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Investment Thesis

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Investment Thesis: Consolidation of Cash-Based Medical Service Businesses

Executive Summary

Aspen Wells is set to seize a unique opportunity within the booming MedSpa industry, a sector driven by increasing demand for premium, elective healthcare services across diverse demographics. Our strategy is focused on building a portfolio of high-margin, cash-based MedSpa businesses through strategic acquisitions and consolidation, establishing a commanding presence in this rapidly growing market.

The MedSpa industry is primed for expansion, fueled by consumer preferences for non-invasive and minimally invasive aesthetic treatments—services that operate outside traditional insurance models, offering predictable revenue and enhanced profitability. By concentrating on this cash-based approach, we minimize reliance on insurance reimbursements and capitalize on flexible pricing, ensuring financial stability and strong profit margins.

This thesis outlines a compelling path to harnessing the current market momentum. The timing is optimal: as the MedSpa sector accelerates its growth, we are strategically positioned to acquire and integrate top-performing businesses, leveraging centralized operations and economies of scale to maximize value. While other healthcare sectors experience varied activity, the MedSpa market is gaining significant traction, presenting prime opportunities for well-executed consolidation strategies.

The founders of Aspen Wells bring a wealth of experience in scaling and optimizing businesses. Their proven ability to drive operational efficiencies, combined with targeted marketing strategies, will be key in building a cohesive and highly profitable network of MedSpa providers. Our disciplined acquisition approach, underpinned by deep industry knowledge, positions us to generate significant wealth and establish leadership in a resilient and expanding industry.

Looking ahead, our commitment remains to deliver exceptional returns to our stakeholders. By leveraging our team's expertise and capitalizing on the robust demand for cash-based medical services, Aspen Wells is poised to become a dominant force in the MedSpa industry, offering a distinctive and lucrative investment opportunity.

Founders’ Expertise and Leadership

Andor Kosa - Founding Partner

Andor is a self-taught marketing and advertising expert. He founded an agency that has collaborated with many prominent German fashion brands, establishing a strong reputation in the industry. His innovative approach and strategic insights have not only benefited commercial enterprises but also had a significant impact on the nonprofit sector. By leveraging his advertising expertise, Andor helped generate over $2 million in donations for a nonprofit organization, showcasing his ability to use marketing for social good.

In addition to his agency work, Andor bootstrapped a health and wellness e-commerce D2C company to over 8-figures in annual revenue. With over $7 million in advertising spend, he has demonstrated exceptional business acumen and a deep understanding of the market and is endorsed by Patrick Wind (Forbes 30 Under 30) for outstanding advertising skills. Andor has led a remote team of eight, exemplifying effective leadership and a forward-thinking approach in a dynamic, digital-first environment. His journey from a self-taught marketer to a successful entrepreneur and philanthropic advocate underscores his remarkable blend of talent, dedication, and vision.

Jesse Hambly - Founding Partner

Jesse is an accomplished Chief Operating Officer and entrepreneur renowned for driving exponential growth and operational excellence in diverse business environments. With a unique blend of strategic vision and innovative thinking, Jesse has successfully led global teams to achieve significant revenue increases, improved bottom line through financial discipline, reduced manufacturing costs, and supply chain optimizations without compromising quality. His leadership has driven product development, resulting in substantial revenue growth for his own and other brands, while his strategic vision has expanded market penetration globally for those brands.

His entrepreneurial success includes developing and managing businesses that became staples in major retailers and executing successful crowdfunding campaigns on platforms like Kickstarter. His technical expertise spans ERP systems, supply chain management, digital marketing, and e-commerce platforms, ensuring seamless business process integration and optimization. Jesse’s exceptional ability to drive growth, optimize operations, and lead high-performing teams makes him an invaluable asset to Aspen Wells.

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Board Members

Stan Luker - Chief Financial Officer

Stan Luker joins Aspen Wells with extensive experience in financial management, strategic planning, and transaction services. As a former Partner at Moss Adams LLP, he specialized in transaction services and was recognized as a top performer in his role. His tenure at Moss Adams saw him advising on numerous mergers and acquisitions, where he provided invaluable guidance on deal structuring, financial modeling, and due diligence.

Stan's expertise extends beyond his work at Moss Adams. With over two decades of leadership experience, he has successfully optimized operational efficiency and driven profitability for multiple high-growth companies. His deep knowledge of financial processes, capital efficiency, and regulatory compliance has consistently delivered increased shareholder value. Additionally, his experience working with private equity firms and lenders ensures a comprehensive understanding of the financial landscape necessary for Aspen Wells' growth.

At Aspen Wells, Stan will oversee the company's financial operations, advise on strategic acquisitions, and foster critical relationships with lenders and investors. His proven track record and extensive expertise in transaction services make him a key player in guiding Aspen Wells through its acquisition and consolidation strategy, positioning the company for sustainable growth and long-term success.

Market Opportunity and Analysis

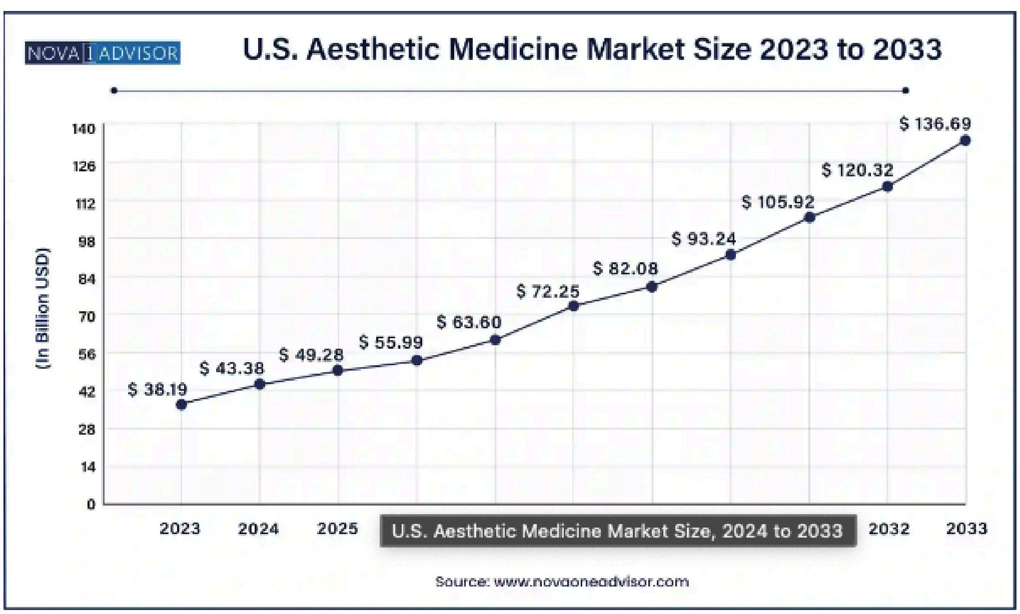
The MedSpa industry, driven by increasing consumer interest in non-invasive and minimally invasive procedures, presents a robust market opportunity. The cash-based model inherent to MedSpas offers predictable revenue streams, reduced reliance on insurance reimbursements, and the ability to implement flexible pricing strategies that align with consumer preferences.

By centralizing key operational functions—such as administration, HR, procurement, and marketing—we aim to achieve significant economies of scale, streamline processes, and enhance overall profitability across our portfolio. With the MedSpa market projected to experience substantial growth, now is the ideal time to invest in this high-margin, rapidly expanding sector. This section outlines the specific market opportunities that align with our strategy, reinforcing the compelling case for investment in the MedSpa industry.

Aesthetic and Cosmetic Treatments

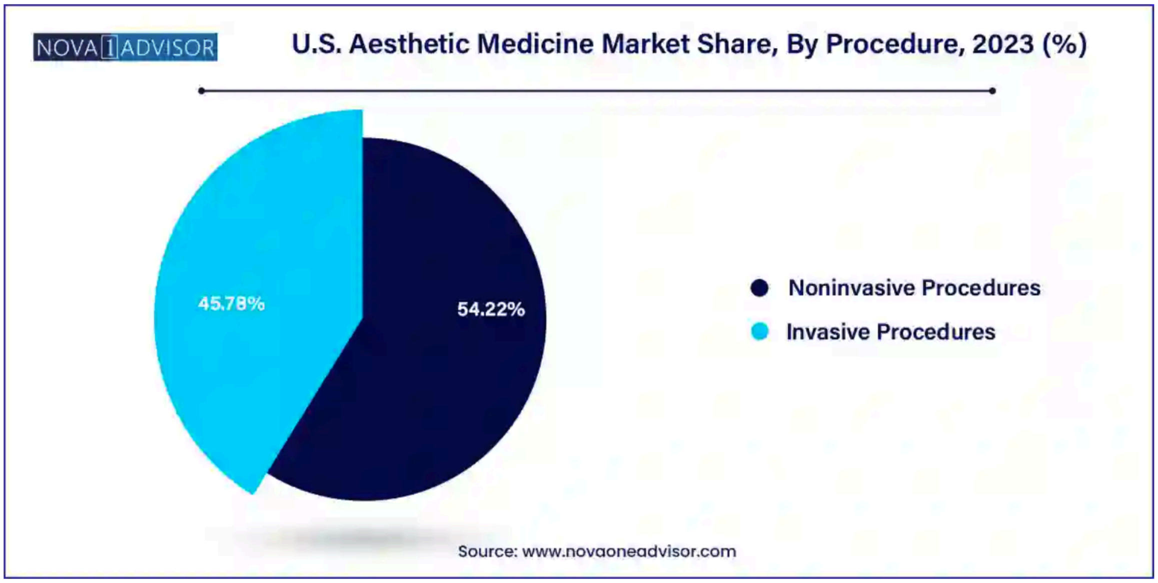
U.S. Market Overview

- The U.S. aesthetic medicine market was valued at $38.19 billion in 2023 and is projected to reach $136.69 billion by 2033, with a compound annual growth rate (CAGR) of 13.6% from 2024 to 2033. *(BioSpace, n.d.)*



US Non-Invasive procedures accounts for 54.22% of total market size, putting US market size at $20.71 billion. With an conservative estimate slightly above global CAGR or 14.1% this puts that market estimate for 2033 at $77.45 billion for non-invasive procedures.

U.S Non-Invasive Procedure Market Share

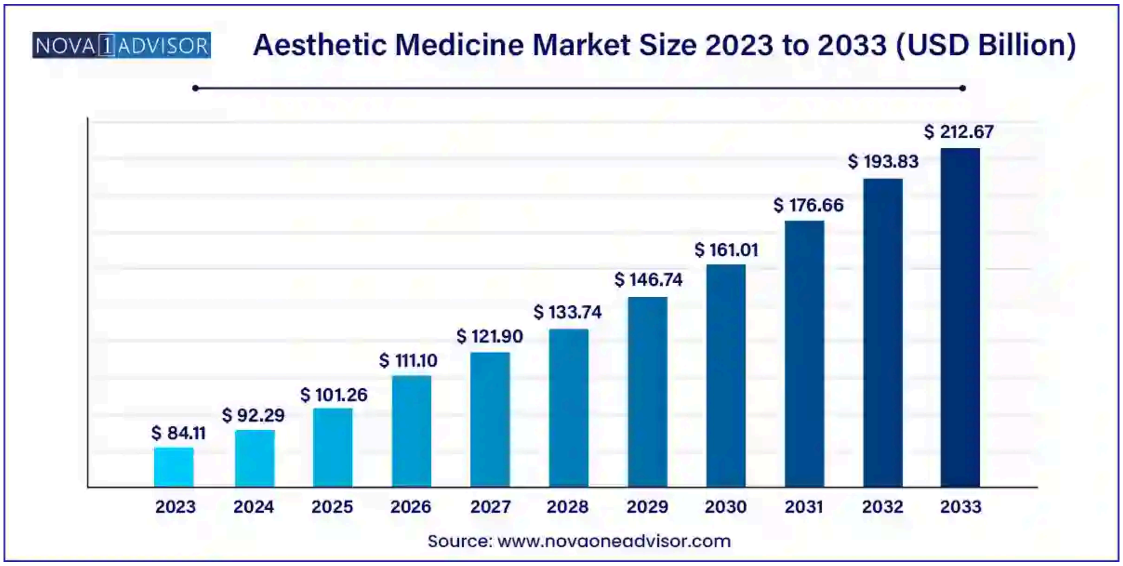


(Nova One Advisor, 2024)

- Noninvasive procedures accounted for the largest market share of 54.22% in 2023.
- The demand for noninvasive treatments is driven by factors such as the desire for quick and easy procedures, minimal downtime, and natural-looking results.
- In 2021, more than 5.5 million nonsurgical cosmetic treatments were performed in the U.S., including toxin and filler injections.
- Botox was the most popular noninvasive procedure, with over 4.4 million treatments performed in 2021.
- Other popular noninvasive procedures include:
    - Soft tissue fillers
    - Chemical peels
    - Laser hair removal
    - Microdermabrasion
- As consumer awareness grows and technology advances, the demand for noninvasive procedures is expected to stay strong.

(Nova One Advisor, 2024)

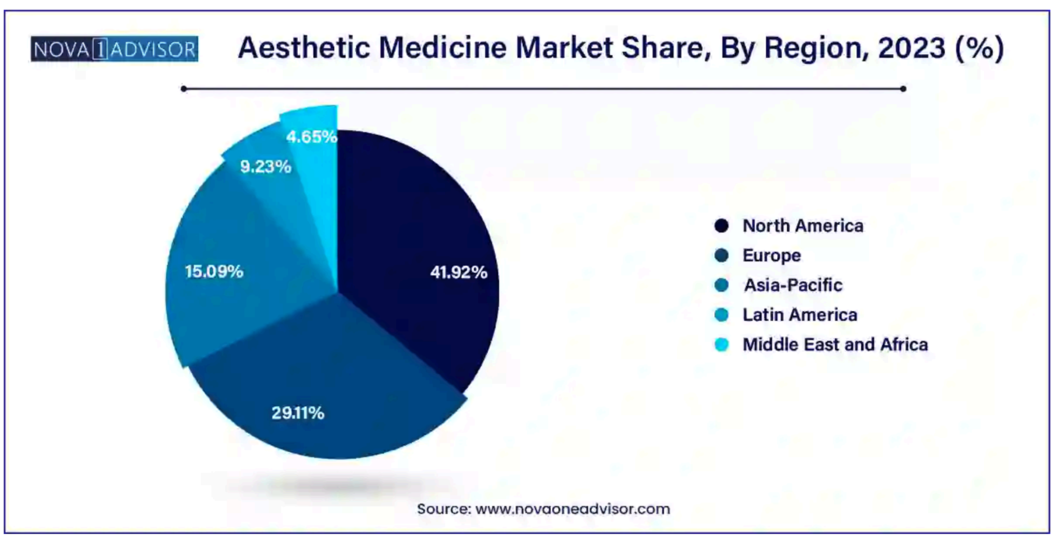
Global Aesthetic Medicine Market



(Nova One Advisor, 2023)

- In 2023, North America accounted for the largest share of 41.92% of the global aesthetic medicine market revenue.*(BioSpace, n.d.)*
- The non-invasive procedures segment dominated the market with a share of 39.11% in 2023 and is expected to grow at the fastest CAGR over the forecast period. *(BioSpace, n.d.)*

Global Aesthetic Medicine Market Share



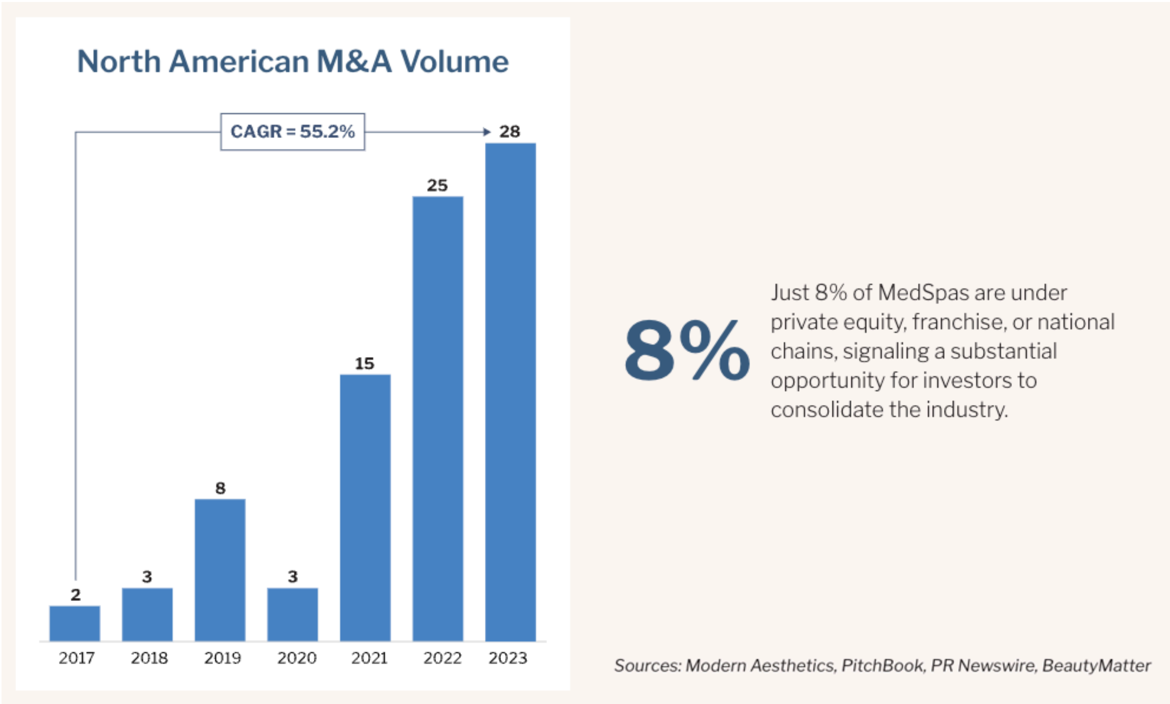
(Nova One Advisor, 2023)

Market Timing and Opportunities

- **Strong Growth Prospects:** The projected high CAGR and expanding market size indicate a strong growth trajectory, well above the rate of inflation, making now an opportune time for investments and acquisitions.
- **Global Growth:** Global aesthetic medicine markets are also expected to grow significantly, with North America consuming 41.92% of the market this rise will lift the US market with it. (GlobeNewswire, 2024), (Nova One Advisor, 2023)

Reasons to Acquire

- **Highly Fragmented Market:** The MedSpa industry is characterized by a high degree of fragmentation, with a significant number of single-location operators. According to AMB Wealth, approximately 76% of the U.S. MedSpa market was dominated by single-location owners in 2022. This fragmentation indicates a lack of dominant players and suggests opportunities for consolidation**.** *(AMB Wealth, n.d.)*
- **Diverse Range of Service Providers:** The aesthetic medicine market includes a wide variety of service providers, from small independent clinics to larger chains. This diversity contributes to the market's fragmentation, as noted by Transparency Market Research, which highlights the presence of numerous small and medium-sized enterprises in the market. *(BioSpace, n.d.)*
- **Growth in Single-Location Operators:** The rapid influx of single-location operators in the MedSpa sector contrasts with the slower pace of consolidation, indicating a fragmented market ripe for roll-up strategies. *(AMB Wealth, n.d.)*
- **Increased M&A Interest:** The plastic surgery and medical spa markets are seeing increased M&A activity as companies look to capitalize on economies of scale and expand their service offerings *(Modern Aesthetics, 2022).*



(AMB Wealth, n.d.)

Average Profit Margins, EBITDA, and Financial Indicators

- Established MedSpas (3+ years) aim for an EBITDA margin of 25-30% as they have usually streamlined operations and built a loyal client base. (Sharpsheets, n.d.), (Franchise Index, n.d.)
- Top performing top-performing medical spas can achieve EBITDA margins as high as 35% or more. (Irvine Bookkeeping, n.d.)
- The average profit margin for medical spas in the United States ranges between 10% and 15%. This margin is influenced by factors such as service mix, operational efficiency, and location. *(Yocale, n.d.; Zenoti, n.d.), (Irvine Bookkeeping, n.d.)*

Service Margins

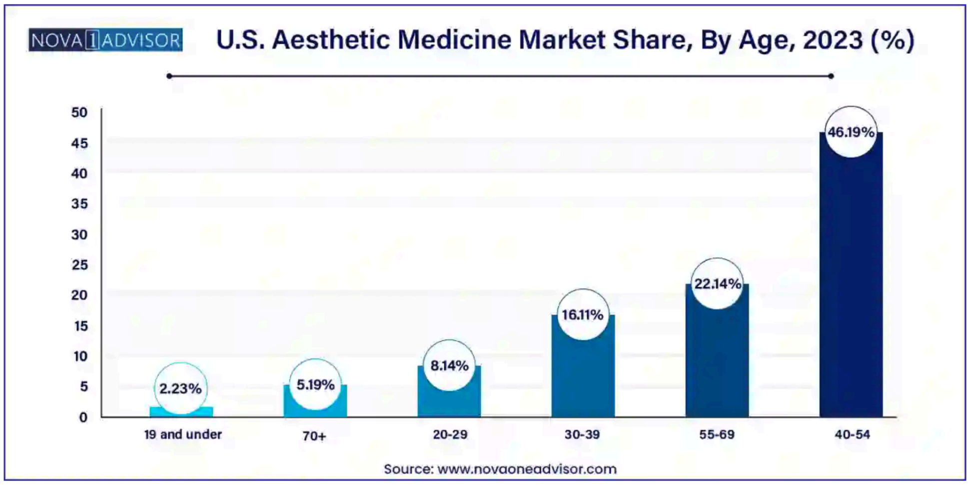
- **Injectables**: Profit margins typically range between **35%-40%**. In Los Angeles, margins hover around 35%, whereas locations like Orange County and San Diego can achieve up to 40% due to higher living costs.
- **Facial Treatments**: These services exhibit strong profitability, with margins typically ranging from **60%-75%**.
- **Laser & Light Therapies**: The margin for these treatments varies between **50%-70%**, depending on the technology used and treatment frequency.
- **Body Contouring**: Profit margins for body contouring services generally range from **40%-60%**, reflecting higher equipment costs.
- **IV Therapy**: This service sees robust margins of **60%-75%**, as it leverages minimal operational overhead and recurring clientele.
- **Skin Tightening**: Margins for skin tightening procedures range from **50%-70%**, benefiting from high demand for non-invasive options.
- **Hair Treatments**: Hair treatments can achieve significant profitability, with margins between **60%-80%**, particularly for ongoing treatment regimens.
- **Wellness Services**: These treatments typically have profit margins ranging from **50%-70%**, depending on service offerings and customer demand.

Revenue Benchmarks

- The average annual medical spa revenue in 2022 is $1,982,896 ($165,241 monthly). In 2021, that figure was $1,722,551 ($143,545 monthly), and in 2018, the average annual revenue was $1,526,382 ($127,198). *(American Med Spa Association, n.d.)*

Demographic Shifts

- The aging population in the U.S., particularly in states like Florida and Arizona, is driving demand for anti-aging treatments and procedures.
- Younger demographics are increasingly seeking preventive aesthetic treatments, further contributing to market growth (BSM Consulting, 2022).



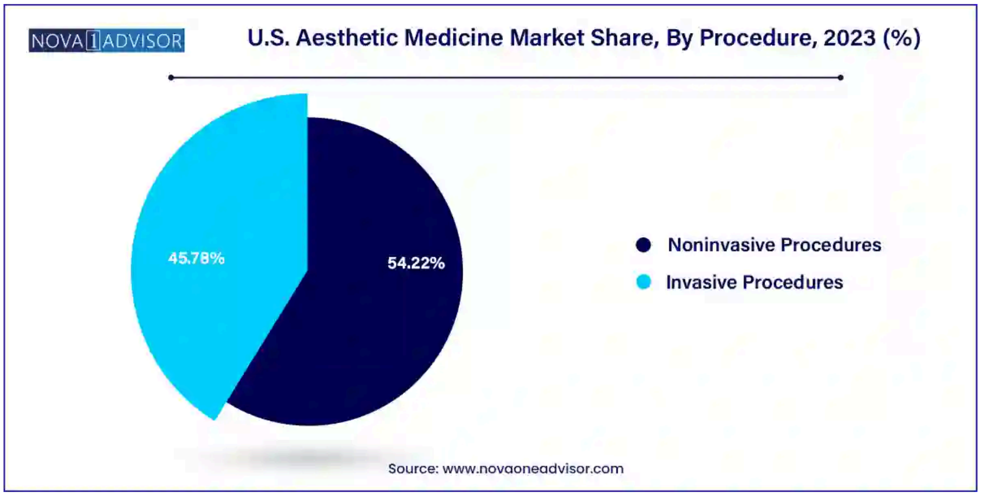
- The 40 to 54 age segment accounted for the largest market share of 46.19% in 2023 and is expected to grow fastest at 13.9% CAGR
- Individuals aged 40 to 54 accounted for:
    - 44% of all liposuction procedures.
    - 25% of forehead lifts.
    - 20% of neck lifts.
    - 57% of all neuromodulator injections (Botox, Dysport, Xeomin, Jeuveau).

Consumer Behavior

- There is an increasing trend towards minimally invasive procedures, which aligns with consumer preferences for treatments with quick recovery times.
- Consumer demand for aesthetic procedures is also driven by social media influence and the desire for a youthful appearance (IAPAM, 2023).

Procedure Trends

- **Non-Invasive Procedures:** Botox and dermal fillers are gaining popularity due to their minimal downtime and effective results. This segment accounted for the largest market share in 2023. See chart below.
- The market is also witnessing growth in energy-based aesthetic devices (lasers), which are becoming more popular for skin tightening and body contouring *(Modern Aesthetics, 2022).*



Regional Insights

- California, Texas, Arizona, and Florida are key states driving growth in the U.S. market due to their large populations, high demand for cosmetic procedures, and favorable demographics.
- These states have a well-developed healthcare infrastructure and a high concentration of skilled cosmetic surgeons, which supports the growth of the aesthetic medicine market.
- Florida, in particular, has seen increased demand due to its aging population, which is driving the need for anti-aging treatments *(IAPAM, 2023).*

Risks to Consider

Economic Uncertainty

- Rising inflation and economic downturns could impact discretionary spending on aesthetic procedures. Shifting focus on higher income consumers that historically don't get impacted as much by downturns would mitigate these risks.
- The industry's focus on non-invasive and maintenance-oriented treatments may provide some resilience during economic downturns (McKinsey & Company, 2022).

Regulatory Challenges

- While the industry is subject to stringent regulations and compliance issues that can pose risks to acquisitions, the stable growth of the industry has proven its resilience and staying power, suggesting that these challenges will not hinder its continued expansion and success.
- Navigating state-specific regulations, particularly in high-demand states, requires careful consideration and strategic planning (GoodFirms, n.d.). Our Board and industry experts will help us navigate this.

Competition from Non-Core Practitioners

- High-end salons and spas offering similar services at lower prices pose a competitive threat to traditional medical aesthetic providers.
- DIY aesthetic products and at-home treatments, which are becoming more popular, also present an emerging competitive threat (McKinsey & Company, 2022).

Regulation Analysis for Key States

How We'll Operate

As part of our strategic approach, we will own and operate our MedSpa facilities through a Management Services Organization (MSO) structure. This model allows us to manage the non-clinical aspects of the business while complying with state-specific regulations, particularly in states that enforce the corporate practice of medicine doctrine. By using the MSO structure, we can centralize operations, streamline administrative functions, and maintain a high level of control over business performance, all while ensuring that licensed medical professionals oversee the delivery of clinical services. Our team of industry experts and legal professionals who are well-versed in navigating the complexities of healthcare regulations across different states will help navigate this.

Aesthetic and Cosmetic Treatments

California

Regulation Overview: In California, med spas must adhere to stringent regulatory standards, primarily governed by the "corporate practice of medicine doctrine." This doctrine requires that med spas be structured as professional medical corporations owned by licensed physicians. Specifically, at least 51% of the corporation must be owned by a licensed physician, while non-physician medical professionals can own up to 49%. Additionally, non-physicians can engage in the business through a Management Services Organization (MSO) structure, which allows them to manage various aspects of the business, excluding the actual medical services.

Licensing and Permits: Several licenses and permits are required to operate a med spa in California:

- A professional medical license for the physician owner.
- A business license from local authorities.
- A Fictitious Name Permit if the business operates under a name different from the registered business name.

Ownership Structure and Regulatory: Owning the medspa through a Management Services Organization (MSO), allows us to streamline operations and maintain compliance with regulatory requirements. For this purpose, we have already implemented a low-cost, industry-standard solution that ensures efficient management and optimal performance while adhering to all necessary legal frameworks.

Medical Services and Supervision: Only licensed medical professionals are permitted to perform medical procedures at med spas. Additionally, a physician must supervise nurse practitioners and physician assistants. A "good faith examination" by a physician, physician assistant, or advanced nurse practitioner is mandatory before administering treatments like Botox.

Patient Care and Privacy: Med spas must obtain informed consent from patients for procedures and comply with HIPAA regulations to protect patient information. Additionally, med spas are required to have emergency plans in place to manage potential complications.

Advertising and Marketing: All advertisements for a med spa must include the physician's name or an approved fictitious name. Marketing efforts must comply with the California Business and Professions Code to ensure transparency and ethical practices.

Specific Treatment Regulations

- **Botox Injections:** Only licensed physicians, or under their supervision, physician assistants or registered nurses, can administer Botox injections.
- **Laser Hair Removal:** Procedures involving lasers and intense pulse light devices must be performed by or under the direct supervision of a licensed physician.
- **Microdermabrasion:** If the procedure affects only the skin's surface, licensed estheticians or cosmetologists can perform it. However, if it penetrates deeper layers of the skin, it is considered a medical procedure and must be performed by a licensed physician or under their supervision.

Texas

Regulation Overview: In Texas, med spas are regulated under the Texas Medical Practice Act. The state follows a modified version of the corporate practice of medicine doctrine, allowing for more flexibility in ownership structures compared to California.

Licensing and Permits

- A physician must be the medical director of the med spa.
- The facility must obtain a business license from local authorities.
- If operating under a name different from the registered business name, a Doing Business As (DBA) certificate is required.

Medical Services and Supervision

- Only licensed medical professionals can perform medical procedures.
- A physician must supervise all medical treatments, though they are not required to be on-site at all times.
- Non-physicians can own med spas, but all medical decisions must be made by licensed medical professionals.

Patient Care and Privacy

- Informed consent is mandatory for all procedures.
- HIPAA compliance is required for patient information protection.
- Emergency protocols must be in place for potential complications.

Advertising and Marketing

- All marketing materials must clearly state the supervising physician's name.
- Advertisements cannot make false or misleading claims about treatments or results.

Specific Treatment Regulations

- **Botox Injections:** Can be administered by licensed physicians, physician assistants, or registered nurses under physician supervision.
- **Laser Hair Removal:** Must be performed by or under the direct supervision of a licensed professional.
- **Microdermabrasion:** Superficial treatments can be performed by licensed estheticians, while deeper treatments require medical supervision.

Arizona

Regulation Overview: Arizona has relatively lenient regulations for med spas compared to many other states. The state does not strictly adhere to the corporate practice of medicine doctrine.

Licensing and Permits

- A business license from local authorities is required.
- No specific med spa license is needed, but individual practitioners must be licensed.

Medical Services and Supervision

- A licensed physician must supervise medical treatments, but ownership by non-physicians is permitted.
- Nurse practitioners can practice independently in Arizona.

Patient Care and Privacy

- Informed consent and HIPAA compliance are mandatory.
- Emergency protocols must be established for potential complications.

Advertising and Marketing

- Marketing materials must accurately represent the services offered and the qualifications of practitioners.

Specific Treatment Regulations

- Botox Injections: Can be administered by licensed physicians, nurse practitioners, physician assistants, and registered nurses under supervision.
- **Laser Hair Removal:** Can be performed by licensed professionals or those who have completed specific training programs.
- **Microdermabrasion:** Superficial treatments can be performed by licensed estheticians.

Florida

Regulation Overview: Florida has relatively flexible regulations for med spas compared to some other states.

Licensing and Permits

- Medical spas in Florida do not need to be licensed by the state if they only accept cash payments.
- A business license from local authorities is required.

Medical Services and Supervision

- Anyone can own a medical spa in Florida, but all medical services must be provided by licensed medical professionals.
- The spa must have a designated medical director who is a licensed physician.
- Non-medical owners are restricted to business management without influencing clinical decisions.

Patient Care and Privacy

- Informed consent is mandatory for all procedures.
- HIPAA compliance is required for patient information protection.
- Emergency protocols must be in place for potential complications.

Advertising and Marketing

- Medical spas are subject to advertising restrictions, prohibiting false or misleading claims.
- The spa must disclose the qualifications of its practitioners and the risks associated with procedures.

Specific Treatment Regulations

- Medical spas are limited to providing non-surgical cosmetic procedures within the scope of practice of licensed medical professionals.
- For laser or light-based hair removal, anyone other than a licensed physician must work under direct supervision of a licensed physician.

Strategic Acquisition Criteria

Below, you will find key acquisition criteria broken down into granular components. When assessing potential targets, it is crucial to establish a set of detailed criteria that ensure each business aligns with our strategic goals and has the potential for sustainable growth and profitability.

Platform Company

In our consolidation strategy, the acquisition of a platform company serves as the critical foundation for scaling the business rapidly and efficiently. The platform company will act as the operational backbone, providing the centralized systems, processes, and infrastructure necessary to integrate future acquisitions seamlessly. By establishing this strong foundation, we can scale faster, reduce operational inefficiencies, and optimize resources across the entire network of MedSpas.

The platform company will be selected based on our strategic acquisition criteria, ensuring it already possesses:

- **Strong operational infrastructure**, including well-established CRM, HR, EHR, procurement, and financial management systems.

- A **proven track record of profitability**, with consistent revenue and EBITDA margins that meet or exceed industry benchmarks.
- **Brand strength and customer loyalty**, which will support future acquisitions and allow us to leverage the platform's reputation across the MedSpa sector.
- A **scalable business model**, with the ability to absorb and standardize operations across multiple locations.

Centralization of Operations and Systems

The key advantage of acquiring a platform company first is the centralization of operations. The platform company will come equipped with mature, scalable systems that allow for the integration of new MedSpa acquisitions under a unified operational model. This centralization will allow us to:

- **Streamline processes** across all future acquisitions, reducing the duplication of efforts in areas like HR, marketing, and procurement.
- **Optimize costs** through economies of scale, leveraging bulk purchasing for supplies and equipment, and negotiating better vendor contracts.
- **Standardize customer experiences**, ensuring that each location operates with the same level of service, branding, and operational excellence, thereby building stronger customer loyalty and retention.

Accelerated Scaling Throughout the Roll-Up

By first acquiring a solid platform company, we create a central hub that will make the integration of smaller MedSpa acquisitions faster and smoother. With the platform's systems already in place, we can quickly roll additional companies into the fold, minimizing disruptions in operations and ensuring continuity in service delivery. This allows us to:

- **Accelerate our roll-up strategy** by integrating new acquisitions into a pre-existing, high-functioning platform, eliminating the need to build processes from scratch for each new entity.
- **Increase speed to market** with each acquisition, as the platform's systems will already support onboarding, marketing, procurement, and staffing.
- **Focus on value creation** in the newly acquired companies rather than spending time and resources setting up foundational systems.

Initial Platform Acquisition Targets Overview

- **Purchase Price Range:** $15 million to $20 million
- **Earnings Multiples**: 2 - 4x EBITDA for individual MedSpas
- **EBITDA Margins:**
  - Established MedSpas (3+ years): 25-30% EBITDA margin

- **Geographic Focus**: Initial focus on mid to high-income regions within California, Arizona, Texas, and Florida, where there is a concentration of target demographics.

EBITDA Multiples and Consolidation Appeal

The MedSpa industry presents a compelling opportunity for consolidation, with EBITDA multiples that scale favorably as we acquire and the business grows through acquisition. This multiple expansion in valuation makes the sector particularly attractive:

1. **Small Individual MedSpas ($1M - $5M Revenue)**
   - These businesses typically command EBITDA multiples of 2.5x - 4x
   - This aligns with our initial acquisition targets.
2. **Initial Consolidation ($10M - $20M Revenue)**
   - As we aggregate multiple small MedSpas, the consolidated entity's EBITDA multiple increases to 4x - 6x *(Woodbury, 2023)*
3. **Mid-Size Consolidation ($20M - $50M Revenue)**
   - Further growth pushes multiples to 5x - 8x, demonstrating the value creation potential of our strategy. *(Woodbury, 2023)*
4. **Large Consolidation ($50M - $100M Revenue)**
   - At this scale, EBITDA multiples of 7x - 10x become achievable, attracting interest from larger private equity firms.
5. **Major Platform ($100M+ Revenue)**
   - Multiples of 10x - 15x are possible for significant players in the industry, offering substantial upside for our long-term strategy.

(Woodbury, 2023), (CCCA, 2022), (First Page Sage, n.d.), (First Page Sage, 2024), (Scope Research, 2024)

As we scale, this multiple expansion underscores the value creation potential of our consolidation strategy. By acquiring smaller MedSpas at lower multiples and building a larger, more valuable entity to sell at higher multiples, we can capture significant value.The MedSpa industry is particularly appealing for consolidation due to factors other than it's multiples:

1. **Fragmented Market**: With approximately 76% of the U.S. MedSpa market dominated by single-location owners, there's ample opportunity for consolidation. *(AMB Wealth, n.d.)*
2. **Economies of Scale**: Centralization of key functions like administration, marketing, and procurement can significantly improve profitability across the portfolio.

3. **Robust Growth**: A conservative projected CAGR of 13.6% from 2024 to 2033 indicates strong market momentum and increasing consumer demand. *(BioSpace, n.d.), (Polaris Market Research, 2023)*
4. **Operational Synergies**: Standardization of best practices across locations can enhance service quality and operational efficiency.

Financial Performance

- **Revenue Consistency:** The target should demonstrate a consistent revenue stream with minimal fluctuations over the past 3-5 years, ensuring stability and predictability in earnings.
- **EBITDA Margins:** Focus on businesses with EBITDA margins of 25-30%, indicating efficient operations and strong profitability, consistent with the industry standards for well-managed MedSpas.
- **Profit Margins:** The target should exhibit profit margins ranging between 20-25%, with potential for optimization to reach margins as high as 30% through strategic improvements and cost management.
- **Earnings Growth:** Prioritize targets with a historical earnings growth rate of 5-10% per annum, reflecting a strong potential for future expansion and the ability to capture growing market demand.
- **Debt Levels:** Evaluate the target's debt-to-equity ratio to ensure it is within industry norms, avoiding overly leveraged acquisitions that could strain cash flow.
- **Cash Flow:** Assess the business's free cash flow, ensuring it is positive and sufficient to cover operational needs and capital expenditures, critical for ongoing investments and growth.

Market Position and Growth Potential

- **Market Share:** The target should hold a significant share in its local or regional market, ideally within the top 5 competitors in the area, positioning it as a leader in the MedSpa sector.
- **Growth Industry:** The target should operate within the growing MedSpa market, which has a projected compound annual growth rate (CAGR) of 13.6% from 2024 to 2033, signaling strong future prospects.
- **Geographic Footprint:** Favor targets located in regions with high-income demographics and growing populations, such as California, Texas, Arizona, and Florida, where demand for aesthetic treatments is robust.

- **Service Offerings:** Evaluate whether the business offers a diverse range of high-demand services, including minimally invasive aesthetic treatments, that align with current market trends and consumer preferences.

Operational Efficiency

- **Operational Processes:** Assess whether the business has standardized and efficient operational processes that can be easily integrated and scaled across our portfolio, contributing to operational excellence.
- **Staffing and Management:** Review the quality of management and key personnel, ensuring a competent team is in place that can drive growth post-acquisition. Look for businesses with low employee turnover and high staff engagement, which are crucial for maintaining service quality.
- **Technology Integration:** The target should already utilize or be open to adopting modern technology solutions, such as electronic health records (EHR) and AI-based scheduling systems, to enhance operational efficiency and improve patient experience.
- **Customer Retention:** Look for businesses with a strong customer retention rate, indicating a loyal client base and high levels of customer satisfaction, which are vital for sustaining revenue growth.
- **Supply Chain Management:** Evaluate the efficiency of the target's supply chain, including the reliability of suppliers, cost management, and the ability to maintain consistent service delivery, ensuring operational stability.

Regulatory Compliance and Risk Management

- **Licensing and Certifications:** Ensure the business holds all necessary licenses and certifications to operate within the MedSpa sector and region, complying with all relevant regulations.
- **Regulatory Compliance:** The business must demonstrate a strong track record of compliance with local, state, and federal regulations, including health and safety standards, mitigating legal risks.
- **Legal and Environmental Risks:** Conduct thorough due diligence to identify any ongoing or potential legal or environmental issues that could pose a risk to the acquisition, ensuring the business is a sound investment.
- **Insurance Coverage:** Review the adequacy of the business's insurance coverage, including liability and malpractice insurance, to mitigate potential risks and protect against unforeseen liabilities.

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Customer and Market Dynamics

- **Customer Demographics:** Analyze the target's customer base to ensure it aligns with our focus on upper-middle-class, health-conscious individuals who are likely to seek aesthetic treatments.
- **Customer Reviews and Reputation:** Evaluate online reviews, customer feedback, and the business's reputation within the community to gauge public perception and identify areas for improvement.

- **Marketing and Branding:** The business should have an established brand with a strong presence in its market. Look for opportunities to enhance branding and marketing strategies post-acquisition, leveraging our expertise to drive growth.
- **Patient Acquisition Cost:** Review the cost of acquiring new patients, ensuring it is within an acceptable range for the industry and can be optimized through our marketing expertise to increase profitability.

Scalability and Integration Potential

- **Scalability:** The business should have the potential to scale operations, either through expanding service offerings, increasing geographic reach, or opening new locations, aligning with our growth strategy.
- **Integration Fit:** Assess how well the target can be integrated into our existing portfolio, including alignment of company cultures, processes, and technology platforms, ensuring a smooth and effective integration.
- **Synergies:** Identify potential synergies that can be realized post-acquisition, such as cost savings from centralized procurement, increased purchasing power, or cross-selling opportunities across our network, enhancing overall value.

Exit Strategy Alignment

- **Valuation Potential:** The target should have a clear path to increased valuation, either through organic growth, market expansion, or operational improvements, ensuring a strong exit opportunity.
- **Buyer Appeal:** The target should be positioned in a way that would appeal to potential buyers, with strong financials, growth potential, and a solid market presence, making it an attractive acquisition target for strategic buyers or private equity firms.

Financing Strategy

Our financing strategy is designed to efficiently fund the acquisition of med spas while minimizing risk and maximizing returns. This approach balances cash for equity, commercial debt and seller financing, which aligns the seller's interest with the ongoing success of the business and allows us to retain capital flexibility. Below are the key components of this strategy:

Part 1: The Platform Company

Capital Structure

Depending on the profitability of the platform target these numbers will be adjusted to service debt.

- Equity Round: 40-50% of total raise
- Commercial Debt: 25-35% - Covered by the cashflow
- Sellers Note: 25% - Earn out + Non-Compete

Part 2: Additional Acquisitions

Acquire additional med spas to roll into the platform company. 1-3 acquisitions will take place within the first 12 months of acquiring the platform company. We'll use the below capital structure, which splits the acquisition between debt and a seller's note.

Capital Structure

80/20 Debt Structure

- **80% Commercial Debt:** We aim to secure commercial debt through lending institutions to cover 80% of the acquisition cost. Work with lenders that offer debt arrangements that consider the platform company's overall financial performance as support for acquiring additional locations, so as to consider the combined cash flow across all locations rather than individual assets.
- **20% Seller Financing:** This allows us to reduce the initial cash outlay while keeping the seller vested in the business's ongoing success. The terms of seller financing are often more flexible, allowing for more negotiable interest rates and repayment terms.

Reasoning for this structure:

- **Leverage Commercial Financing:** This debt is typically secured with business assets or future cash flows.
- **Align Seller Incentives:** Seller financing encourages the seller to support a smooth transition, which is crucial in maintaining customer relationships and operational continuity post-acquisition.

Loan Terms

Target Loan Terms: For the commercial debt portion, we are targeting a 4-5 year fixed term for loans that do not involve real estate. The amortization period we'd target would be 10 years, making it easier to manage cash flow and maintain liquidity. (LendingTree, n.d.)

- Senior Debt - LIBOR + 5-7%
- 4 to 5 year fixed term
- 10 year amortization
- Refinance at the end of the term if necessary

Seller Financing Terms

Seller financing will be structured to ensure flexibility and mutual benefits:

- **Interest Rates:** Roughly match the interest rates compared to the commercial loans, often ranging from 6-8%. This is to ensure the sellers mutual benefit for seller and buyer. Can add a kicker as well.
- **Repayment Term**: We will negotiate a repayment term that aligns with the commercial debt, typically over a 3-5 year period, to avoid balloon payments that strain cash flow.
- **Potential Performance Milestones:** Setting performance milestones ensures that there is a mutually beneficial partnership for both seller and buyer. *Examples of milestones: Revenue growth targets, EBITDA or profitability targets, customer retention or acquisition, key employee retention, cash flow milestones, new market or service expansion, Operational efficiencies and improvements, Positive customer reviews/feedback (measured in NPS score)*

Sources of Funds

Our financing will come from a combination of sources:

- **Down Payment:** Funded from capital generated by prior businesses.
- **Initial Raise:**
- **Commercial Lending Partners:** We will build relationships with lenders who specialize in lending to med spa or healthcare businesses. Subject to due diligence.
- **Seller Financing:** We will negotiate seller notes to cover 40% of the acquisition price, reducing our reliance on external financing and aligning incentives with the seller.

Interest Rates and Expected Costs

- **Interest Rates:** Our assumption is that the interest rate for the commercial debt will be based on the current SOFR (Secured Overnight Financing Rate) plus a margin, which will vary depending on the lender and the risk profile of the acquisition. Likely 200 - 450 basis points.
- **Current Projections:** As of 2024, SOFR rates have hovered between 4-6%, so we anticipate commercial loans will be in the 6-10.5% range after adding the lender's margin. (Federal Reserve Bank of New York, n.d.)

Debt Service Coverage Ratio (DSCR)

Target Debt Service Coverage Ratio (DSCR) for Lenders of 1.25x or higher, meaning that the business must generate 1.25 times the debt payments in cash flow.

- Our internal DSCR target will be 1.30x or more, ensuring we maintain a comfortable margin for servicing the debt.
- 40-50% of the EBITDA will go towards servicing the debt

Risk Mitigation and Lender Considerations

We will take proactive steps to address the concerns that lenders may have when financing these acquisitions:

- **Collateral:** We will provide a strong collateral package, potentially including the businesses assets (if they will do this. Likely will use cash flow) and personal guarantees (only if necessary), to secure favorable loan terms.
- **Cash Flow Projections:** Detailed financial projections will demonstrate our ability to service the debt. These will include the target's EBITDA margins of 25-30%, which is consistent with the performance of established med spas.
- **Growth Potential:** By showing lenders a clear plan for increasing revenue through operational efficiencies, cross-selling opportunities, and expanding service offerings, we will mitigate the risk of cash flow disruptions.

Exit Strategy Considerations

Finally, our exit strategy aligns with the financing structure. By focusing on cash flow-positive businesses with a high EBITDA margin and potential for scalability, we create an attractive proposition for refinancing or sale. This approach will ensure we maintain the flexibility to refinance debt, scale the business, and ultimately execute a high-value exit.

Implementation Plan

Overview: Our plan involves multiple phases, each with distinct goals and milestones over a 6-7 year period.

Phase 1: Acquisition and Initial Integration (Year 1-4)

a. **Identify High-Potential Targets**: Use the financial and operational criteria we highlight as crucial for our strategy to identify acquisition targets.
b. **Negotiate Deals**: Secure favorable terms, including seller financing where possible.
c. **Initial Integration**: Centralize sales, marketing, procurement, HR, and finance operations across acquired entities.
d. **Set Up Infrastructure**: Establish the necessary infrastructure, including technology platforms and standardized processes, to support future acquisitions.

Phase 2: Integration and Optimization (Year 1-5)

a. **Continue Acquisitions**: Expand the portfolio while optimizing existing operations.
b. **Standardize Processes**: Implement best practices across all businesses, focusing on reducing costs and improving efficiency.
c. **Sales Team:** Invest in a sales team armed with a zero interest financing software (Eg. Cherry Payment Plans) that can consult and convert customers to longer term, high ticket and high profit margin procedures.
d. **Technology Integration**: Deploy advanced EHR (Electronic Health Record) systems and other technology solutions to streamline operations. Recommended options include Epic, Cerner, or Athenahealth.
e. **Staff Training and Development**: Invest in staff training programs to ensure high service standards and operational efficiency.

Phase 3: Scaling and Market Expansion (Year 4-6)

a. **Expand Services**: Introduce new service lines and expand geographically to capture more market share.
b. **Optimize Revenue Streams**: Leverage centralized marketing and cross-selling opportunities across the portfolio.
c. **Strategic Partnerships**: Explore strategic partnerships and joint ventures to accelerate growth and market penetration.

Phase 4: Exit Preparation and Execution (Year 6-7)

Prepare for Exit

a. **Financial Optimization**: Focus on enhancing the EBITDA multiples across the portfolio by driving cost efficiencies and increasing revenue. Examples of how we might do this include further centralization of operations, aggressive cost management, and maximizing the profitability of each business unit.
b. **Operational Readiness**: Ensure that all businesses within the portfolio are operating efficiently with standardized processes, robust IT systems, and well-trained staff. This readiness is crucial to making the portfolio attractive to potential buyers.
c. **Legal and Compliance Check**: Conduct a thorough review to ensure all entities within the portfolio are fully compliant with state and federal regulations, minimizing legal risks for potential acquirers.
d. **Confidential Information Memorandum (CIM)**: Prepare a comprehensive CIM that highlights the value proposition, financial performance, and future growth potential of the portfolio.

Engage with Potential Buyers

a. **Strategic Buyer Identification**: Identify potential strategic buyers who would benefit most from acquiring the portfolio. These might include larger healthcare conglomerates or specialists looking to expand.
b. **Private Equity Engagement**: Engage with private equity firms interested in healthcare rollups, emphasizing the portfolio's growth potential, stable cash flows, and strong market position.
c. **M&A Advisors**: Work closely with M&A advisors to create a competitive bidding environment, ensuring the highest possible valuation at exit.

Finalize the Exit Strategy

d. **Negotiation and Sale**: Enter into negotiations with the most promising buyers, focusing on achieving the best terms for the sale.
e. **Transition Plan**: Develop a detailed transition plan to ensure a smooth handover to the new owners, minimizing disruption to operations and retaining key staff.
f. **Close the Deal**: Finalize the sale, including the transfer of ownership, financial settlement, and legal documentation.
g. **Post-Sale Review**: Conduct a post-sale review to assess the success of the transaction and identify any lessons learned for future endeavors.

Exit Strategy

Our exit strategy will be precise to ensure maximum returns by positioning our portfolio for acquisition by a larger healthcare conglomerate or strategic buyer. We recognize the importance of building a scalable and robust business model that appeals to strategic buyers seeking high-margin, cash-based MedSpa and healthcare services. By focusing on sectors with predictable revenue streams and low dependency on insurance reimbursements, we create a portfolio that is not only profitable but also resilient against market fluctuations.

Enhanced Valuation through Strategic Growth: Our strategy involves not only consolidating MedSpa and cash-based medical service businesses but also enhancing their value through centralizing operational efficiencies, economies of scale, and targeted marketing efforts. This approach will significantly boost the EBITDA multiples of the acquired companies, making them attractive acquisition targets for larger healthcare entities. Additionally, by centralizing key operational functions and leveraging data analytics, we will improve profitability and scalability, further enhancing the valuation potential.

Engaging with Strategic Buyers and Private Equity: We will actively engage with top-tier investment bankers, strategic buyers, and M&A advisors to position our portfolio as an attractive investment. The goal is to create a competitive bidding environment, ensuring that we achieve the highest possible valuation at exit. Furthermore, by demonstrating consistent growth and profitability, we will appeal to private equity firms that focus on acquiring businesses with strong cash flows and growth potential, particularly within the MedSpa and cash-based healthcare sectors.

Consideration of an IPO: While an initial public offering (IPO) is not our top priority, it remains a potential exit route if market conditions are favorable. An IPO could provide substantial liquidity and valuation premiums, particularly if we achieve significant market penetration and brand recognition within the MedSpa sector.

Preparation for Exit: To facilitate a smooth exit, we will prepare a comprehensive Confidential Information Memorandum (CIM) that showcases the business's value proposition, financial performance, and growth potential. Additionally, we will implement retention agreements for key personnel to ensure business continuity and stability post-exit. By aligning our interests with those of potential buyers, we will create a seamless transition that maximizes value for all parties involved.

Conclusion

Aspen Wells' investment thesis offers a well-grounded strategy to capitalize on the expanding demand for cash-based medical services, with a sharp focus on the MedSpa sector. By targeting high-margin aesthetic and cosmetic treatments, we are positioned to build a robust and scalable portfolio within a rapidly growing industry. Our focus on cash-based businesses minimizes reliance on insurance reimbursements, providing financial stability and enhancing profitability.

The experience and expertise of our founders in scaling and optimizing businesses ensure that we can successfully integrate and grow the acquired MedSpa companies. Through disciplined execution of our acquisition and consolidation strategy, we aim to create significant value for our customers and stakeholders. By centralizing operations and leveraging economies of scale, we will enhance operational efficiencies, driving both revenue growth and margin expansion.

As we navigate the evolving MedSpa landscape, our approach is designed to maximize returns through a thoughtful exit strategy, whether through a sale to a larger healthcare entity, strategic buyer, or potentially an IPO. This thesis reflects a deep understanding of market dynamics and a commitment to delivering sustained growth and profitability, making it a compelling proposition for stakeholders and investors alike.

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