PRIVATE EQUITY TAKES ROOT

WHAT DOES IT MEAN FOR OPTOMETRY?

A Special Vision Expo Event

March 17, 2018

Vision Expo East | Jacob K. Javits Convention Center

New York, NY

Presented in collaboration with: Review of Optometric Business, Vision Expo, VM Vision Monday

PROGRAM AGENDA

TIME	TOPIC	PRESENTER
2:45	**Greeting** "Opportunity Brings Us Together"	Marge Axelrad & Roger Mummert
2:50	**Overview** "Situation & Opportunity" "New Economics of Practice & New Strategies of Investment"	Mark Wright, OD, FCOVD, ROB Professional Editor
3:05	**The Decision Tree** "Pros & Cons of Acquisition"	Brian Chou, OD, FAAO
3:20	**The Decision Tree** "Pros & Cons of Retention & Renewal"	Michael Kling, OD
3:50	**Panel Discussion** "The Value We Present to ODs"	Sue Downes, MyEyeDr./Capital Vision Services Kelly McCrann, EyeCare Partners/FFL Jeff Fronterhouse, Acuity Eyecare Group/ Riata Capital Justin MacCormack, Imperial Capital
4:10	**Q&A**	Marge Axelrad & Roger Mummert moderators
4:45	**Conclusion**	

PRESENTERS

Mark Wright, OD, FCOVD

is Professional Editor of *Review of Optometric Business*. Dr. Wright heads the Bennett/VSP Business Management Program at The Ohio State University College of Optometry. He is Founder and CEO of *Optometrymatch.com*, which facilitates the transfer of optometric practices. He is the founder of a 9-OD, four-location practice in central Ohio.

Michael Kling, OD

is founder and CEO of Invision Optometry, a five-OD practice in San Diego. He also is founder of Impact Leadership, which provides leadership, culture and business consulting for eyecare providers. He frequently speaks at optometric meetings and authors articles on optometric practice management.

Kelly McCrann

is CEO of EyeCare Partners, whose portfolio of approximately 225 offices includes Clarkson Eyecare, Thoma & Sutton, Eyecare Centers, Eye Care Associates, Rinkov and others in the central and Southeast regions of the U.S. EyeCare Partners is backed by FFL Partners.

Justin MacCormack

is a Partner and Head of Health Care Investing at Imperial Capital of Toronto, Ontario. In 2017, MacCormack developed and formed Total Eye Care Partners, a practice management company focused on empowering ODs to practice more medically. He recently spearheaded the acquisition of HW Holdings, which will focus on optical sales. HW operates 24 practice locations and owns the industry-leading, state-of-the-art digital lens laboratory Identity Optical.

Brian Chou, OD, FAAO

is a leading authority on private equity's stake in optometry. He has authored over 100 articles on clinical issues and business subjects, and he has developed numerous technologies with applications in eyecare. In 2017, he sold his practice, EyeLux Optometry in Rancho Bernardo, Calif, to an affiliate of EyeCare Services Partners.

Sue Downes

is CEO of MyEyeDr., a group which has been actively expanding in several major markets in the MidAtlanic, Northeast, Southeast and Midwest for the past several years to include 370 offices today. MyEyeDr.'s Capital Vision Services is backed by investment firms Altas Partners and CDPQ.

Jeff Fronterhouse

is Managing Partner of Riata Capital which helped form Acuity Eyecare Group. Acuity includes Crown Vision Centers, Eyetique and International Eyecare Center. The group, which includes 65 locations across six states, recently expanded its senior management team.

Marge Axelrad

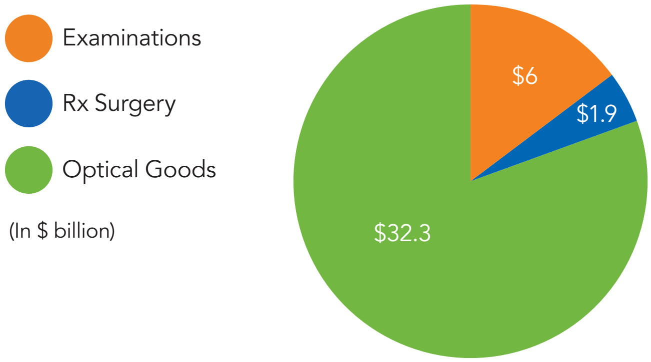
is Senior VP/Editorial Director for *Vision Monday* and its daily online *VMAIL*. She oversees the VM Global Leadership Summit and other VM Live events. She is a frequent speaker on emerging optical industry, retail and healthcare trends.

Roger Mummert

is Editorial Director of *Review of Optometric Business*, an online forum for optometrists to share winning business strategies with colleagues. In addition, he develops webinars, podcasts and live events for the publication. Mummert has chronicled the eyecare field for the Jobson Optical Group since 1987.

KEY DYNAMICS OF THE OPTOMETRIC MARKETPLACE

Vision Care Revenues: $40.2 Billion

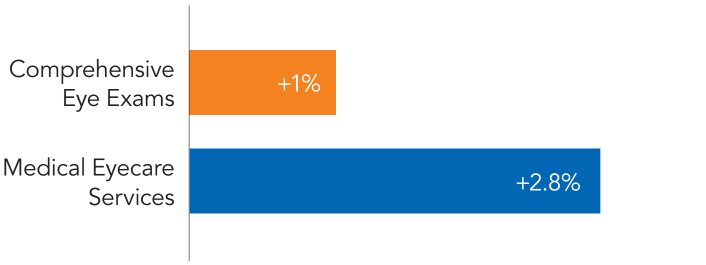


Source: Vision Council, 2017

GROWING DEMAND FOR EYECARE

As the U.S. population grows and ages, the need for eyecare services grows along with it. Recent Vision Council figures (left) show a roughly $40 billion industry, and there is growth in nearly all areas within it. An optometry practice typically derives 60 percent of revenues from optical sales, and 40 percent from exam fees, according to Jobson Optical Research.

Growth in Eyecare Services

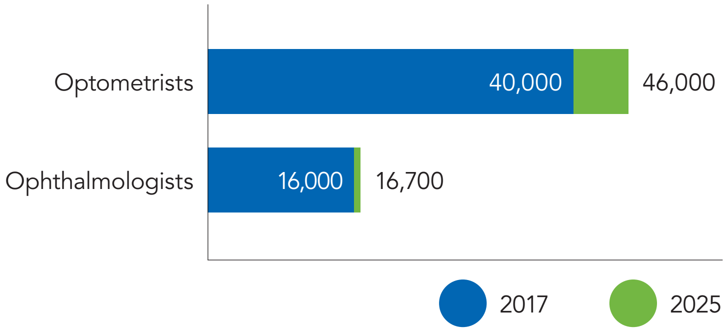


Source: *The Future of Eyecare*, 2017

HIGHER GROWTH IN MEDICAL EYECARE

The need for medical eyecare services is growing at a pace nearly three times that of refractive services, according to *The Future of Optometry*, a report developed by Review of Optometric Business and sponsored by Essilor. Factors in this trend include population aging and increased dry eye and eye strain due to environmental factors and growing reliance on digital devices.

ODs Growing Faster than MDs



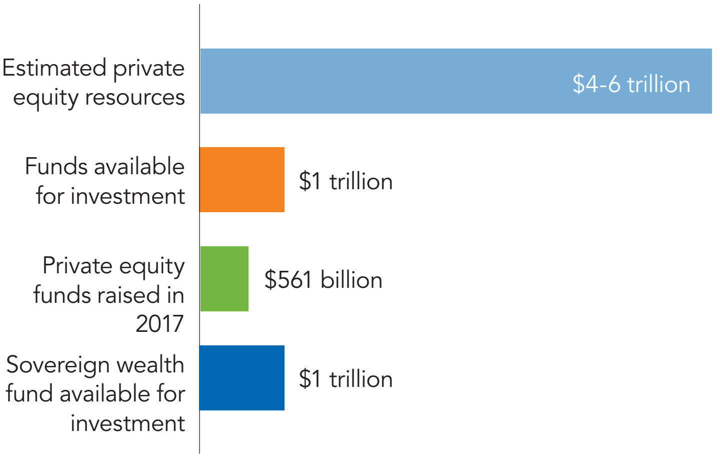
Source: *The Future of Eyecare*, 2017

OPTOMETRY WORKFORCE GROWING

The number of fulltime-equivalent optometrists will grow from roughly 40,000 at present to 46,000 by 2025, a 15-percent increase. Over this same period, the number of fulltime ophthalmologists is expected to grow only 4 percent, from 16,000 to 16,700, according to *The Future of Optometry*. Accordingly, optometrists are well positioned to meet escalating needs for medical eyecare services. At the same time, independent optometrists are challenged to upgrade their practice management systems and billing and coding procedures to ensure compliance and maintain maximum revenue flow. New practice models and technology advances are emerging to meet these challenges.

KEY DYNAMICS OF THE PRIVATE EQUITY MARKETPLACE

Private Equity: Vast Resources at Work



Source: *Forbes, Fortune, Bloomberg*, 2017, 2018

AVAILABLE CAPITAL IN SEARCH OF OPPORTUNITY

The size of private equity resources, while difficult to pinpoint, clearly is staggering: $4-6 trillion by various estimates. Private equity firms have $1 trillion available to invest, according to *Fortune*. In addition, $561 billion was raised in 2017 by private equity funds that average $1.3 billion in assets, according to *Forbes*. Further, sovereign wealth funds are coming into play: Norway wants to invest $1 trillion in private equity, *Bloomberg* reported in January, 2018. With volatility in an overheated stock market, analysts say, private equity acquisitions are especially attractive to investors looking to maximize returns.

Consolidation Acquisition Strategies

- **Acquire quickly.** Private equity firms have ready cash that can provide a competitive advantage.
- **Present value proposition.** Relieve OD-owner of management burdens and allow them to be the doctor they were meant to be.
- **Create incentives.** Tie full OD-owner compensation to sustained performance goals, leveraging their brand equity in community and promoting continuity.
- **Develop networks.** Target practices located in growth markets and with geographic proximity that can be centrally managed.

ABILITY TO ACQUIRE QUICKLY, CAPTURE EFFICIENCIES

Private equity firms have available cash to purchase practices, in contrast to OD-to-OD transitions that may require time to assemble financing. Notably, consulting services that match OD-owners with OD-buyers and that facilitate financing are emerging and showing potential to level this playing field. Following an acquisition, though, private equity owners can rapidly apply ready resources to achieve synergies in centralized billing and procurement that can reduce operating expenses. In addition, some consolidation "feeder models" link MD and OD practices, with the goal of driving (high-fee) surgical procedures to MD practices while directing (low-fee/high-volume) co-management services to OD practices.

Consolidation Growth Strategies

- **Create growth platform.** Acquire eyecare practices to create a platform for future expansion as a network.
- **Increase value.** Manage practices to increase value through efficiencies, synergies and volume.
- **Retain and grow.** Create a regional or national chain; retain and grow it.
- **Grow and divest.** Apply a growth strategy designed to maximize the value of practices, as measured by EBITDA. Resell leaner, more profitable practices for multiples of acquisition price.

VARIED STRATEGIES: DEVELOPMENT, RETENTION OR RESALE

Private equity firms generally apply a strategy to acquire practices that can be consolidated into a network with common efficiencies. Consolidators then seek to rapidly optimize practice performance before transferring ownership within three-to-five years for several multiples of their initial investment. Some models have longer development times, and still other models seek to retain and grow a network of practices. Such consolidation models also are being applied to dentistry, audiology and to general medical practices.

Private Equity Takes Root in Optical

New Investments Fuel Growth for U.S. Retailers and Independent ECPs

MARGE AXELRAD / EDITORIAL DIRECTOR AND MARK TOSH / SENIOR EDITOR

NEW YORK—Investors are really, really interested in the vision care space. There have been almost 20 separate new private equity deals within the past 24 months alone, plus an additional series of deals which expand on prior ones, with more on the horizon. Directly, and by association, they are amping up the competitive stakes of virtually all eyecare and eyewear players and are setting the stage for a new posture for the industry to both consumers and patients.

Based on conversations with leading PE companies, investment advisors, optical retailers, ECPs and others, Vision Monday has revisited the thinking of those behind the developments, which are impacting optometry, ophthalmology, opticianry and the supplier and managed care sectors, too.

An early consensus: vision care's "fundamentals" are considered very good and very promising. Many feel the industry is seeing the first stages of a restructuring, one which will redirect resources to help practitioners and groups better compete.

They point out that the medical and patient care elements of eyecare and the demand for vision correction products have long been two critically-related aspects of the optical market. Both sectors are buffeted by the business economy, health-care systems, products design, creation and distribution as well as a new digital technology revolution, all of which offer tremendous challenge but much opportunity.

As a result of this and other factors, private equity investment has crescendoed, particularly in the past five years, as mid-sized and very large investment groups—of many different types, sizes and structures—have started to enter the space in a more visible way in North America, with acquisitions of both large and regional optical retail/ECP groups as well as hundreds of smaller independent offices.

Their involvement, along with that of the publicly traded vision care and optical companies who operate in the U.S. as well as around the globe, are shining a bright light on the vision care space to financial groups, investors and analysts who had not been directly attuned to it before. Their discovery and assessment of the category is driving consolidation, new practice and provider structures, along with enhanced competitive resources and platforms for suppliers and distributors, too.

Independent eyecare professionals, along with leaders of strong regional groups, are themselves at decision points—depending on their practice stage, their practices' performance and metrics, specialties, age and inclinations. They can choose to stay focused and independent but avail themselves of the business-building tools of buying groups or alliances, continue to practice and focus on patient care by selling majority equity to larger management groups with different support/resource options or to transition out and exit active practice.

Different groups offer distinct business models and resources. ECPs are advised and encouraged to research and explore those differences.

VM's recent news reports and our discussions with many private equity players illustrate PE's attraction to vision care. Among these:

"Sometimes it's lost when people get caught up in the words 'private equity' and the vision of the big check," he said. "This has to be about providing excellent patient care."

-Chris Harris

Managing Partner, FFL Partners

- Eyecare, and specifically optometry, is a large, growing and highly fragmented market that investors view as ripe for an increase in consolidation initiatives. Ophthalmology offers another opportunity, with investors attracted to regional leaders, ambulatory care centers and dispensing.

- A sense that there are meaningful benefits of scale that can be achieved via consolidation of small practice groups or even single-office eyecare businesses, bringing perhaps increased leverage with suppliers or with managed care.
- Demographic trends. As the U.S. consumer base ages, vision care becomes a more important aspect of health care.
- PE firms are exploring new sectors as they have a lot of what the financial world calls "dry powder." Explained by one investment advisor, this is basically capital that has been committed to funds that has not yet been deployed. A lot of money flows into PE from large pension funds, big endowment funds, big pools of capital that are trying to get a good return on investment. They can and do invest in real estate, equities, bonds and public markets. But these investors are looking for stable and consistent returns.
- A business that seems to be recession-proof, in many ways, with opportunity for GDP-plus growth rates continuing in eyecare.
- An aging subset of ODs, who are reaching a decision point in how they want to move their practices forward.
- The domino effect of similar investment and consolidation in other "verticals" or other medical specialty areas, such as dental, veterinary services, physical therapy and dermatology, to name the other health sectors that have seen an influx of investments in recent years.

"Values are peaking—according to some—and this is in part because of the heightened interest on the acquisition side. It's economics 101."

-Bret Davis
Acuity Eyecare Group

"The individual practitioner today is facing intense regulatory pressure, increased administrative burden, and the need for investment in either advanced technologies or information systems," said Michael Pisani, a managing director in Houlihan Lokey's Healthcare Group who has worked with Superior Vision, Vision Source and IDOC Holding in various transactions over the past several years. "And then when you look at the landscape of payer consolidation that's happening, whether with vision insurance or health plans, there's a need for [independents] to become bigger and become part of a larger practice."

Another financially based factor, according to Pisani, ties to the way risk-based models and value-based purchasing has created a sense that ECPs and investors need to manage risk in an integrated way. "This is really creating the catalyst that is driving a lot of this change for the individual practitioners who no longer feel the best course of action is remaining independent," he explained.

"The individual practitioner today is facing intense regulatory pressure, increased administrative burden, and the need for investment in either advanced technologies or information systems."

-Michael Pisani
Managing Director, Houlihan Lokey's Healthcare Group

Chris Harris, a managing partner at FFL Partners, told VM he believes the industry is "at a unique point" right now, with many independent ODs getting closer to the end of their careers and/or at a point where they want to access some of the liquidity their practices have created. Competition also is tougher than in the past, he noted. (FFL Partners is the primary investor in Eyemart Express and in EyeCare Partners, groups ranked No. 9 and 10, respectively, on VM's latest Top 50 U.S. Optical Retailers list.)

Harris also noted that patient care has to be a high priority throughout the deal process and under the new ownership. "Sometimes it's lost when people get caught up in the words 'private equity' and the vision of the big check," he said. "This has to be about providing excellent patient care," he said. "We really focus on this, and we don't want it to get lost in the discussion."

Acuity Eyecare Group's Bret Davis, vice president of corporate development, said he has a sense that the general feeling in the industry is "that the values are at a good spot right now." He added, "Values are peaking—according to some—and this is in part because of the heightened interest on the acquisition side. It's economics 101."

Investments Rise As PE Firms Favor Vision's Fundamentals

There's also a perception that many ECPs, or business owners, believe it's an appropriate time to consider the options for their future, Davis said. "It's the fear of the unknown and [concern about] what the future of optometry is going to look like."

In addition, PE activity in ophthalmology has seen a very active 24 months, noted Rajesh Kothari, managing director, Cascade Partners, which has been active in the health care space and studying the vision category. It was the exclusive advisor to Michigan-based Grand Rapids Ophthalmology on the deal they made earlier this year with Sterling Partners, a PE firm, to expand their business.

"Eyecare hadn't been on the radar screen in a significant way, but the conversation and activity in the past two years, especially around the fully integrated ophthalmology players—those regional leaders with ASC (ambulatory surgery care) and retail —is completely different now," Kothari said. "Vision is getting attention and tomorrow it will be ENT and audiology and podiatry and gastro. The business of healthcare has changed and PE likes things like healthcare that are resistant to recessionary forces. There's more to come in the MD sector."

Francois Hure, partner in New York-based CapM, has been involved behind the scenes in deals across the value chain in optical for many years, often as exclusive sell-side advisors. Among these have been the role as advisors to 1-800 CONTACTS on one strategic and three PE deals, including the most recent one with AEA Investors in December 2015, and another one this summer as Centerbridge Partners acquired Davis Vision from HVHC and on Centerbridge taking a minority interest in Visionworks in a deal with the division of Highmark, Inc.

Hure told VM, "There are strong secular trends now and PE investors have seen that positive returns can be generated. People like the aging population of vision care which creates an embedded growth—the growth of optical is perhaps twice as fast as the population growth. Many also see optical as recession proof. People like the margin structure—there's a big service component, much new technology and innovation as well as a branded component and the medical component."

"Consolidation is not just horizontal but vertical also. As a result, if you're an operator or a strong regional player or you have your own practice, you need to think about your purchasing power and the leverage you have."

-Francois Hure
Partner, CapM

PE activity is very different than Series A, B venture capital investing which funds startups, often coming out of Silicon Valley and another universe of investors, Hure and others point out. "Venture capital is more early-stage investing," explains Hure. "Those firms are not buying into a profitable business, but you're funding losses, trying to establish a new category or a new business model which might disrupt the way things are done in the industry," Hure said. "In contrast, PE is looking at taking existing businesses, trying to make them stronger, maybe bringing companies together in a combination to create a stronger company as a result. It's very different."

Hure also pointed out that there has been continued consolidation in optical for 20 years. "Groups used to be in silos," he said. "There were frame companies, retailers, lens players, and so forth. More recently, the lines have kind of blurred. We see companies participating in different fields across the space. Retail and managed vision care part of the same group or managed care and frame companies. Consolidation is not just horizontal but vertical also. As a result, if you're an operator or a strong regional player or you have your own practice, you need to think about your purchasing power and the leverage you have against those types of developments. So when there's consolidation on one side, it drives consolidation on the other."

"Not all firms are the same, however. Some have done rollups in other healthcare fields, some in retail. Many don't often understand that our business has many components."

-David Sheffer
Chief Growth Officer, MyEyeDr.

MyEyeDr., which has been building out its organization for 16 years, has approximately 344 offices as of this writing. According to David Sheffer, the group's chief growth officer, by December 2017 MyEyeDr. anticipates a total of 368 locations based on the planned acquisitions under letter of intent and those expected to close this year (plus many more signed up to close in Q1 of 2018). MyEyeDr. started its business and expanded organically, took on a PE investor and then in August 2015 recapitalized with Altas Partners and Canada's Caisse de dépôt et placement du Québec fund, enhancing the organization's resources and escalating its expansion into new markets with both leading regional optometry players and hundreds of small offices as well.

Noted Sheffer (whose father was an optometrist), "PE firms are looking for sectors that are growing, but also those that have resilience, and optical and vision care is one of those. Not all firms are the same, however, Some have done rollups in other healthcare fields, some in retail. Many don't often understand that our business has many components. "Added MyEyeDr. chief executive officer Sue Downes, "We've talked about our business foundation as a 'three-legged stool' and that means something that represents the medical, the retail and the systems/tools needed. It's important to have the ongoing commitment to the right structure and systems to execute improvements when practices come in and the group expands."

Sheffer said, "Our efforts were a little harder five or 10 years ago, in contrast to today. Today, everyone knows someone who's sold to a PE-backed company so the environment is different. But at MED we are happy to encourage candidates we're speaking to talk to the well-respected, high-caliber doctors we've partnered with who are having a good experience."

He noted, "We cast a wide net and get a lot of referrals now. We have the luxury to be selective about who's the right fit for us and we emphasize that this has to be true for the practice as well. We're looking for people with a strong clinical and personal reputation, a doctor interested in remaining committed to ongoing patient care."

Added Altas Partners' Scott Werry, "Optical has years of opportunity ahead. It's a large and growing market. MyEyeDr. has a well-developed integration process and a full suite of systems, a playbook of how to partner successfully with ODs while focusing on patient care. The team deserves credit for how they laid the groundwork to succeed. We're proud of the partnerships they've developed, which enables them and us to take a longer view towards the industry, the profession and the company."

Across the industry, investors, operating executives and others expect that PE activity will continue through the rest of the decade. "We've just scratched the surface," Cascade's Kothari said. "Consolidation has been very significant in the dental market for five or six years, but still some 80 percent of the market is dominated by single-or-two-office physicians. Eyecare is similar. Independents will be a majority but there is opportunity for larger regional groups to have an impact and grow."

According to FFL's Harris (who is the son of an ophthalmologist), the process of how PE firms eventually unwind their investments also is a topic drawing interest. Harris noted that PE firms typically view their investments in five-year increments. "That doesn't mean you hold every deal for exactly five years. It could be longer, or it could be shorter. But the way I try to orient folks is that our exit is not the main event," he added, noting that, for ECPs, the process should be focused more closely on their own time horizon and whether they are planning to stay in practice for five more years or 20 more years.

"The nice thing from the doctors' perspective is that each one of the [PE transactions] can be a partial liquidity event that allows them to rollover some of their equity," Harris said. "While it's not a public company, where you can buy and sell [shares] every single day, at each one of these PE events you have access to liquidity."

Asked about how the optometry/ophthalmology health sectors might look five years from now, Houlihan Lokey's Pisani said he expects the ophthalmology sector "to go from 0 to 60 pretty quickly" in terms of practice consolidation. "There is already more than a half dozen, if not a dozen, private equity-backed platforms in ophthalmology. Estimates suggest there are 18,000 ophthalmologists and about half of them are solo practitioners," he said.

When this is compared to dermatology, which already has seen its share of private equity investment, the direction seems clear: there are about 9,000 dermatologists and "north of 20 private-equity platforms," Pisani said.

On the optometry side, Pisani said he expects PE will consolidate practices at a slower rate than in ophthalmology, in part because about one-quarter of the optometry market is composed of optical retail chains. He expects in the future, however, that the investor-backed optometry and investor-backed ophthalmology groups will "merge lanes and develop into a more integrated consolidation practices with meaningful benefits of scale and operating leverage."

Still, there are challenges along the way for private equity investors that could slow the pace of deals at some point, according to Harris of FFL Partners, who noted that it is a complex process to assemble the pieces of a successful PE rollup, provide efficient infrastructure and execute the menu of value-based service offerings that is necessary for ECPs' success in today's marketplace.

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-Scott Werry
Altas Partners

"Building these world-class capabilities to support the independent optometrist is very difficult, and I think there will be a number of people who stub their toes trying to do this," he said. "We always say in any medical rollup that—if you are going to centralize services—you have to provide differentiated value to the independent, in this case optometrist, and not just capital. I think that is what is going to be the challenge for these private equity consolidations.... As this industry matures and people learn more, there is going to be real kicking of the tires around the services you provide and how mature those services are," he added.

Stated Altas' Werry, "In this environment, it's important for independent ODs to take the time to educate themselves and actively select the type of partners they want to work with, the management philosophy, operational capabilities and cultural fit. Call colleagues and friends. Do homework on the different potential partners and options out there." ■

This story originally appeared in Vision Monday in November 2017.

RECENT OPTICAL ACQUISITIONS, MERGERS AND PE INVESTMENTS

Date	Investor	Transaction
March 2011	**ACON Investments**	Acquires **Refac Optical Group** (including **U.S. Vision** subsidiary) from **Palisade Capital Management** affiliate
April 2011	**Brazos Private Equity Partners**	Makes significant investment in **Vision Source**
October 2012	**New Mountain Capital**	Acquires **ABB Concise**
December 2012	**Monitor Clipper Partners**	Acquires minority share in **MyEyeDr.**
January 2013	**ABB Concise and Optical Distributor Group/Digital Eye Lab**	Merges to form **ABB Optical Group**
September 2013	**FYidoctors**	Acquires **Vision Source's** Canadian assets and operations
October 2013	**Refac Holdings and main subsidiary U.S. Vision**	Acquires **Nationwide Vision**
December 2013	**New Look Eyewear Inc.**	Acquires **Vogue Optical Inc.**
January 2014	**MyEyeDr.**	Acquires **Doctors Vision Center** brand and corporate locations
February 2014	**MyEyeDr.**	Acquires **Lord Eye Center**
February 2014	**Thomas H. Lee Partners, L.P.**	Acquires **1-800 CONTACTS** from **WellPoint, Inc.**
March 2014	**KKR**	Acquires **National Vision Inc.** from **Berkshire Partners**
May 2014	**Varsity Healthcare Partners**	Acquires **Katzen Eye Group**
August 2014	**New Look Eyewear Inc.**	Acquires certain optical assets of **Optic Direct Inc.** doing business under the **Greiche & Scaff** banner
September 2014	**Clarkson Eyecare**	Acquires **Thoma & Sutton**
September 2014	**Luxury Optical Holdings (owned by investment firms aPriori Capital Partners and Goode Partners)**	Acquires **Robert Marc Eyewear**
November 2014	**FFL Partners**	Makes growth investment in **Eyemart Express**
November 2014	**FYidoctors**	Acquires **Marchand Giguère Group**
December 2014	**MyEyeDr.**	Acquires **Eye Care Associates** in North Carolina
April 2015	**FFL Partners**	Completes growth investment in **Clarkson Eyecare, Inc.**
May 2015	**MyEyeDr.**	Acquires **The Hour Glass** and **South East Eye Specialists**
July 2015	**EyeCare Partners (formerly Clarkson Eyecare)**	Acquires **EyeCare Associates** and **Pinnacle Optical of Alabama**
July 2015	**Essilor of America**	Acquires **Vision Source** from **Brazos Private Equity Partners**
August 2015	**Altas Partners and Caisse de dépôt et placement du Québec**	Invests with management to acquire **MyEyeDr./Capital Vision Services**
August 2015	**EyeCare Partners (Clarkson)**	Acquires **eyecarecenter of North and South Carolina**

RECENT OPTICAL ACQUISITIONS, MERGERS AND PE INVESTMENTS

Date	Investor	Transaction
November 2015	**Essilor of America**	Acquires **PERC/Infinity Vision Alliance**
December 2015	**AEA Investors**	Acquires majority interest in **1-800 CONTACTS** from **Thomas Lee**
December 2015	**GrandVision**	Acquires **For Eyes Optical**
January 2016	**IDOC**	Acquires **Prima Eye Group**
April 2016	**Centerbridge Partners**	Acquires **Superior Vision**
October 2016	**ABB Optical Group**	Acquires **Diversified Ophthalmics**
In 2016	**EyeCare Partners**	Acquires **Rinkov Eyecare Centers** (Ohio), **EyeCare Associates of Kentucky** (Ky.), **Eye Elements** (Ga.), **The EyeDoctors Optometrists** (Kan.), **Quantum Vision Centers** (Mo./Ill.), **Ophthalmology Consultants** (Ill.)
January 2017	**Essilor and Luxottica**	Announces intention to merge. Transaction awaiting regulatory approval
February 2017	**Waud Capital**	Forms **United Vision Company**, which partners with **Minnesota Eye Consultants**
February 2017	**Sterling Partners**	Invests in **Grand Rapids Ophthalmology**, which becomes part of G**reat Lakes Management Services Organization**
March 2017	**Riata Capital Group**	Acquires **Crown Vision Center, Eyetique** and **International Eye Center** and forms **Acuity Eyecare Holdings**
March 2017	**Shore Capital**	Forms **EyeSouth Partners**, which partners with **Georgia Eye Partners**
April 2017	**H.I.G. Capital**	Invests in **Barnet Dulaney Perkins** and **Southwestern Eye Center**
May 2017	**Essilor Shareholders**	Approves merger with **Luxottica**
May 2017	**Harvest Partners, L.P.**	Acquires majority ownership interest in **EyeCare Services Partners** from **Varsity Healthcare Partners**
July 2017	**New Look Vision Group Inc.**	Acquires **IRIS, Le Group Visuel (1990) Inc.**
July 2017	**Cortec Partners (Eyeconic Vision Partners or Eye Academy Holdings)**	Acquires **Swagel-Wootton Hiatt Eye Center (SWH) of Phoenix**
July 2017	**Centre Partners**	Completes investment in **Chesapeake Eye Care Company**
August 2017	**Centerbridge Partners**	Acquires a majority interest in **HVHC's Davis Vision**
August 2017	**Centerbridge Partners**	Acquires minority interest in **Visionworks**
September 2017	**Imperial Capital Group**	Forms **Total Eye Care Partners**, based in Cincinnati. Practices acquired to date include **Gaddie Eye Centers** (4 locations)
October 2017	**KKR and Berkshire**	Retains control of **NVI**, Post-IPO **National Vision Holdings** IPO debuts on NASDAQ Oct. 26
October 2017	**Blue Sea Capital (via Spectrum Vision Partners)**	Forms **Ophthalmic Consultants of Long Island ("OCLI")**
November 2017	**Nautic Partners**	Invests to create **Healthy Eyes Advantage**, which acquired substantially all the assets of **Block Business Group, C&E Vision Services, HMI,** including **Red Tray** and **Club Zero**, and **Vision West**
November 2017	**MyEyeDr.**	Acquires **Schaeffer Eye Center** of Birmingham, Ala.

Date	Investor	Transaction
November 2017	**Sterling Partners**	**Great Lakes Management Services Organization (MSO)**, a portfolio company of **Sterling Partners**, acquires **Walker Surgical Center**
November 2017	**Vision Care Specialists**	Acquires **Englewood Eyecare** of Englewood, Colo.
December 2017	**Shore Capital Partners**	**EyeSouth Partners**, backed by **Shore Capital Partners**, establishes a strategic partnership with **Georgia Ophthalmology Associates**
January 2018	**New MainStream Capital**	**Omni Eye Services** acquires **Phillips Eye Center**
January 2018	**Centre Partners**	**Chesapeake Eye Care**, a portfolio company of **Centre Partners,** forms **One Vision Eye Partners** as an acquisition platform. **One Vision** acquires **Arlington Eye Center**
January 2018	**Sterling Partners**	**Great Lakes Management Services Organization (MSO),** a portfolio company of **Sterling Partners**, acquires **Shoreline Vision**
January 2018	**Blue Sea Capital**	**Spectrum Vision Partners**, which was launched by **Blue Sea Capital**, establishes strategic partnerships with **Ophthalmic Consultants of Connecticut** and **New Vision Cataract Center**

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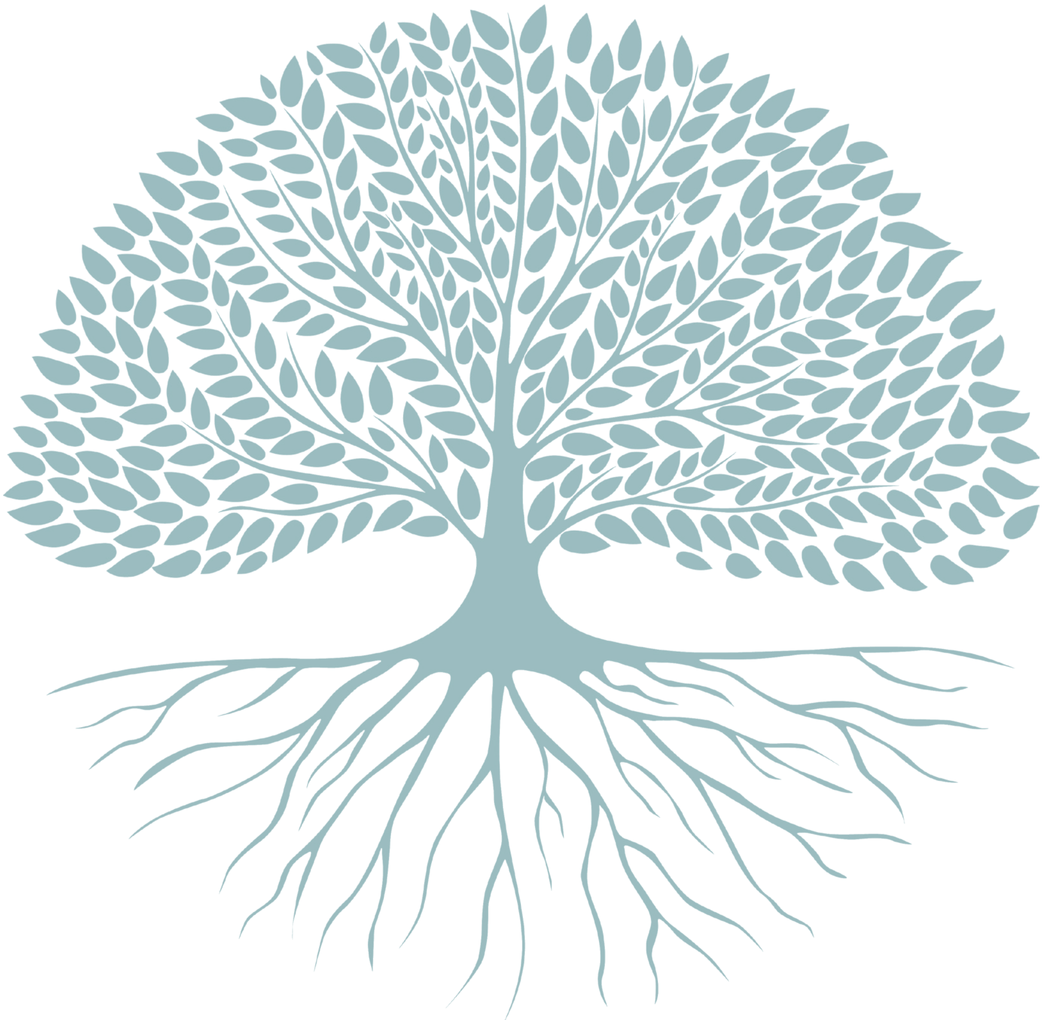

PRIVATE EQUITY AND THE INVESTMENT EFFECT

BY BRIAN CHOU, OD, FAAO

THE DILEMMA

Is private equity your ticket to a favorable early exit from practice ownership, or is it a path fraught with danger?

For OD-owners, the private equity promise is alluring: The burden of business management is lifted from your shoulders. By staying on as an employee, you can concentrate on what you were trained to do and probably enjoy the most, which is caring for patients. Further, your sale proceeds may significantly exceed what you would receive in a traditional sale to another OD.

Yet all that glitters isn't gold. Some OD sellers report that the acquiring private equity affiliated practices decimated their practice through excessive cost-cutting and job elimination, all to extract maximum value. In some cases, centralized systems required and implemented by the consolidator have brought inefficiencies that debilitated work flow, staff morale and collections. These experiences underscore the importance of careful consideration and the need to understand how the process works.

I am exploring this very dilemma and learning along the way. A year ago, I sold my practice to a larger practice affiliated with a private equity group, (EyeCare Services Partners Holdings, LLC). After 16 years as a practice owner, I became an employee. Recently, I decided to leave the practice, which I co-founded, to begin a new phase of my career.

Let me offer a spoiler alert: While I have concerns about the influence of private equity, and while those concerns have increased over the past year, I would do it all over again. Still, when colleagues ask my advice in making their own decision to sell or remain practice owners, I urge caution and advise serious self-reflection on personal goals and professional objectives.

It is my hope that the issues examined herein will help other optometrists to make informed decisions. At the end of this report is a decision tree. You can use this to select and view your priorities and weigh them both objectively and subjectively.

The dilemma is not a simple one. Making a decision to sell your practice is one you likely will make once in a lifetime and which seriously affects the course of your career and retirement plans. Tread carefully.

THE PROPOSITION

Let us handle the business, you handle the patients.

Private equity is a type of capital fund that invests assets in companies that are generally not publicly traded. The funds or investors acquire privately held businesses or public businesses and "take them private." Typically, they resell the business three-to-five years from acquisition. Resale follows a process of streamlining operations, gaining economies of scale, and expanding businesses with an infusion of greater resources and growth capital, private equity groups seek to build value and make a multiple return on their original investment.

Private equity-owned companies share a common view that the eyecare market is highly fragmented and ripe for consolidation and vertical integration. Particular focus is placed on optometry and ophthalmology practices that are locally dominant and are situated in markets targeted for consolidation. Most desirable are practices with unrealized potential for growth, efficiency and cost savings. In addition, buyers look for a practice owner committed to facilitating a smooth and timely transaction.

Consolidators look to create a network of practices with multiple synergies and efficiencies. These include enhanced buying power that can lower cost of goods, as well as improvements in managing human resources, savings in billing that enhance the revenue cycle. In addition, there are common advantages in customer relationship management, supply ordering, electronic medical records, marketing, compliance with regulatory changes, etc.

Strategies differ from one private equity-owned company to another. Some value the features of independent optometry, namely the ability to deliver personalized eyecare services to patients. Other companies view optometry practices in the context of total eyecare delivery and look to acquire both optometry and ophthalmology practices that coordinate care. Under this scenario, an optometry practice is seen as a feeder to an ophthalmology practice, providing surgical candidates that yield high revenues, while providing post-op and sustained care beyond that.

THE PITCH

Representatives of established equity-owned acquisition companies offer the following value propositions. It is essential for an OD considering a sale to assess how likely it is that the acquiring party will deliver the following, then to reassess at intervals after the sale if it was done in part or completely.

"We'll let you focus on patient care"

The complexities of managing staff, complying with changing regulatory demands, and accurate billing and coding to maintain revenue flow, all are distractions from your main calling: delivering patient care. We will allow you to concentrate on what you love to do and do best.

"We'll help you grow"

Our greater resources allow your practice to grow by more efficiently providing primary eyecare, medical services, and capturing co-management opportunities with ophthalmology practices.

"We value you, collaborate with us"

In contrast to an outright sale, where you are replaced by the acquiring optometrist, we value your name equity and reputation in your community. Stay on in your practice, as an employee, and as a marquee. Performance incentives may be included in the sale price.

"Improve your work/life balance"

By lifting the weight of management duties from your shoulder, you are free to live your life and mold your career as you desire.

THE PAYOFF

What purchase price can you expect?

Similar to Zillow's "Make Me Move" listings where you assign a dollar figure on what you'd accept to sell your home, even if you're not actively looking to sell, the existence of these companies looking to acquire in your area creates a similar dynamic. For your optometric practice, you can dream about a dollar figure that you'd accept to become an employee. How much more in sales proceeds can you get from a private equity affiliated buyer versus a traditional buyer? Of course, it depends on what's negotiated, and each deal is unique. In general though, the largest practices with the greatest market penetration and geographic reach get the most, particularly if it's the first acquisition in the desired market.

While many OD owners use a historical rule-of-thumb of 55-65 percent of gross revenues for targeted sales price of their practice, these new buyers look at offering a multiple of EBITDA or earnings before interest, tax, depreciation and amortization (essentially income after all expenses including doctor compensation). The traditional sale to another OD usually goes for two to three times EBITDA, which is a relatively low multiple compared to other types of businesses. Anecdotally, the private equity affiliated consolidators offer three to four times EBITDA, and thereby some practices are acquired for more than 100 percent of their annual gross revenue.

It is important to note: Some practices have an EBITDA too low to elicit the interest of a consolidator. The consolidator's first acquisition usually is a mega-practice with EBITDA of $3 million or more. There just aren't many optometric practices that fit this bill. Instead, most optometric practice acquisitions will be tuck-ins where they are joined to a network already developing in the vicinity. For many OD-owners, a private-equity deal isn't even on the table unless their practice is a behemoth, or if there is already consolidation activity taking place in their geography.

One way around this is to self-consolidate by aggregating 10 or more optometric practices under the same umbrella. The resulting collection can attract a buyer for a larger multiple of earnings than the sum of the individual practices. As I have observed in a few such cases, it's a tall task to get many different practice owners to go in together. If the goal is to reduce some of the business management responsibility, yet another viable alternative is to take on a partner OD to divide managing the business and/or retaining a practice consultant.

DO THE MATH

Which way pays more?

In determining your decision to sell or retain your practice, carefully compute your earning and equity potential over the years you plan to remain in practice.

For OD-owners wanting to practice for, say, another 10 years, I let them know that they'll likely come out ahead financially by holding onto their practices rather than selling now for an elevated sales price. For example, suppose a solo OD sells for 5X EBITDA then becomes an employee for 10 years before retiring. Hypothetically, say that the EBITDA is $150K so the sales price is $750K, and the seller is then employed at $100K annually. The total proceeds from the sale and salary comes to $1.75 million.

On the other hand, suppose the owner hires an associate to entirely replace his or her role as a clinician, paying the associate OD $100K annually for 10 years, then sells at the end in a traditional OD-to-OD transaction for 2.5X EBITDA. That would yield a total of $1.875 million. Still, if the OD stayed the course for 10 years with an annual take-home of $250K, then sold the practice in a traditional OD-to-OD sale for 2.5X EBITDA, a common multiple, that would yield $2.875 million total.

This simple math doesn't consider certain nuances, but it is often sufficient in allowing an owner to discern if this is a course they want.

THE TIMELINE

When is the right time to sell?

When is it a good idea to sell to a consolidator? I subscribe to the following: First, the up-front payment puts you over your financial finish line. Second, you must accept giving up control. I cannot overstate the importance of the latter. If you like calling the shots and can't stomach changes to the practice you built, including potentially damaging changes while you're working within it, this is not the right exit strategy for you.

Even if you fulfill the criteria to sell, I strongly recommend having multiple contingencies in case things go sideways. Talk to colleagues with first-hand experience selling and undergoing subsequent integration. Remember that if you sell, there is no going back.

While you may only do one of these deals in your lifetime, the private equity affiliate can do hundreds of these deals in just a few years. Make no mistake that selling your practice to a private equity affiliate isn't always a true partnership. "Partnering" could be a euphemism for an inequitable relationship where the larger entity benefits unduly. What could devastate your practice may have little impact to the private equity affiliate as they're diversified over a larger portfolio of practices.

Because of these many variables, you need to pack a parachute, plus a back-up parachute, and know how to use them. Also, remain leery about taking payment in equity/stock. While it can bring you a significant upside payoff years later, it could also handcuff you to a sinking ship. Cash is king.

THE UPPER HAND

Private equity moves quickly & decisively

With up to hundreds of millions of dollars to deploy, a private equity's affiliate can discreetly acquire your practice in as little as 90 days, with little red tape.

Contrast that with selling to another independent OD.

A private equity affiliated buyer need not obtain financing or a third-party appraisal, which streamlines the transaction and eliminates the risk of the buyer being denied. In a traditional OD-to-OD sale, the seller is the one who pays a listing broker, usually 4 percent of the sales price. Hence, this is mostly a benefit to the seller, although it is indirectly a benefit to the consolidator because it is yet one more advantage that may sway the seller to transfer ownership to them rather than another OD. As a seller, you also won't face a potentially long marketing process, which for an optometric practice with a multi-million dollar annual gross, may extend well beyond a year due to a smaller pool of qualified buyers. In working with a private equity affiliated buyer, it is also possible to establish a favorable tax allocation that recognizes the depreciated book value of your hard assets and as a result maximizes the value of your goodwill. By comparison, a traditional OD buyer would seek a sales allocation that is disproportionately shifted towards hard assets rather than goodwill to minimize their tax consequences, an outcome that is directly opposed to what would keep your tax on the sales proceeds low.

It's also attractive to continue working in the same practice, minus the stress of operating the business. Depending on what's negotiated, you may even gain enhanced benefits for your staff and yourself, including more time off, improved medical insurance coverage, and a better retirement plan.

THE DOWNSIDES

What do you need to watch out for?

To be sure, some practitioners regret having made a decision to sell their practice to a private equity affiliate. This underscores the importance of doing your homework in advance. In the worst cases, OD sellers say their practices suffered negative consequences from organizational changes and job destruction.

Without careful due diligence and contractual safety mechanisms, the new management regime can implement changes that can turn your practice upside down, for your employees, patients, and yourself. Outsourcing functions like appointment scheduling, billing, and insurance reconciliation, can eliminate positions in your office. Some private equity affiliated consolidators may force you to see more patients in the same amount of time, and cut corners that you feel are important in maintaining quality of patient care. Most practitioners and staff can expect having to learn how to use new practice management software and electronic health records shared within the broader group's portfolio network. It is particularly important to test-drive the proposed software to see how it may impact your practice.

This is why if you are contemplating transferring ownership to a private equity affiliated buyer, you must find out exactly what will change. You'll need to retain an attorney to protect your interests during review of the transaction documents. Ultimately, if you cannot obtain reassurances to satisfy what's also best for your patients and employees, it may not be a good deal. Of course, any deal carries risk of uncertainty. Through careful consideration, you can minimize the likelihood of any post-close surprises.

INDUSTRY IMPLICATIONS

Will independent optometry adapt? Are radical changes inevitable?

The big business merger of Luxottica and Essilor reminds us of continuing consolidation in our industry. Yet consolidation also will occur in the small business and middle-market levels. In some markets, the remaining independent practices may struggle to compete on a playing field dominated by the professionally financed private equity affiliated consolidators. Remember, merger and acquisition activity is not unique to our industry. It is happening to other areas of healthcare, including primary care, anesthesiology, dermatology, and dentistry, to name a few. It is also a strong trend in the overall marketplace, due to over $1 trillion in private equity cash reserves waiting to be deployed, also referred to as "dry powder" in financial parlance.

Acquisitions will likely continue for many years to come. For guidance, we can look at what's happened in dentistry, where, after some 20 years of consolidation in dentistry, still less than 20 percent of dental practices are affiliated with private equity. Comparatively, consolidation in eyecare is at a nascent stage.

For practice owners, the right partner can bring new opportunity. On the other hand, owners caught on the other side of the fence in areas where a large number of practices have been rolled up through private equity affiliation face conducting business at a disadvantage, without the resources and pricing advantages of their larger peers. In other words, there is risk on both sides of the fence.

There are also new private equity groups moving into eyecare. The first acquisition targets for private equities are often the large multi-location practices with optometry and ophthalmology. These serve as a starting point before acquiring other practices in surrounding areas.

For the optometrists wanting to own their own practice, market consolidation may pose trouble. Emerging ODs, perhaps three to five years after graduation, have historically comprised the largest contingent of buyers of optometric practices. They have funded buy-outs of mature ODs with the incoming doctor allowing the older doctor to exit, creating a steady-state to perpetuate private optometric practices.

Yet, if an increasing number of ODs sell their practices to private equity affiliated practices instead of new ODs, this means that more of those wanting to own their own practice may have to increase their purchase bids or open cold. This can amplify risk to OD graduates already burdened with heavy school debt and taking on new debt as they begin families and purchase homes. It's challenging enough to have the prospect of disruptive self-refraction technology looming, efforts by online contact lens retailers to allow lens purchases without a prescription, and increasingly complex regulatory requirements.

Clearly, the landscape isn't the same as before.

THE ROAD AHEAD

A mixed blessing

The old saying is that for a boat owner, the two happiest days are the day they buy it and the day they sell it. For some ODs, the boat is a metaphor for their practice. The right private equity affiliated partner can present a desirable option for owners to sell—whether motivated by retirement, liquidity, or diversification. Yet selling to a large buyer requires careful review to weigh the possibilities. For other optometrists, the existence of these new practices in their ecosystem will drive them to further scrutinize their business financials and operations, with many leaning even harder on group purchasing organizations (e.g,. Vision Source, PERC+IVA, IDOC, PECAA, C&E Vision, etc.) to gain profitability and value.

On a larger scale, private equity activity in eycare can facilitate optometry's expansion into medical eyecare services. The major consolidators recognize the economic value of having optometrists provide care to their full therapeutic capabilities, perhaps more so than many third party payers. They also have identified the potential to drive surgical revenue growth by integrating optometric and ophthalmologic care, creating a collaborative team approach.

ABOUT THE AUTHOR

Brian Chou, OD, FAAO, is a leading authority on private equity's stake in optometry. He has authored over 100 articles on clinical issues and business subjects, and he has developed numerous technologies with applications in eyecare. In 2017, he sold his practice, EyeLux Optometry in Rancho Bernardo, Calif, to an affiliate of EyeCare Services Partners.

WEIGHING THE OPTIONS
What is Negotiable?

Sale price
How proceeds are paid out and secured, the rate of interest on any note, and the purchase price of any stock or equity.

Assets
What assets and liabilities are included or excluded from the sale, including inventory, accounts receivable and cash, tenant improvement loans, loans and leases for equipment.

Post-close compensation
Establish a well-thought out compensation formula. What happens to your compensation if your collections decline due to new implementations?

Retention period and termination of employment
Determine the length of retention (often 2-5 years), set bilateral conditions for termination of employment.

Real estate
For real estate that you own or occupy, can you sell it or lease it to the buyer?

Covenant not to compete
A non-compete may extend five years with a 25-mile radius. The restrictive radius is greater for rural areas and smaller for high-density urban areas.

Work schedule
Determine a minimum and maximum of working hours/days. Can the buyer increase the number of patients you see, or are their limits?

Benefits
Benefits include vacation time, paid time off, medical insurance, dental, vision, retirement, disability and life insurance, etc. Negotiate for owners and employees.

Professional development
This includes continuing education, licenses and memberships.

Fees
Determine which party is responsible for transaction fees and legal expenses.

Timetable
Target closing date, post-close announcement (if any) to the patient base and public.

THE DECISION TREE

Vision Monday (www.visionmonday.com) identifies the trends, covers the topics and shapes the conversations vital to eyecare professionals and leading optical retailers. *Vision Monday* reports on key sectors of the optical business through signature editorial features, product launches, event coverage and more. ***VMAIL***, which is produced by *Vision Monday*, is a unique online news service, delivered six times a week.

Review of Optometric Business (www.ReviewOB.com) is an online publication dedicated to the business aspects of optometric practice. Content is renewed weekly, and it includes articles, videos and webinars with optometrists who share their success strategies and growth plans with optometric colleagues. In addition, *Review of Optometric Business* is a rich resource for business-building, with in-depth reports, links to key resources, and microsites that empower OD-owners and associates to make informed decisions about the growth of their own practices.

Vision Expo (www.visonexpo.com) is the complete event for ophthalmic professionals, where eyecare meets eyewear, and where education, fashion and innovation mingle. The latest industry advances in contact lenses, solutions, therapeutics and leading edge medical and diagnostic equipment are showcased at Vision Expo. Attendees can shop more than 5,000 fashion and luxury brands and have access to more than 300 hours of education and 23 specialty tracks. Vision Expo East, held in the spring in New York, as well as Vision Expo West, held in the fall in Las Vegas, are produced by Reed Exhibitions.

For social media posting, please use these hashtags:
#VisionExpo
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