



## SEASON 2, EPISODE 15

### INSIGHTS A FEW YEARS BEYOND A PRIVATE EQUITY TRANSACTION WITH DR. STEVE HAMILTON AND CEO ANDY BLANKEMEYER

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David Mandell:

Hello, this is David Mandell, host of the podcast. Welcome to today's episode. I'm excited about the episode, I think it's a very timely topic with two people extremely well-equipped to talk about it. Let's bring on Steve and Andy and I'll tell you a little bit about them and they then we'll get into the podcast itself.

Let's talk about Steve. Steve is a sports medicine physician and orthopedic surgeon at Beacon Orthopedics and Sports Medicine with special interest in minimally invasive arthroscopic surgery of the shoulder, hip, knee, and ankle, treatment of athletic foot and ankle injuries and fracture treatment. He's a graduate of the University of Cincinnati College of Medicine, did his residency in orthopedic surgeon at Emory University in Atlanta, and then completed a fellowship at the Steadman Hawkins Clinic of the Carolinas in sports medicine and reconstruction and shoulder reconstruction.

Andy Blankemeyer is the Chief Executive Officer of Beacon Orthopedics and Sports Medicine. Prior to becoming CEO in 2016, he served in multiple roles for the organization, including Chief Operating Officer for seven years. In 2019, he became the CEO of a new orthopedic management service organization called OrthoAlliance, formed by Beacon and Revelstoke Capital Partners, which I'm sure we'll talk about today. Andy is a graduate of Xavier University, having earned a master's degree in healthcare administration. With that, Andy and Steve, welcome to the program.

Andy Blankemeyer:

Thanks Dave. Thanks for having us.

Steve Hamilton:

Yeah, we appreciate it.

David Mandell:

Excellent. I gave both of your bios, why don't each of you, Andy and Steve, just talk for a second about your position and role and kind of what your typical day is like. Why don't we start with that?



Steve Hamilton:

Yeah, well... This is Steve Hamilton, I've been with Beacon about nine years. This is my first job out of fellowship and I'm primarily out of Northern Kentucky office and we have kind of grown in that market. That was my role when we came on at Beacon. I primarily do outpatient sports medicine surgery and see patients throughout the greater Cincinnati area and have been a part of the great growth we've had here at Beacon over the last nine years, particularly the last two to three years once we went through with the partnership with the private equity group.

David Mandell:

Excellent.

Andy Blankemeyer:

And yeah, Dave, thanks again for having us. This is Andy Blankemeyer, I'm the CEO of Beacon and OrthoAlliance, as you stated. We've seen a tremendous amount of growth in the practice over the last five to 10 years here, back when myself and really Steve started, we were 10 to 15 physicians, three to five locations. And really with a mind for growth and how do we scale our practice and how do we make ourselves insulated from hospital competition, outside forces like payers and so on, and really position ourselves well in the market as the leader in orthopedics. And so we've been on this journey now for over a decade of how do we grow and we've done it in multiple ways.

And obviously as you stated most recently through the infusion of some private equity capital and the creation of OrthoAlliance, but since from where we both started to where we are today, we're now at over 73 physicians as part of Beacon orthopedics and OrthoAlliance, continuing to grow across the Ohio, Kentucky, and Indiana region with over 26 offices and continue to provide patients and our customers with our key tenants, which are quality, access and value. We want to provide access to the highest quality of care at the lowest cost possible. And we really strive on doing that as we continue to grow and expand across the market.

David Mandell:

That's excellent. Very good overview. Let's rewind the clock a little bit. You mentioned, I think a little bit Andy, in terms of where you were before kind of going on this growth path, but maybe you can just say again, how many docs were you in staff as you kind of started this more recent growth path over the past few years.

Andy Blankemeyer:

Yeah. Just to give some perspective, in 2010, we were 10 doctors in three locations, couple hundred in staff. In 2019, we were 26 physicians, eight locations, and probably about 500 staff members. And now today, like I said, we're 73 physicians, over a



thousand employees and now in multiple cities, just not in Cincinnati, we're up in Dayton, Ohio, and Columbus, as well as we continue to grow our footprint. Again, pretty sizable amounts of growth in a short amount of time, but it's given us a lot of opportunity to work directly with health systems, directly with employers and payers, and really provide kind of that orthopedic medicine at a local level, with the scale and infrastructure behind it that's necessary to provide that good care versus the traditional more mom-and-pop practice approach.

David Mandell:

Makes sense. Let's talk about the decision to consider private equity. This is so timely and I'm so glad that we are connecting on this because at all the conferences I speak at, it's a topic, docs are coming to us at the OJM, we work with 1500 physicians, they're coming to us ... And it's not just orthopedics. And a lot of different specialties saying, "Hey, we're getting approached and should we consider this or not" A bunch of our clients have been going through transactions. How did you guys arrive at that decision, Andy, tell us about that.

Andy Blankemeyer:

It wasn't an immediate decision, right? We would meet as a group every year, each summer, and have a strategy meeting where we talked about how are we going to grow and how are we going to continue to thrive the following year? And private equity was brought up because we saw other specialties in our market going down the private equity route to help them grow, and to obviously help provide some financial stability for the physicians as well. And the immediate reaction was 'no'. The immediate reaction was we hear too many horror stories about private equity of these guys coming in, trying to tell us how to run our practice, how to treat patients using certain equipment or certain techniques or seeing certain quotas of patients or whatever. And the initial reaction from our position was I don't care how much money someone gives me.

I'm not having someone come in here and tell me how to run my practice. We're too proud of the brand and the organization we've created. And I think that was a very valid reaction. And then we had to start educating ourselves a little bit more cause we knew it wasn't going away. And what we found was while there were horror stories out there in medicine and private equity, there was a lot of good stories as well. And it was all about finding the right partner that understood look, the private equity firm's expertise is in finance and growth and strategy, not in providing medicine to patients. And so if they are able to stay in their lane and help us with those aspects and the physicians can continue to maintain their clinical autonomy and run their practices the way they want, it can be a really good pairing to help grow and fuel the organization for more growth.

Andy Blankemeyer:



Once we realized there were partners like that out there, we started getting more serious about it. We went through a process where we interviewed seven or eight different groups and landed with Revelstoke Capital Partners out of Denver. And they really had a good reputation for working with physician groups for providing physicians the opportunity to be in leadership, as well as maintain their clinical autonomy while providing them all the resources that they could ever need to help grow their practice and help expand their footprint, whether it be new facilities, new ancillaries, surgery centers, whatever it may be. They're always at the ready to help that growth without interfering with the clinical side of the business.

David Mandell:

Excellent. And so that's the CEO's answer. I'm really curious for the physician's answer, that's what people are going to be listening to. Steve, tell us about how this evolved in your mind and your partners and your colleagues.

Steve Hamilton:

Yeah. We probably started talking about this four or five years ago. And at that point we had two surgery centers, we had eight rooms, we had our own physical therapy, MRI imaging - we were very vertically integrated to that point. We thought we had a pretty good thing going. I grew up in the Cincinnati market, so it's a place where you were proud to take care of your friends, send your family members. And we had kind of reached a point where we had saturated all the different neighborhoods within the city, and we were trying to think are other ways for us to grow. And actually a private equity group approached us without us really reaching out and we investigated it and decided not to do it and put it on the back burner. And then I remember at the end of one meeting, one of the physicians said, "Well, let's just keep that door open and see where things go."

And that led to the process Andy talked about where they interviewed seven or eight groups, and it was never something we were a hundred percent sure we were going to do. And from a physician perspective, you don't get a lot of business training so you're learning a lot of new words like EBITDA and growth and multiples and things you're not exposed to. And you try to educate yourself as best you can and ask a bunch of questions and what it came down to was if we're really going to grow this thing, we think we have a great model. We're going to need some help, you need an infusion of capital. We didn't have the, I guess, juice ourselves to go out and start partnering with other groups, both regionally and locally. And that really allowed us to do that and expand our footprint and bring what we thought was a great model of deliver orthopedic care and expand that throughout the city and hopefully the regions.

David Mandell:



One follow up on that, I think this is the case, but I just want to make sure it's clear. The firm you end up working with was not the one that initially approached you, is that right?

Steve Hamilton:

Correct. I kind of looked at it. I asked around some of my friends who are in business and things like that. And they said a partnership like this, consider it like a marriage. And you need to date, you need to get to know who you're going to be working with because this is hopefully something that you're going to grow, but you're going to have to work hand in hand, you're going to have to have meetings. It's not them telling us what to do or us telling them what to do, but the group we ended up working with, Revelstoke, has been really good where they leave the patient care to the physicians, and when we had growth opportunities, they get the physician input. And that was real important for us because we didn't want our day to day to change. Like I said, we were real happy where we were, we had a good business model, a lot of us were growing. We were busy, we were very happy, but there was that next level we wanted to reach and finding the right partners allowed us to do that.

David Mandell:

Excellent. That's what I thought, and I think it's sort of the point I was going to tease out is exactly what you're saying. Don't just go with the first folks who contact you and a lot of our docs who are listening to this, they're getting contact. I mean, from small dermatology practices to mid-size, what you guys were before. And we kind of really make the point and there's been an investment banker on this podcast as well to say even if you're committed, you want to do that, have a competitive environment for a financial point of view, but I think what you're saying is even more important, a fit point of view. Figure out who the right firm is, not just the first one who comes to the door, even with a good offer.

Andy Blankemeyer:

You're right. And I think every one of these organizations, private equity firms, that come to your door is going to be willing to write the check. From a financial standpoint, you're going to... All the evaluations are going to end up around the same amount from a dollar's perspective, but it's really about culture, right? You're going to be working with these individuals for a long period of time, sitting shoulder to shoulder and meetings and growing the business together. And if that culture fit isn't there, it's not going to go well, but the money piece wears off pretty quick.

David Mandell:

Right.



Andy Blankemeyer:

When your business and what you've gone to school for and your passion is changing so much, because there's not a culture fit.

David Mandell:

Yeah.

Andy Blankemeyer:

And that's what's so important here.

Steve Hamilton:

I was going to say, one thing that helped us get comfortable with the idea is Cincinnati Eye Institute is also in Cincinnati and they partner with Revelstoke Capital Partners, so they had a history within Cincinnati and we're colleagues with the eye doctors down the street. We can grab dinner with them, we can give them phone calls. They were, I want to say about a year into it when we started discussing things, so you kind of get an idea of how's your first year gone and how are things going for you. And that really helped us get comfort with the idea, because we were talking to other physicians about it, not just business people.

David Mandell:

Right. If you went to dinner with them and they were tearing their hair out, you probably would've gone somewhere else. They were probably pretty frank with you, especially if you buy them a couple glasses of wine, right.

Andy, from your point of view, what's been the biggest challenge since... And I think this is really one of the important things because we've had people on the podcast, attorneys, investment bankers, et cetera, but I think it's so valuable as you guys are through it now. You're a couple of years into it. Now you can talk as if, with the perspective and the experience of this is what's actually happened. From your point of view, a CEO, what has been the things that have gone well, or what's the biggest challenge that you've seen post transaction?

Andy Blankemeyer:

We're about two and a half years in since the transaction. And with these transactions, the goal is obviously to grow the business three, four times from what it is at the original state in a very, very short period of time, say between five and seven years, right? And when you have growth at that speed, it comes with a lot of challenges, right? You need to make sure that you have the infrastructure from an IT perspective there. You need to have the administrative bandwidth there as well, right, to not only continue to support the core book of business, the core group that



first came into the platform, but also how to support all the new groups that come in under the OrthoAlliance umbrella. And so we had... Hiring's not a, not a science, I consider it more of an art form, right.

And it took us some time to get the right people in from both the operations and financial side of the house, as well as the speed to spin up additional physician leaders in our organization to help us continue to maintain the quality and reputation we have with the core book of business. But then also as new groups have joined us, making sure we're supporting their growth initiatives and what they see as opportunities to build their business with the proper administrative team. Again, when you go from 500 employees to 1,000 in about two and a half years, you got to make sure that you're maintaining culture, you got to make sure you have the right people working from an administrative and physician leadership perspective to help keep that in focus versus just going out and growing like crazy.

Some of the footfalls you see in these platforms come in the way of just adding to add. We've been very picky on the groups that we add into OrthoAlliance, because we don't want to dilute our culture, we don't want to dilute our approach to orthopedics. And if we were to just go out and buy everything that was for sale, yes, we might be in 15 states and be four times the size we are today, but none of that is connected through any real culture that helps really drive the value of the platform or the value of the organization. Every group we've talked to and every group we've ended up adding to OrthoAlliance really fits that core culture of providing outpatient orthopedics to the community with high quality. And without that, there's really no platform. I think that's really important as you get into these, whether you join an existing platform or you create your own, making sure that culture is at the center of everything or the rest kind of falls apart pretty quickly around it.

David Mandell:

You've got to have kind of a guiding light or something that everything falls off of, and that sounds like what you're talking about. And I want to make sure that listeners understand, because we brought this up in past podcasts, you guys, you were at a size and your deal with this private equity firm was to become, and your vision was to be the platform and then roll others in. We have a lot of clients listening who have a small practice who are not going to be that, they're going to be one of the roll ups or one of the folks joining it. And what you just said, and I think it's the same for them, right? They want to find a platform where their vision or their vision of their practice or their culture fits the platform, right? Even if they're small, even if you're a solo practice. I mean, if you're going to go in, we had, I think, Derm in the fall talking about he joined a large derm practice that had 30 or 40 offices. That was important for him, even though it's really his practice, right, it was just him.

From a small, all the way up to any size, if you're going into a platform, it's the same thing on your end. That's great. Steve, so, and again, this I think is something that all



the docs are going to really be listening to. What has changed in your day to day when it comes to clinic and patient care and what have been challenges or changes from a physician perspective? I think that's the big concern or question that a lot of your colleagues probably will be asking you or at other practices. And so how has it been from a doctor's perspective?

Steve Hamilton:

Yeah. From the day to day clinic and patient care, we really had no changes, they haven't influenced that at all. They don't come in and say, you need to see this number of patients, or you need to switch and go from this clinic base and see patients in another part of town. That's something we kind of focused on when we found the right partner we felt like, that they weren't going to try to influence the patient care, which was very important because that's kind of what our culture's built on is that physician autonomy and a physician led organization, we wanted to keep that. And I guess one of the challenge or changes that we've dealt with and Andy kind of touched on it, but it's been the incredible growth. When you go from, when I started, we were maybe 15 doctors and now we're 70 plus. We're bringing on so much volume and so many new physicians, it's how do we fit them into our organization?

We had to do some shuffling of the surgery center and we all had to be flexible to get everybody time to get their cases done. There used to be leftover time for add-on cases and things like that and we're... It's kind of a good problem to have, but we're full at the end right now. And people had to be flexible to shift things around to accommodate the partners that weren't a part of the group before to bring them into our vertically integrated model, I think was real important. But once we got past that and we have the great positions we added, and it's been kind of a blessing to be able to expand our coverage in the city and also regionally.

David Mandell:

Yeah. One word that you stressed there, which I think is important, is flexibility. There's certain things you don't want to be flexible on. You've mentioned the ability to have your professional judgment and perform medicine surgery that way you want to and the way you feel is ethically necessary, but there's also flexibility in terms of how much time you have in the OR or the surgery center and being flexible in terms of new doctors that you got to get to know that are now your partners, because you went from 15 to 70, et cetera. I think that's an important thing for people to hear. Go ahead.

Andy Blankemeyer:





Yeah. I think the key thing there too, is that all of those decisions continue to run through the individual physician practices that are joining, right? And so at least in our model, the platform can't just add physicians without the buy-in from the physicians that are already there.

David Mandell:

Right.

Andy Blankemeyer:

Because let's be honest, I'm an administrator, I have a certain skillset, but what physicians have more than anything is a keen eye on the people who want to join the group and do they fit culturally? Do they have the quality that's necessary to be a member of the group to not dilute the brand or anything like that? And so I can bring physician after physician to the group saying, "Hey, this guy looks pretty good. Maybe they should join the practice." And the physicians can come in and say, "You know what, from a quality perspective, they're just not there."

Or, we don't want to cannibalize our current book of business by having a new person come in. It's still very strategic, it's still very much driven by the physicians, and if that ever gets taken away from the physicians, that's when you start seeing some challenges of physician engagement in any model, as you continue to grow it. You want them to be front and center, you want them to be making these decisions, or they're not really acting and being an independent practice anymore, which is exactly why we did this is to continue to maintain that autonomy on a go forward basis.

Steve Hamilton:

I guess here's another good example is when we were less than a year into this is when we were first confronted with the COVID pandemic.

David Mandell:

Yeah.

Steve Hamilton:

And that was a huge challenge for us as a group that a lot of physicians listening can relate to that. And I remember meeting with Andy before we knew what was going on, literally couple days before we shut the practice down, and we had a physician leadership meeting that Andy led and we proactively shut our business down for a week or two before we were mandated by the government. Because we didn't know what was going on from a patient safety, employee safety type thing.



We got together and there was no pressure from the management company. If you guys need to keep the doors open, you need to do this.

David Mandell:

Interesting, interesting.

Steve Hamilton:

But we shut it down, we got a plan together, we opened back up and the resources we had by partnering with them during the pandemic was amazing. Where if there was a lot of panic on our... You go from seeing a certain number of patients a week, that's shutting the doors and you're like, oh my gosh. How are we going to keep things going, but to have... Andy's a great leader, but he had some expertise or some advice to lean on from the private equity standpoint and access to information we wanted to have before to help us weather the storm.

David Mandell:

Yeah. That's a good point. I'm glad you brought that up because it is hard enough to get this thing right and then have a pandemic thrown in, a good challenge, but it is a good case study to say, "Listen, they weren't reassuring you to keep the doors open." Like you said, it's the first time again, I've been working with decisions 25 years that my clients were not seeing patients.

Andy Blankemeyer:

Yeah. Right.

David Mandell:

That's unique.

Andy Blankemeyer:

I always say that adversity brings out the true character of someone, right.

David Mandell:

Right. Sure.

Andy Blankemeyer:

And yeah, I think everyone can agree to that. And what it showed was not only our physicians in our practice were deeply aligned, but also our financial sponsor and Revelstoke was aligned with us, right.

David Mandell:



Yeah.

Andy Blankemeyer:

It could have gone very different, but instead it was, "Hey, what resources can we help provide to not impact your physicians as much as the pandemic frankly did? And how can we help provide, whether it's monetary support or operational or strategic support to help make sure the practice comes back online effectively." And that type of approach, you don't see everywhere. And I think when you're faced with something like COVID, and that's the response, you feel pretty good about your decision.

David Mandell:

Yeah, for sure. That's a very good confirmation. Couple more questions, want to keep us on the right timeframe. Andy, I'll go to you first. How do you see the next couple of years laying out, what's next for Beacon within the orthopedic landscape? Give us that.

Andy Blankemeyer:

Yeah. I mean, so we've done really well over the last few years growing in our core demographics of Ohio, Northern Kentucky and Southeastern Indiana. That's gone very well, we continue to grow and expand with groups all across the state of Ohio who have been reaching out to us to try to join the network and be a part of it, which is fantastic. In the next year or so, we're looking to take our model and get outside of that three state region and really kind of provide this same type of value to other groups in other geographical areas across the country. And so, we're actively evaluating those now and we envision ourselves going into those markets and hopefully doing the same type of density building approach that we've had success at here in Ohio.

I think that's the next step here. We're going to continue to grow our footprint and really keep refining our operations to make sure you that we, again, continue to hit on that quality access and value and work with like-minded physicians. I think, typically the whole periods for private equity are anywhere between, like I said before, five, seven years, sometimes faster, sometimes slower, but we've been very methodical with our growth. And when the time comes for Revelstoke to exit and bring in another sponsor, then we'll obviously hit that head on, but we're going to do it in a very deliberate fashion and wait until we are sure that the organization is ready for that next phase of breath.

David Mandell:

Makes sense. Steve, on your end, let's look back for a second and then maybe a little bit of sort of connection to other docs. As you've had these changes over the last



two or three years, what would you have changed if you could go back and say, Hey, this is one thing that if I was telling my colleague across the country look out for this, this is something I would've liked to see changed.

Steve Hamilton:

Fortunately for us, things have gone pretty smooth the first two and a half, three years. When we were going through this whole process, though, there were some sleepless nights, there were some conversations with my wife, we have young kids. And you worry as a young physician, are you making the right decision? You train, all of our friends have been in jobs for 10 years before we get our first job. And I was maybe five years in when we were considering this and it was dramatically changing the landscape of how we could potentially practice medicine. I would tell myself two and a half, three years ago, put your head down, work hard. You guys are making the right decision and hindsight's 2020, but I think with other physicians looking into this opportunity, the thing is to do your homework, educate yourself as much as you can, and be sure you find the right partner because whenever you get married or enter a partnership, you think it's going to last forever. And you want to be sure that you do your homework and find the right partner to help find the growth you're looking at and it fits you culturally and fits your align with how you want to treat patients.

David Mandell:

That makes sense. And I'd asked for closing thoughts, but I think that is one from you. I mean, unless there's something else, Steve, you want to say, but I think the big lesson here is fit, is crucial in doing your homework and due diligence upfront. And I'll reiterate what you guys said, I think, and you can correct me, Andy, as we wrap, but a firm approached you, you guys talked to six or seven or whatever the number is firms, and then you found the right fit. Right, you took that deliberate path rather than not only just going with the first one, but not just going with the second one, right. I mean, that's really, I think the point, because there may be some difference in multiple or dollars slightly, but the key is finding the right fit and you got to talk to a bunch of them to know. And so Andy, I'll let you have the last closing words, but big picture.

Andy Blankemeyer:

Yeah. I mean, I think regardless of specialty, private equity and healthcare is here to stay. There's a lot of value being created in the healthcare sector and private equity sees that and they're going to be around for a long time. If it's something where, as a physician, you have your practice and you're looking to monetize it to some degree, you got to do your homework, you got to educate yourself, you got to work with advisors that have been there before to make sure that it does fit your need and your desire for your practice over the long term, right. And I think having that level of education on not just assuming all bad or assuming all good and really kind of hitting



it down the middle of the fairway and saying, look, there's pros and cons to this just like there's pros and cons to staying completely independent.

David Mandell:

Yeah.

Andy Blankemeyer:

And you just have to weigh those risks as you go through a process. And then it plays out however you need it to, right. You're not committed until you sign and so you can continue to evaluate on a weekly, daily, monthly basis and make sure it's right for you, but medicine is an interesting, especially independent medicine, is a very interesting business model. Very rarely does anyone own a business to run on the hamster wheel for 30 years and then when you retire, you might get a pat on the back and a small buyout of your practice and then you move on into retirement. Most people are in business of owning a business to eventually capitalize on it, sell it and provide some meaningful wealth generation for your family. And so now physicians are realizing that they can do that through a private equity model versus a hospital buyout model and so on while still maintaining a lot of their independence. And when they see the value in that, and the partnership makes sense, it can be pretty revolutionary to their practice in a very positive way.

David Mandell:

Yeah. And I'll end on that because at OJM group, obviously we're wealth management firm and so we are helping docs on an individual basis make some of those decisions. What does that look like individually? For me, for my family, I get this piece of it up front, I may have another... You don't have to reinvest and get a piece of it on the back end, my income may come down, what does it look like? And evaluate it for them personally, so they can make an educated decision on the business as well, right, because those two things intersect exactly to your point, Andy, because the status quo is not that, right. There's a tradeoff there and we're helping clients make those decisions. But this was really helpful guys, I think it was really valuable to our audience to hear people who've gone through it, a physician and an executive to say, Hey, this is where we're at. And I really appreciate you being on and maybe in another year or two, we'll have you back in for an interim update.

Andy Blankemeyer:

That sounds great.

David Mandell:

Thanks, Steve and Andy, for being on.



Steve Hamilton:

Thanks for having us.

David Mandell:

Excellent. And to the audience, thanks for being on. Tell your friends and colleagues about us and another two weeks, we'll have another episode. Have a great day.