

PE Hub

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PE DEALS

Sun Capital's Daniel Florian: Doctors' offices should be efficient, clean and cutting edge, like an Apple Store

"In today's healthcare world, whether it's dermatology, dental, or primary care, you have to provide a very strong patient experience, which is now more of a consumer experience," said Sun Capital's Dan Florian.

Sun Capital Partners was founded in 1995 as a generalist investor with a focus on distressed businesses, but about five years ago the firm moved to more of a vertical strategy, launching investment practices in business and healthcare services. As part of our ongoing series profiling private equity firms investing in healthcare, PE Hub discussed the firm's strategy with Daniel Florian, managing director. With the firm since 2007, Florian co-leads the Boca Raton transaction team and co-leads the healthcare and business services investment practice.

The consumer's always right

"We are benefiting from the overall consumerization of healthcare," Florian told PE Hub. "Whether it's a consumer business or a dentist practice, there are learnings we can take from our past experience that has made us a better investor and operator in a distributed healthcare model."

It's all about the patient experience today.

"In today's healthcare world, whether it's dermatology, dental, or primary care, you have to provide a very strong patient experience, which is now more of a consumer experience – clean and up-to-



Daniel Florian, Sun Capital

date waiting areas, minimal wait times, a good relationship with the provider and appropriate follow-up," Florian said. "We want people coming into our dermatology practice to have a similar experience they would have at an Apple Store – efficient, clean, and cutting edge."

Investment strategy

"We've been around for over 26 years, and we started doing distressed investments but over the last decade, however, we have pivoted to buying healthier businesses," he said. "We focus on 'good to great' businesses where we can partner with

management to help them accelerate value creation through operational excellence."

Florian went on to describe how there are four quartiles of businesses and which ones the firm focuses on.

"Twenty years ago, we largely focused on the fourth quartile – businesses that were struggling or distressed," he said, noting that the firm tends not to look at the first quartile, which is the most successful businesses with good cash flow, strong margins and great management teams.

"Our sweet spot is in the second and third quartiles – companies in good industries that have a solid footing, or a better mouse trap or business model, where we think we can help them improve or grow more rapidly than they could on their own."

"In a lot of ways, we think healthcare is really a natural extension of what we had been doing in our earlier years," he said. "In the early 2000s, we were prolific investors in consumer businesses, and we find that there are a lot of similarities with healthcare today."

There is one rule that the firm always follows.

"The golden rule of our healthcare business has been that we will never meddle in or intrude on clinical operations," he said. "We have seen companies struggle when

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PE firms have gotten involved in the clinical side of the business. Our job is to partner with a world-class clinical team and then empower them to be the best they can be. We never tell them what products or materials to use or not to use – that is the doctors’ job and not ours.”

What makes Sun Capital different?

“Anything that can be done today should have been done yesterday and we will give you an answer in hours and not weeks, we don’t need to set up a board meeting to get an answer,” he said. “Impatience is a virtue sometimes at Sun Capital. We are on top of the business without slowing down the team. Our model allows us to be part of the solution when a problem arises and give quick responses when portfolio companies have requests.”

The firm isn’t influenced by what others think about an asset. Prior to Sun’s acquisition of ClearChoice Dental Implant Centers, a lot of other potential buyers thought it was not worth the price, but that did not skew the firm’s thought process or impact the decision to buy.

“We knew where there was value, while others might have been hesitant, because it was losing money two years before we bought it, but we doubled its footprint and earnings and sold it last year,” he said. “That is the kind of deal we can do that others might pass on.”

Sun sold ClearChoice to Aspen Dental Management (backed by investors that include Ares Management, Leonard Green & Partners and American Securities) for a reported \$1.1 billion in 2020.

Recession resistant

“We believe our healthcare investing is highly recession resistant, so if six months

from now, spending and consumer confidence decreases, some of our consumer businesses may take a step back, but we expect our healthcare services businesses to continue to perform at a very high level,” Florian said.

“As far as challenges, there are a ton of them right now, which actually makes this job that much more fun and rewarding, as challenges bring opportunities,” he said. “Labor inflation in services is a challenge. It does not matter whether it is in dental, primary care or dermatology. Doctors are always well paid, but in addition to them you have front office staff, nurses, physician assistants and others. If you lose a tenured employee, you are replacing that person with less experience at a higher cost, so that is a challenge. The labor force has shrunk and the cost of adding new staff has increased, so it is challenging all around.”

Company culture plays an important role in recruitment and retention. “That goes back to the approach of the portfolio companies: if you foster a good environment and focus on building and rewarding a strong culture, which is going to pay off for you right now,” he said. “On the other hand, if it is one of those places where people show up just for a paycheck, they are probably struggling. We push for fostering a good environment, and because of that we feel we are in a better position than most.”

“In theory, higher interest rates mean lower cash flow and/or debt quantum, which means you can afford to pay less for deals,” he said. “But we have not seen multiples take a hit yet, so right now it is more of a flight to quality. I would not be surprised if there is pressure on valuations at some point, but demand for assets remains very strong.”

Dealflow

Although dealflow has been slow so far this year, Florian expects that to change.

“Every week we are seeing new books, and dealflow is absolutely picking back up,” he said. “By June, I would think we are back to normal levels of M&A flow.”

Firm facts

Sun Capital is a global PE firm based in Boca Raton, which focuses on partnering with outstanding management teams to accelerate value creation. Since 1995, Sun Capital has invested in more than 465 companies worldwide with revenues in excess of \$50 billion across a broad range of industries and transaction structures. The firm focuses on defensible businesses in growing markets with tangible performance improvement opportunities in the business services, consumer, healthcare, industrial and technology sectors.

Recent exits

Sun exited ClearChoice in December 2020 after making the initial investment in January 2018. ClearChoice is a national provider of same-day dental implant services and was sold to strategic buyer Aspen Dental Management.

Recent investments

Since the formalization of Sun Capital’s healthcare team and strategy in 2017, Sun has acquired four platforms and dozens of add-ons. Sun invested in Clinical Care Medical Centers and West Dermatology in 2020 and Simply Beautiful Smiles in 2019. (See sidebar below for more information.)



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Sun Capital's healthcare portfolio highlights

(Dates refer to initial investments)

Clinical Care Medical Centers: A provider of primary care, specialty care and ancillary services to Medicare Advantage and Medicaid plan members. The firm has had one add-on since the original investment. (2020)

Simply Beautiful Smiles: A provider of dentistry, hygiene and specialty services operates in 39 locations in New Jersey, New York, Maryland and Virginia. The firm has had 18 add-ons, with a total of 20 practices acquired since the original investment. (2019)

West Dermatology: A clinical and cosmetic dermatology platform with locations throughout Arizona, California and Nevada. The firm has completed four add-ons since the original investment. (2020)