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Former Bausch & Lomb Exec Forms Health-Care Firm Targeting Cash-Pay Businesses

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Investment firm Strathspey Crown appears to be embracing the uncertainties surrounding health-care reform with open arms.

Although some private equity firms facing these uncertainties have moved to safer territories of investing, such as health-care information technology and billing management, others are treading in slightly riskier areas where portfolio companies' revenue is directly linked to reimbursements.

The Newport Beach, Calif., firm--set up by Robert Grant , a former chief executive and president of [Bausch & Lomb Inc.](#) 's surgical unit and president of [Allergan Inc.](#) 's [Allergan Medical](#) business--is taking a different tack. Mr. Grant has set up a company that invests solely in the lifestyle-oriented segment of the health-care industry where medical bills are entirely paid for by users rather than payors such as insurers and the government.

The founding of Alphaeon Corp. earlier this year is based on the premise that physicians' cash-pay portion of the business is still subject to what Mr. Grant termed "unnecessary costs."

Health-care service providers have various programs and measures to ensure their operations are up to regulatory standards, so they can prove they are qualified for reimbursement from government organizations. But Mr. Grant said cash-pay businesses, which don't rely upon taxpayer reimbursement, shouldn't have to take that into account.

Right now, the two business segments aren't clearly delineated by intermediaries such as pharmaceutical companies.

"The reimbursement and cash-pay portions of health care are too intertwined to separate," Mr. Grant said. "Whether it is going to be reimbursed or not, for every dollar paid on a product, 20% would go to fund regulation or compliance."

Strathspey Crown is seeking to link physicians directly with product manufacturers, bypassing the middle man.

Alphaeon, also of Newport Beach, Calif., buys the licensing rights to products that it deems would serve physicians and patients' best interests, in terms of quality and cost, and sells them directly to physicians through channels like trade associations. It made its first investment earlier this month, buying the exclusive U.S. license to Teoxane Laboratories' portfolio of hyaluronic acid-based dermal fillers and cosmeceutical products. Hyaluronic acid, a substance naturally present in the body and which can be used to strengthen joints, has been used to smooth out facial creases and wrinkles.

Capital for Strathspey Crown's investments comes from Mr. Grant as well as from funds being raised from physicians, rather than through a traditional private equity fund structure backed by institutional investors. Mr. Grant said the structure allows for an alignment of interests, as physicians themselves will benefit from the lower product prices as

well as revenue generated from Alphaeon's licensing and services, which may in the future include providing loans to patients for its services.

Although it is too early to pinpoint when an exit might occur, Mr. Grant said a likely way to divest the Alphaeon interest would be through a public listing, adding that would be years from now.

Targeting investments within plastic surgery, ophthalmology and dermatology, Alphaeon has gained some initial support through a "strategic partnership" with the [American Society of Plastic Surgeons](#), a trade organization representing more than 94% of all board-certified plastic surgeons in the U.S. In a news release, the Arlington Heights, Ill.-based trade group said the partnership--which involves the Society receiving an equity stake in Strathspey Crown--"provides additional capital and expertise" on matters like group purchasing and licensing, practice management services and public relations campaigns.

Gregory Evans, president of [American Society of Plastic Surgeons](#), stopped short of saying the partnership means an official endorsement of the venture, but that it is part of the trade association's plan to launch a management services organization, or a co-op for physicians to help them maneuver the changing regulation landscape and benefit from reduced operational costs. "Just like any other group purchasing organizations out there, the society sees this as an opportunity to perhaps provide products to our members at a low cost," he said. "We focus on what's best for our members and how we can help their practice."

Industry participants said it is hard to gauge whether Alphaeon will be a success, given the venture is still in its early days. Much of the cash-pay portion of health care is oriented around consumers looking to improve their appearance rather than curing diseases, and is driven by consumers' disposable income, which has fluctuated drastically during the past few years.

But Mr. Grant said he isn't too concerned about demand. "During the depression, lipsticks sales went up. And during the financial crisis, the same thing happened with Botox, whose sales have defied gravity and held up pretty well," Mr. Grant said. "Consumers see it as a means to boost self-esteem."

According to the [American Society of Plastic Surgeons](#), the number of surgical procedures like breast implants and liposuction declined right after the financial crisis, but Botox injections have held up pretty well. Apart from a mild 4% dip in 2009 from the previous year, the use of Botox has steadily increased since between 2005 and 2012, with over 6 million such procedures being carried out last year.

<http://strathspeycrown.com>

<http://www.alphaeon.com>

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