questions, but they are not oriented on running the business or saying, let me sit in the chair with you. I've also worked for the type of investors who do want to sit in the chair with me and have very strong opinions about what to do and not to do around executive talent and strategy. And they really have made a hallmark in their own respects by being very hands-on operators. Of the two, my personal preference is for the private equity fund that is a little less hands-on. I expect my team to be able to lead the organization successfully, accomplish our plans, and ask our private equity sponsors for everything from capital to network guidance to strategic insight, which most of them can provide.

I would contrast that with Tassian, the multinational was a completely different animal. It was a very interesting part of my career in the sense that I was traveling the world from Japan to Australia to Europe, helping them build a respiratory network. So, that part of it was really educational, and I learned a lot. And I have to say that working with Tassian's culture and the quality of the people that they have in their organization is extraordinary. I really enjoyed working with that organization, and they treated me and our organization incredibly well. I would say they were much more like a family office dynamic. They plan to hold their investments for 20- 30 plus years and truly build global nodes and networks, and that's exactly what they did. Our business simply was one of the nodes in the network.

If I go all the way forward to today, we're currently owned by a family office that is based in Europe. And I would say I'm really enjoying working with them, first as a board member for two years and now as a CEO, for the following reasons. Number one, they are absolutely best-in-class investors across multiple sectors in the world, but they are very focused on healthcare, both in Europe and in other parts of Asia, and certainly now in the United States. And they know what they're doing. Number two, they have access to extraordinary levels of capital. They're very deliberate about how they deploy their capital. Unlike some other PE funds where you can find yourself, even if you have opportunities to grow your business successfully constrained for capital or directed more towards a higher leverage option for capital with the family office that I'm working with is very leverage averse, very interested in driving growth and have designed the business as if they will own it in perpetuity, which gives us enormous strategic flexibility and I think really a unique, significant and defensible strategic edge in the business.

I get asked often by investors, what would be the competitive advantage of this asset in an otherwise saturated marketplace? And sometimes my answer is as simple as "perhaps you'll have a long-term time horizon." People often think of competitive advantage as some strange, patented IP that you've discovered in a lab that no one else has. But it can be a lot simpler than that if you're willing to commit to the long term.

I think that's right. In my opinion in physician practice management and similar sectors, the competitive advantage can be your capital sponsor if you have a unique strategic approach, which is very uncommon to your point, there's not a lot of secrets out there. Beyond that, it's really about the quality of the team and the ability to execute at the MSO level, number one. And, number two it is the ability to partner with your providers in really authentic ways so that you've got a very strong alignment around growth around provider compensation. I mean, there are a lot of moving pieces, and accomplishing those alignments is not simple, but many good teams do it, and really, the ones that do it well tend to thrive independent of the sector they're in.

I want to build on that, but before I do, I'm going to double back on one thing that you said, which I just want you to elaborate on a little bit. Private equity dynamics and bad weather systems. What's an example of a bad weather system?

So, a bad weather system would be you are working with a private equity group or in a fund inside a private equity group that has run into difficulties with some of their other investments. And so the expectations and the desire for your investment to outperform - can you be much more profitable much more quickly because they are looking at the portfolio in total and saying, okay, we've got a couple of investments that look mediocre, we've got a couple that looks pretty good, and we need the ones that look pretty good to do a lot better than we really asked them to do. And, that's a real phenomenon. I don't know if anyone on this call has experienced that, but it's not uncommon. So, you just have to realize that you're one of many in a portfolio and that whatever the macro weather system is for the PE fund can have a huge influence on what you do. Another example is if they deploy whatever fund capital they have towards other assets, it is also not uncommon to go to your capital sponsor and say, listen, we've got this opportunity or that opportunity, and it requires incremental growth capital only to find that it's not available.

So, there are two things going on in healthcare: regulatory and competitive dynamics. There's a question of aggregation often referred to as economies of scale, monopolistic power and influence, and from a regulatory standpoint that's looked at across health systems, payers and now the new entrant corporate healthcare, which is mostly a euphemism for institutional private equity backed healthcare. And so, on one level, a question's being asked for all three actors: is size good for healthcare, or is it bad? What are the regulators getting right by criticizing it? What are they getting wrong by criticizing it?

That's a big question. Keeping in mind that my career really is in the middle market where, the first thing I would say is even the most successful middle market organizations never aggregate to a size where they have market pricing power in my experience, or it's very uncommon unless they're on their way to becoming a DaVita or something like that, at which point that you have a whole different dynamic. My big picture on the regulator front around these questions is I think they've got it about half right.

I think the concerns that we're seeing are around mergers in healthcare are really driven by very large-scale investments in sectors that have largely already consolidated, certainly much more so than the sectors that I've spent my career in. And that is where you do start to see, in my opinion, some predatory behaviors around pricing or out-of-network.

I mean, there are all sorts of mechanisms that are really pricing mechanisms in disguise. I think it is reasonable to have some concerns there, but I think it's not new. Hospital systems have been consolidating for years so that they both have leverage with the payers but also pricing power, which they leverage extensively. I'm not sure that, to your point about it being overly reductionist, you can say fragmentation is good, and consolidation is bad.

What I see in the middle market is consolidation takes both forms, but in the following way, it really has nothing to do with harming the patient or limiting access, at least not in the sectors I've worked in. I've just seen, for instance, in dermatology, there is still something in the neighborhood of 30-plus platforms out there that are highly fragmented, that are likely providing very good clinical care and patient service support but have gotten themselves into a position where they're growing very slowly. And at that point, private equity runs into a real problem in the middle market where they have to figure out, well, what are we going to do with these assets? Then, they try to bring them together in some form that both provides some kind of return and creates a sustainable organization. I think the risk I've seen

in PE getting into the middle market and growing too quickly and literally going bankrupt and then creating all kinds of problems for patients and providers is the bigger risk. And I don't think there's a regulatory answer for that, although certainly, California is experimenting with it, right? I mean, they're really trying; they're suggesting they should get right in the middle of the corporate practice of medicine and say, yes, you can buy this, or no, you can't. That's a different topic. But, I do think that there are obvious examples today with some of the very large PE groups where they have gotten into healthcare in ways that, at least, the optics are pretty negative. And I think they're inviting negative attention, but I'm not sure the solutions really would even work in the first place other than trying to break up some of the majorly consolidated businesses, which I think is impractical.

My bigger concern, just as a patient and a consumer myself, obviously, is the consolidation going on in the payer front. Quite frankly, what I try to educate our providers on when we talk about growth is we're really not talking about creating more wealth or positive financial outcomes.

My strongly held belief is that if we don't achieve a certain level of scale in our markets and in the aggregate, organizations like Optum will ultimately be in a position to make it very difficult for us to run our business successfully.

And they're playing the long game. And that's where you see the big disconnect in healthcare. You've got a lot of folks playing a five-year game, and you've got the big, big payers who are rapidly consolidating playing the 30-year game.

Very well said. Picking up on this reference to California, I can think of no better person to ask because you've done a lot of business in the healthcare market in California and in other states, too. How is it to invest in California healthcare these days relative to other parts of the country? Some would argue it's a no-go state; there's no way to succeed in California, and it's only getting worse. Is that hyperbole, or is that an accurate description of the reality in California?

I think it depends on your goals. If somebody said, I would never invest a dollar in California, I would, first of all, probably be somewhat sympathetic because they're going to have a couple of good reasons. Everything from labor laws to now the new, what I would call adventurism on corporate practice of medicine. In my experience, however, we have thrived working in California. The market is obviously quite large; it's very heterogeneous, so there is no such thing as a California market; you find yourself actually in regional markets. And we have, particularly in the dermatology business, 50% of our patient base and a little more of that in revenue, both in cosmetic and general medical dermatology, in California. We have been and we're going to continue to grow here. Is it our easiest market? No, but you cannot beat the growth opportunity. Quite frankly, what's interesting about California, too, is that, like Florida, it's been a laboratory for new approaches to payers. Whether it's IPAs or capitation, a lot of those things have been tried on for size out in California. Usually, the word capitation makes people run for the exits in the middle market. But, I can tell you that in both Nevada and California, we ran extremely effective capitation agreements that were a win for the payer, as well as for the patient and for us financially. So, it just takes a different level of execution. That's where I would land in California.

So, what's understated in California is levels of demand, market opportunity, and, in some cases, levels of reimbursement, the rewards for actually delivering good service, which can more than compensate for the administrative nightmare headache burden that comes with conducting business in California.

Yep, that's it. The other is that the payer environment in California is actually much more fragmented than it is in some other states, which creates its own opportunities. I mean, we lived in northern California for 25 years, and now we live in Southern California and they're quite different, as you can imagine. But even within those general references, quite frankly, California, like most big states, is highly regionalized, and that creates a lot of business opportunities.

So, if we think about comparing similarities and contrasting differences between the derm MSO, the derm ecosystem, the allergy MSO, and the allergy ecosystem, what are some of the similarities and differences that come to mind? What feels the same? What feels totally unique?

Yeah, I'd say the similarities are in terms of the need to partner with your providers. And I'll get to what that looks like in a moment. That is absolutely job one in both sectors. There is no such thing as running a successful PPM where you are not working in lockstep with your providers on growth. And that's everything from why we are growing to how they participate, etc. And that has a lot of nuances in it. The other similarity I see is generally what I would call a scarcity mindset. Providers in both of my organizations tend to approach the world as if I have a nine-month patient backlog. I'm not thinking too hard about what impact that's having on the patients, and it gives me some comfort as a provider that I know I have all those patients waiting to see me. So, changing the mindset from scarcity to abundance and saying, we recognize that we happen to work in sectors, both derm and allergy, that have a tremendous supply-demand imbalance. In our organization today, we have many thousands

of patients waiting to get an appointment with us. I mean, it's really a lovely problem to have to solve. So, I tend to view both sectors as having a challenge for the MSO to create the capacity to meet the demand. And that means you have to work with physicians to say; we're going to add another doctor or another mid-level or whatever the decision is to meet this latent patient demand and do a better job of serving the patients that want to see us, whether they're existing or new. In so doing, we will grow, and you're not going to lose out in any way, shape, or form. The other similarity is in both of my organizations, our providers had a meaningful ownership stake, which is crucial to long-term alignment. You typically have to have two conversations at once with a provider. One is really about their cash compensation; what does that look like? What does income repair look like if they sold a piece of their income to the MSO, which they all do in some form, and what's the value of their ownership stake? And how do you create a holistic conversation so the provider understands both the near-term and the mid- to long-term? And absent that understanding, most providers that I work with will default to the near-term cash comp concerns and really undervalue their ownership stake. And then I think the last piece, there are real differences in the business models that matter. In dermatology, we owned a hundred percent of the clinic, and our physicians were employed.

In Allergy Partners, we have a different model - our physicians own a meaningful piece of the company, and they also have a significant amount of clinical autonomy to run their practices as they desire.

Both models have pros and cons. When we were running the practices on behalf of our teams, if we didn't do a really absolutely incredible job - and believe it or not, some days we really messed stuff up - then it really damaged the relationship, and you had to go into repair mode. In the Allergy Partners organization, it's much more of an influence and alignment with our providers to say, if you wish to run your organization, meaning your clinic typically, sometimes it's 2, 3, 4, 5, and you're not running them particularly efficiently, which impacts the provider's income, then allow the MSO to come up next to you. Let's partner on this and run this more efficiently. So that's where I see a lot of the commonalities.

I think the differences have a lot to do with the intensity of the services being provided. In general, dermatology and some cosmetic surgery, they both involve medical surgery of a certain nature. Allergy, of course, does not. We did not use ASCs at West Dermatology, but some derms do. But, Allergy-ENT businesses that are a hybrid; the ASC piece of their business is a meaningful element. Not only is ENT obviously more surgically intensive, but it also has a much higher value per patient because of that – and, you get facility fees. So that's where the sectors start to depart. From a business model perspective, the difference is, in general terms, we had a lot of success maintaining recurring patients in dermatology, so there was a bit of annuity revenue for our business. If we did a good job with the patient and kept them coming back when it was clinically appropriate, it was very successful. We do the same thing at Allergy Partners in ENT. That's much more difficult because most patients are coming in for a specific medical procedure that hopefully absent complex cancer cases for that patient. It's a one-time done, and maybe you'll see them obviously as a follow-up, but you may never see them again as a patient for another service. So that's where the operating models start to diverge.

What gets you excited about allergy and ENT for allergy partners specifically and your family office and for allergy ENT as an industry?

So if I think about the sector, I'll just start with an allergy because although they often get smooshed together, they really are very, very different on-the-ground clinical experiences and organizations to run that just happen to have some patients that overlap. It's not unlike derm around general derm, and cosmetic. What I like about our sector is it is extraordinarily fragmented. We are arguably the largest platform in the United States in allergy, whether you measure that by patients or clinic sites or providers, and in any given market, we're no more than 3% of that market. So, number one, that presents us with a lot of, to use a phrase, I can't believe I'm going to say this, but greenfield for growth. Number two, unlike other sectors that I think investors viewed often view as more attractive, allergy has not attracted an outsized amount of investor interest. And so, there's just less competition at the moment. And that is always welcome if you can offer something unique to the market. And at some point in my experience in derm, the bidding frenzy got so high we were offering 6x on really great groups, and someone would come in and blow us away and pay an 11x. And at that point, the math goes upside down, in my opinion, and you don't see any of that behavior in the allergy space other than certain little pockets in the ENT space. I think for really sharp consolidators, and there are a few, particularly on the ENT side of the business, there is a lot of opportunity for growth for many years. The regulatory pressure on the space is moderate but not high. A lot of that has to do with the efficacy of the therapies, as well as demonstrated in the relative scheme of healthcare. That's the regulatory environment, which is its own weather system. It's pretty calm in the allergy sector, which is great because if that changes, of course, the nature of your entire business can change overnight. So that's what I see. And, if I'm just with my business hat on, it's really a privilege to be in a business where the biggest challenge we have is we have many more patients to serve than we have the capacity to serve and solving those problems and how we

do it creatively. I find that challenge very energizing. We have a number of things we're trying in our business, everything from telemedicine to the use of mid-levels, etc. There are a lot of hybrid approaches that we are piloting at the moment to create access where it's difficult to do so, meaning our clinics are full, and we have to open a new one to create access. And if we are successful at creating access and then delivering quality healthcare, that will give us an edge across the entire sector, and particularly in our payer negotiations. When it comes to payer discussions in our space, accessible, quality healthcare - even under consolidation, the degree to which it's already occurred - payers are still dependent on large regional medical groups that provide access at good to excellent levels of quality.

So, if I were to list a few major themes and trends in healthcare: virtual care and telemedicine; the growth of mobile care and home care as a new site-of-service; the emergence of value-based care; the consolidation of payers into payer-providers; the emergence of data analytics in healthcare and the growth of real-time reporting automation; improved outsourcing; and challenges related to shortages in clinical supply and labor supply and creative ways to address those imbalances. Which of those themes do you think about most, which is most exciting to you, and which is most threatening to you?

We think most about the payer-provider integration. I think company with the largest head start, and I mean it's almost in plain view, Optum has become the largest employer of physicians in the United States, and it's almost as if no one talks about it. And so they have been steadily executing a model to disintermediate any third-party ownership, whether it's physician partnerships, much less private equity and methodically folded into their own network. So that is what we think about, not just Optum in particular, but that, to me, is the biggest threat to standalone, independent platforms.

Everyone, by comparison to Optum, is independent on a relative scale.

Sure, yeah, that's worth the chuckle. So, we think most about that. And, we also think a lot about building density in our core markets, both for operational benefits, which are pretty obvious, but also for payer dynamics. We try to get as big as possible in very narrow regions where we actually have leverage in our payer negotiations independent of which payer it is. The vast majority of our business is commercial, and the vast majority of that, of course, is with some form of BUCA.

I think where we have a lot of optimism is around data analytics and AI. And what's really interesting about it for allergy is that there are no clear outcome measures for an allergy patient. And there's a lot of interesting work going on around this - everything from rapidly improving allergenic medicine through the use of data analytics and, to some degree, AI is still a smaller piece of that today.

The other is simply creating, as a sector, clinical pathways with clear outcome measures where you can, outside of macro and MIPS, actually demonstrate outcomes to whoever is paying the bill.

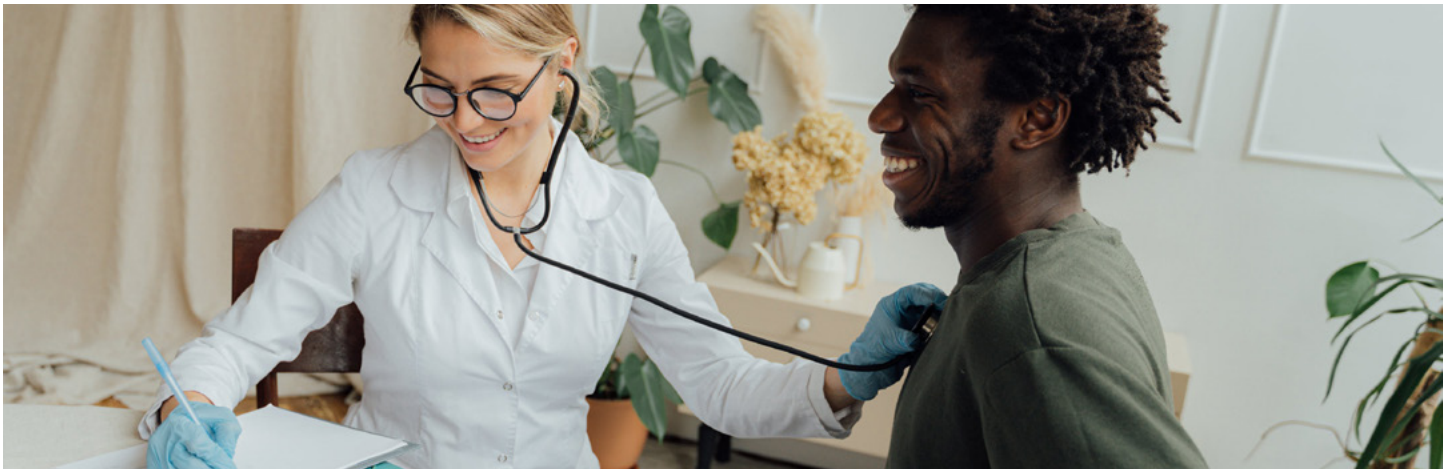
Certain pathways that may or may not be unique to a particular organization lead to sustainable outcomes. And, everything from biologics all the way through to shot therapy or sublingual, we see the opportunity to capture emerging therapeutic paths as there is a lot of innovation going around in allergy, trying to move away from shots for obvious reasons because they involve needles to other forms of therapy like sublingual, you name it, that are proving to be rather efficacious. And there's a lot of emerging work on food allergies and effective therapies for food allergies that are in their infancy. We're excited about a lot of that.

In our business, the opportunity for virtual care is moderate. So there are patients, particularly patient follow-ups, that we do virtually. We utilize telemedicine for that. We have not yet landed in a place where we think that telemedicine would be a disintermediation platform for allergies, although there are businesses out there with that strategy at play right now. Like many sectors, we see it as a hybrid. So, it is an adjunct to our clinical business, but we don't see that it really leaped into the future; trying to be a completely virtual allergy business is not something that is part of our strategic focus.

And then, value-based care, we do not have any VBC agreements at the moment. Part of the reason for that is that no one knows how to measure an outcome for an allergy patient, so it tends to get a little circular. While some broader value-based care agreements can incorporate allergy, our sector is not a focus for those yet. It's in some brainstorming conversations from time to time. Could we do this? Really, how value-based care manifests for us is that we've had some payers approach us on a capitation basis, which is not value-based care, but it's sort of softly adjacent. But even those aren't particularly well thought out on the payer front yet.

They end up being very cost-driven, which is not necessarily the same thing as efficacy at all.

Correct. And quite frankly, I mean allergy is relatively low cost. On the ENT side, it is different because of the ASC and the intensity of some of the surgeries. But in allergy at large, there's just not a payer focus on or macro concern on cost.



As you're thinking about the early stages of an MSO, what was kind of the most important value proposition that you put forth to new partners or new practices you were looking to bring on that seemed to hit home the most?

It was variable, but if I tried to generalize, I mean, the first rule of the MSO is don't screw it up, right? It's almost the inverse of a value proposition, which is we're not going to come in and blow up your clinic. Number one, I think if I really thought about it in terms of long-term strategic value, it was RCM. So, the ability to collect on their behalf was typically in a way that was much more efficient than what they were able to do on their own. Number two is IT support, so PM EHR is essentially getting them best-in-class systems, which most smaller groups do not have. And then I think the third would be, and this was highly variable, but the third would be a contract lift. So if you're able to bring somebody in onto your tent and give them better rates, well, you just gave them a raise for showing up, but those would be my three.

At the beginning of the conversation, we talked a lot about competition and market structure and discourse around both of those topics that really have the potential to shape the future of the healthcare landscape. How tangibly important, really measured by allocation of time, is getting this public discourse right to a CEO in healthcare. Is it something that's more academic and removed from your day-to-day as a CEO, or is it something where a CEO really should take an interest in contributing to and correcting the public discourse on the topic?

I think it's very important. If I use myself as an example, we were very active in Washington, DC, in both of my last organizations, and most of that was at the regulatory level, as you might expect. However, we also created a coalition of the top platforms in Derm. And the purpose of that coalition, which McDermott helped us pull together and manage, was really educational and explaining, for instance, the value of a MOS surgery or other areas of derm where there was a concern, or there was this drive to promote "why don't you just do excisions on everyone because there are a little bit cheaper." And being involved in an educational effort where you took some of those ideas, I'll call it an idea, and took them ahead on and said, well, listen, private equity is not some giant hegemon out there. It's actually completely heterogeneous. And I have a strong belief that hopefully doesn't sound too self-serving that a lot of private equity, certainly in the middle market, is actually improving healthcare by creating MSOs that run the organizations better, creating capacity, et cetera, et cetera. But I think, to your meta question, I think it's important. And I would say if I made up a number in any given year, I'd probably spend 5% of my time on it, but that would be very meaningful time. And the question becomes, where do you spend the time? Otherwise, you run the risk of just shouting out a window, if that makes sense.