Despite Government Intercessions Industry Executives Expect Continued Rebound in Medical Aesthetics

By Jeffrey Frentzen, Executive Editor

In spite of the current economy and increased regulatory pressures on everyone in the medical industry – from manufacturers to the small town practice – medical aesthetics continues to experience a healthy, double-digit growth in many sectors worldwide, according to the Global Aesthetic Market Study XI (GAM XI), Medical Insight’s most comprehensive annual market research report.
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This new report, which was released in January 2013, reported total sales of aesthetic products in 2012 exceeded $5.7 billion, up from $4.9 billion in 2011. Through 2017 the market is expected to expand by 11.6% per year to $9.9 billion. This will be supported by accelerated growth in the energy-based device segment, but mitigated by slower growth in other areas, including some emerging technologies, physician-dispensed topicals, neuromodulators, dermal fillers and chemical peel segments.

The public’s continued acceptance of cosmetic surgery will lead to increased consumer demand for all types of procedures. In addition, as treatments become increasingly mainstream, growth of all aesthetic procedures will be strongest in lower income groups through 2020. As the U.S. economy begins to rebound, and consumer spending increases, practitioners can begin eliminating the substantial discounting that they have had to implement over the past few years, which will result in continued total fee growth.

GAM XI also reported that the industry’s leading firms accounted for aesthetic product sales of around $3.9 billion, representing approximately 68.2% of the total market. Allergan, Inc. (Irvine, Calif.) led the market by a wide margin, with 32.7% share in 2012, followed at a distance by Mentor (which is now part of Johnson & Johnson) with 7.0% and Galdema with 5.1%.

According to David Pyott, CEO of Allergan (Irvine, Calif.), the company’s formula for continued success relies on combining internal research and development with pursuing additional, new business opportunities that increase expertise and product offerings. “In looking externally, we take a broad view to identify new products in development or technologies that make sense for our business, providing they have unique characteristics and strong intellectual properties,” he stated.

Along these lines, successful firms must remain solidly active in the eyes of “high-end dermatologists, plastic and cosmetic surgeons,” expressed Stephen J. Fanning, president and CEO of Solta Medical, Inc. (Hayward, Calif.). “The aesthetic market is all about new products. With any product we have to release fresh news about it every 18 to 24 months. If we don’t account for this in our R&D cycle, we will be left behind.”

Companies investing in new and emerging technologies are focusing on autologous injectables, advanced sclerotherapy treatments, transdermal delivery of injectables, topical and device-based alternatives to neurotoxins for wrinkle reduction, scar therapy, treatment of alopecia, removal of localized fat deposits and treatment of hyperhidrosis. The impact of these technologies will be largely incremental, said Robert E. Grant, chairman and managing partner at Strathspey Crown LLC, a growth equity firm located in Newport Beach, Calif. “They’re not necessarily game changers or disruptive technologies, but certainly important additions to medical aesthetics that will give physicians and patients more choices. Topical neurotoxins are going to continue to attract some attention, as well as submental fat reduction treatments, but right now for me the most interesting would be devices that administer neurotoxins without injections. In other words, a toxin-free alternative to the treatment of wrinkles.”

Another emerging technology, regenerative medicine, includes the use of autologous stem cells for treating wrinkles and rejuvenating skin. As emphasized by Court Cunningham, CEO of Yodle, Inc. (New York City, N.Y.), “One of the most highly anticipated emerging technologies involves the use of stem cells and regenerative medicine in aesthetic procedures. In studies, adipose derived stem cells have been shown to regenerate the skin so these cells can be harvested from areas where body contouring is desired.”

However, opinions vary on the full potential of stem cell use in aesthetic procedures. “There is some good research going on at top universities around the U.S. and abroad, and while I think it holds significant promise for the future, I don’t see it having much commercial impact on the market in the next five to seven years,” Mr. Grant noted.

Others have adopted a cautious view on regenerative medicine and similar anti-aging technologies. “We will continue to follow as the scientific research progresses around stem cells and anti-aging, etc.”, said Mr. Pyott.

Michael Davin, CEO of Cynosure, Inc. (Westford, Mass.), has a similar view;
these developments are, “on our radar but off in the distance. There is quite a bit that still has to happen. More research and clinical studies have to be done. I do think there will be a day that we will start to see some exciting things happen in that arena but, at this point a lot of it is still academic research.”

More tangibly, energy-based aesthetic devices that cover a range of indications from acne and pigmented treatments to skin tightening and rejuvenation applications are becoming increasingly popular with physicians and patients. GAM XI stated that total global sales of energy-based platforms are expected to rise by 10.2% per year through 2017, significantly higher than the 8.6% annual growth predicted in the previous year’s report as aesthetic practices upgrade to new devices after several years of holding off purchases.

From light-based systems, multiple wavelength lasers, ultrasound and radiofrequency (RF), non-invasive technologies and treatments for skin rejuvenation and body contouring can offer desirable benefits over conventional therapies. Nonetheless, as Frank D’Amelio, CEO of Ellman International, Inc. (Oceanside, N.Y.), pointed out, improved clinical research in the development of any energy-based device is critical. “More and more, patients want procedures with minimal downtime, no pain and proof of efficacy,” he said. “In the area of emerging RF technologies, for example, we are aggressively conducting more studies, more research and are focused on continuing to create devices that don’t cause pain.”

In addition, many practitioners combine procedures in tandem to bring about comprehensive results on the face, according to GAM XI. One example of this is using neurotoxin and energy-based skin rejuvenation to induce production of new collagen, while instantly removing wrinkles. Others use laser resurfacing around troublesome areas and a light or medium chemical peel on the rest of the face. Neurotoxins can also be used after laser resurfacing and LED therapy to prolong results. From a financial perspective, combining treatments is beneficial for practitioners as it creates additional sources of income.

Another segment that some physicians consider a competitive force is home-use aesthetic devices, many of which incorporate advanced technologies. In spite of these advances, many physicians face revenue shortfalls and home-use devices are

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viewed with apprehension or as a competitive threat, according to GAM XI, and many physicians will not recommend them to patients. “I am less bullish about the home-use device market,” Mr. Grant stated. “Overall, the products offer less efficacious versions of treatments given in physicians’ offices. We may see the number of available products expand by virtue of the fact that there are more companies entering that space. While the volume of procedures may go up, the increased commoditization will push prices down.”

While many manufacturers are steering clear of the home-use market, others embrace it. For instance, Mr. Davin feels the expanding home-use device market will create awareness for the professional market. “For example, many consumers still don’t know the benefits of light-based technology. If you look at hair removal today, you know people are still buying razors. They may not realize they can have permanent hair removal with a laser. Though they will never get the same result with a home-use device, if they want more of a permanent result, they’ll go to a physician.” Cynosure’s approach to accessing the consumer market is via partnerships with a consumer products company. “We expect to launch our first home-use product for skin rejuvenation with Unilever in 2013,” Mr. Davin reported.

With the horizon looking bright for aesthetic medicine, there is still a growing concern about fake, illegal products entering the supply chain. For instance, fake BOTOX products have infiltrated the international market, as well as the U.S. In fact, the FDA recently took action against a limited number of medical practices purchasing imported products, claimed Mr. Pyott. Allergan, “considers the issue of counterfeit and illegal importation of medical products to be very serious,” he maintained. “We continuously work to educate physicians and consumers

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![North American Aesthetic Product Sales by Market Segment 2012 - 2017](image)
regarding the importance of confirming authenticity of medical products."

More commonly, a practitioner’s use of unproven medical devices that promote unsubstantiated claims is another problem, Mr. Davin added. “It takes 18 months to two years for practitioners to realize that inferior technology doesn’t work that well, but I feel we should challenge our industry to discourage physicians from supporting these companies that are marketing inferior technologies. Strong clinical leaders will not support products they don’t believe in or use; however, there are others that will promote devices that they don’t believe in or even use in their practice. This has to change.”

In Mr. D’Amelio’s opinion, the solution is that manufacturers should step up efforts to develop products based on good science and backed by effective clinical results. “When you’re talking about fat reduction, tightening skin or other procedures, the standard should be raised with clinical proof / studies going beyond just a company’s before and after photos,” he stated. “The industry needs to set the standards as independent, peer-reviewed, published papers.”

In terms of governmental action, the U.S. aesthetic field will be weighed down by a new 2.9% excise tax on medical device sales resulting from the “Patient Protection and Affordable Care Act” (ACA) signed into law in March 2010. This tax would be paid by device manufacturers, who in turn will raise their prices to customers. In addition, the ACA has imposed significant changes and challenges that are likely to shape healthcare for the foreseeable future, Mr. Pyott noted. “In terms of the impact on medical aesthetic providers and practices, the potential will be less than other medical specialties given the relatively low exposure to Medicare, limited insurance coverage and cost of treatment versus other pharmaceutical costs. However, I don’t want to understate the impact, as the ACA will change the practice of healthcare.”

Looking beyond the efforts of the government to change the way manufacturers and practitioners do business, at the practice level physicians are finding new survival mechanisms. “There is a movement towards physicians working across practices and merging their bargaining power, if you will, in order to gain better economics and also enjoy increased participation.”

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Source: The Global Aesthetic Market Study XI
with the companies that they partner with,” Mr. Cunningham advised.

Another important trend, thought to be an effect of implementing the ACA, is the emergence of concierge medical care, in which those with limited means have one system available to them and those who can pay have another. “Clearly, we are facing the evolution of a two-tier healthcare system,” Mr. Fanning said, “and most aesthetic practices will have an advantage here, as they already run concierge type, cash only businesses.”

In addition, practices should be encouraged to look for ways to participate in the innovation cycle of new technologies, noted Mr. Grant. “Due to regulations, manufacturers are very limited in how they can and cannot interact with physicians at the practice level, and that’s had an impact on slowing down the potential growth of market segments. Previously, in the elective sectors of healthcare we used to see companies being able to make a direct investment at the practice level both in practice management, as well as in advertising for individual practices. A practice would make an investment in a particular technology, and they would work together with the manufacturer to launch that technology successfully at a local level so that the physician receives a return on the investment.”

As GAM XI also suggests, practitioners are looking to strategically improve their economic situation. “Part of the solution is they will be looking for more cash-based patient pay revenue outlets,” Mr. Grant continued. “We will see some creative business models that will encourage physicians to both participate in the innovation cycle that I mentioned, and do it in a way that is not subject to third party payment and the government’s overregulation.”

Despite the various ups and downs, the medical aesthetic industry continues to hold tremendous promise and opportunity, Mr. Pyott emphasized. “As we begin 2013, I believe that in some ways the best is yet to come. This is a dynamic market that continues to perform well, demands innovation and gains traction globally. In times of economic slowdown and a challenging healthcare and regulatory environment, it’s inspiring for those in the industry to be part of a business that is bringing the best of science to physicians and consumers around the world.”

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