Private Equity Investment in Vision Care

Creating a Comprehensive Provider

The vision care sector continues to attract increasing interest from private equity investors looking to replicate successful investments in related outpatient clinic focused businesses. The fragmentation of the optical, optometry, and ophthalmology markets presents a highly compelling consolidation opportunity for investors across the full spectrum of eye care services.

Provident Healthcare Partners

INTRODUCTION

The widespread success of investment and consolidation within dental practice management and varied physician specialties such as anesthesia, dermatology, and interventional pain management over the last decade has led institutional investors to seek platforms in related outpatient practices. The eye care sector represents a highly attractive opportunity for private equity firms given the ability to combine payor-based surgical and primary eye care with cash-based optical products and services that mitigate government reimbursement risk inherent in many healthcare services businesses.

Among the three vision care services sub-sectors of optical, optometry, and ophthalmology, there are several industry tailwinds that are projected to drive growth for the foreseeable future. The volume of patients seeking vision care is projected to increase as a result of more widespread insurance coverage, and the growing and aging U.S. population will increase demand for preventive care from optometrists as well as drive significant volume growth in cataract surgery and other age-related conditions treated by ophthalmologists. By age 80, it's estimated that more than half of all people in the U.S. either have a cataract or have had cataract surgery, according to the National Eye Institute, and this will continue to increase the more than three million cataract surgeries performed historically in the U.S. each year.

Rising disposable income and advanced technologies are also leading to industry growth as laser surgeries become more precise and allow for quicker patient recovery, increasing overall public acceptance. LASIK surgery, premium cataract offerings with advanced technologies, and oculoplastic procedures represent cash-pay opportunities for ophthalmic practices to take advantage of, in addition to the retail component of vision correction products.

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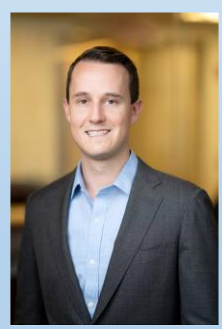

Eric Major, Director
Provident Healthcare Partners

INVESTMENT CONSIDERATION

Private equity firms and publicly traded entities have led consolidation efforts at varying levels across the optical, optometry, and ophthalmology markets. Despite this, there is still a significant amount of fragmentation within each sub-sector of vision care, which indicates transaction activity and private equity investment will undoubtedly increase, especially within optometry and ophthalmology where there are less than a dozen combined strategic consolidators.

AN OVERVIEW OF THE OPTICAL RETAIL INDUSTRY

The optical industry has seen heavy consolidation led by the largest retail providers. According to Vision Monday, the top ten largest U.S. optical retailers represented 30.5% of sales within the estimated $34.4B optical retail market in 2015. Among the top ten providers are well-known retailers such as Luxottica, which operates under brands such as LensCrafters and Pearle Vision, as well as Wal-Mart Stores and Costco Wholesale. Private equity-backed groups have also led consolidation efforts in optical, with National Vision, a portfolio company of KKR, and Refac Optical Group, a portfolio company of ACON Investments, attaining top eight optical retailer market share in 2015 sales.

Mergers and acquisitions among the top retail providers is expected to continue as evidenced by Vision Source, a previous portfolio company of Brazos Private Equity Partners, selling to Essilor of America, a subsidiary of Essilor International, in July of 2015. Additionally, in December of 2015, a former Vision Monday Top 10 Optical Retailer, For Eyes Optical Company, was acquired by Grandvision.

Acquisition activity has continued in 2016 as Essilor of America expanded its optical retail portfolio with its acquisition of Opti-Port, a national alliance of independent eyecare providers. The Opti-Port acquisition marks Essilor's third acquisition of an independent eye care group since its July 2015 acquisition of Vision Source.

FIGURE 1:
TOP 10 OPTICAL RETAILERS IN THE UNITED STATES, 2015 SALES

Rank	Retailer	2015 Sales ($ Millions)
1	Luxottica Retail	$2,530
2	Vision Source L.P.	$2,512
3	Wal-Mart Stores	$1,714
4	National Vision, Inc.	$945
5	Costco Wholesale	$915
6	Visionworks of America, Inc.	$908
7	MyEyeDr./Capital Vision Services	$305
8	Refac Optical Group	$275
9	Eyemart Express, Ltd.	$233
10	Cohen's Fashion Optical	$152

Source: Vison Monday

INVESTMENT CONSIDERATION

CONSOLIDATION WITHIN PRIMARY EYE CARE

Optometrists (ODs) typically couple primary eye exams and preventive services with optical stores within their practices or at retail locations to allow for dispensing of glasses, contacts, and frames. The optometry industry is highly fragmented compared to optical retail, with more than an estimated 10,000 independent optometric practices in the U.S. and a limited number of platform-sized opportunities. Through recent investments from private equity, the expectation is that there will continue to be heightened consolidation within the primary eye care segment. Groups such as MyEyeDr., a portfolio company of Altas Partners, and EyeCare Partners, a portfolio company of Friedman, Fleischer & Lowe (FFL), have made sizeable acquisitions over the last couple years.

In 2015, Monitor Clipper Partners exited its position in MyEyeDr. through an equity investment within its management company, Capital Vision Services, led by Altas Partners and Caisse de dépôt et placement du Québec (CDPQ). MyEyeDr. grew from 41 locations at the end of 2012, the year of Monitor Clipper Partners' initial investment, to owning and managing a total of 165 optometry practice locations at the time of the recapitalization in August 2015.

In the same month, FFL-backed EyeCare Partners, the parent company to brands such as Clarkson Eyecare, made its second sizeable acquisition of the year by acquiring Eyecarecenter, which operates with 61 locations in North Carolina and South Carolina.

EyeCare Partners and MyEyeDr. have become two of the dominant players emerging within optometry, and are also among the top eleven largest optical retailers in the U.S. Both organizations have benefited from first mover advantage as two of the only optometric consolidators, but only EyeCare Partners has developed medical optometry and ophthalmology as the focal point of its platform; which we will expand upon further in subsequent paragraphs.

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INVESTMENT CONSIDERATION

PE FUELED GROWTH: MYEYEDR. AND CAPITAL VISION SERVICES

Founded in 2001, Capital Vision Services (CVS) provides management services to affiliated independent MyEyeDr. optometrists. MyEyeDr. practices offer patients exceptional vision care services, a wide selection of prescription eyeglasses and sunglasses, and standard and specialty contact lenses.

After receiving private equity investment by Monitor Clipper Partners in 2012, MyEyeDr. grew their number of locations from 41 to 165 optometry practices by 2015, through both new location openings and add-on acquisitions.

MyEyeDr. affiliated practices have nearly 2,000 employees serving approximately 1.8 million active patients throughout the United States. Altas Partners purchased Monitor Clipper Partners' stake in the company in 2015.

During 2016, MyEyeDr. has continued to pursue an aggressive expansion strategy. The Company entered into the Chicago and Connecticut markets in October through the acquisitions of Spex and Opticare and has strengthened its network in the Southeast by acquiring several independent optometry practices.

**MyEyeDr. locations as of October 2016*

myeyeDr. O.D.

MONITOR CLIPPER PARTNERS

ALTAS | PARTNERS

INVESTMENT CONSIDERATION

THE FRAGMENTED OPHTHALMOLOGY MARKET

Similar to the optometric industry, the ophthalmology market is highly fragmented with very few practices offering a statewide or multi-state presence. According to the American Academy of Ophthalmology in 2015, there were 19,216 active ophthalmologists in the U.S., but the vast majority of the practices within the industry operate with less than 30 physicians.

EyeCare Services Partners (ESP), a portfolio company of Varsity Healthcare Partners, has reaped the benefits of first mover advantage within the ophthalmology market through its initial investment in 2014 in a single state provider in Maryland, Katzen Eye Group[1], and has expanded its footprint through subsequent acquisitions of Delaware Eye Care Center, California-based Inland Eye Specialists, and Denver-based Omni Eye Specialists. ESP has achieved significant growth in the last two years as it looks to build regional hubs of comprehensive vision care across the country.

However, the competitive landscape for add-on opportunities is expected to shift in favor of a seller's market as a result of increasing competition for deals with multiple platform transactions under Letter of Intent with private equity firms. As these groups near the closing of their platform investments, they will be evaluating additional acquisition opportunities within the region. Most competitive to ESP, FFL's portfolio company EyeCare Partners has recently developed an ophthalmic platform to complement its optometric locations through partnerships with Quantum Vision Centers[1] and Ophthalmology Associates as it looks to monetize its OD referrals. This provides a unique angle as EyeCare Partners looks to offer patients the full spectrum of vision care services in the nine states it currently provides optometric care.

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[1] *Provident served as the exclusive financial advisor to both Katzen Eye Group and Quantum Vision Centers*

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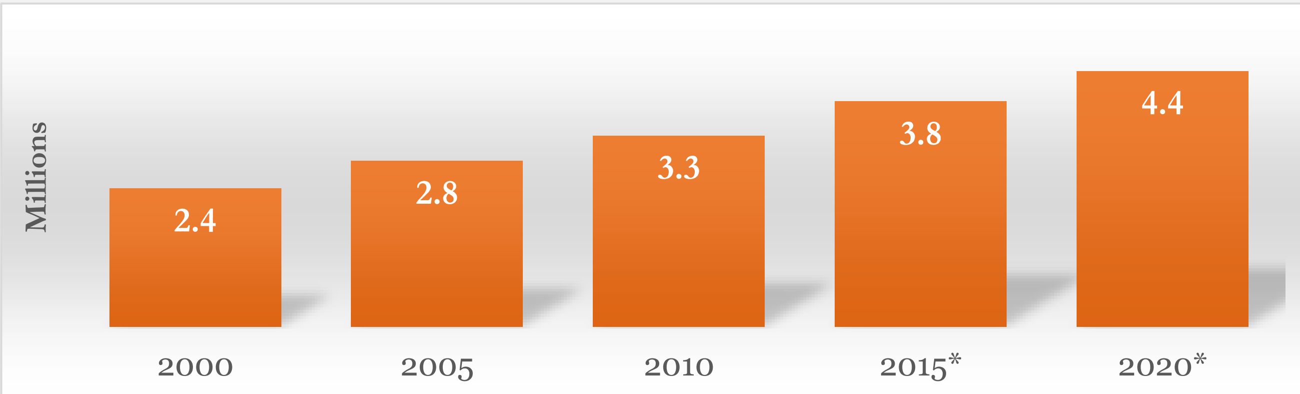
FIGURE 2:
GROWTH IN CATARACT SURGERY VOLUME, UNITED STATES



*Estimated data

Source: Allergan Eye Care Business Advisor, "Market Drivers in Ophthalmology"

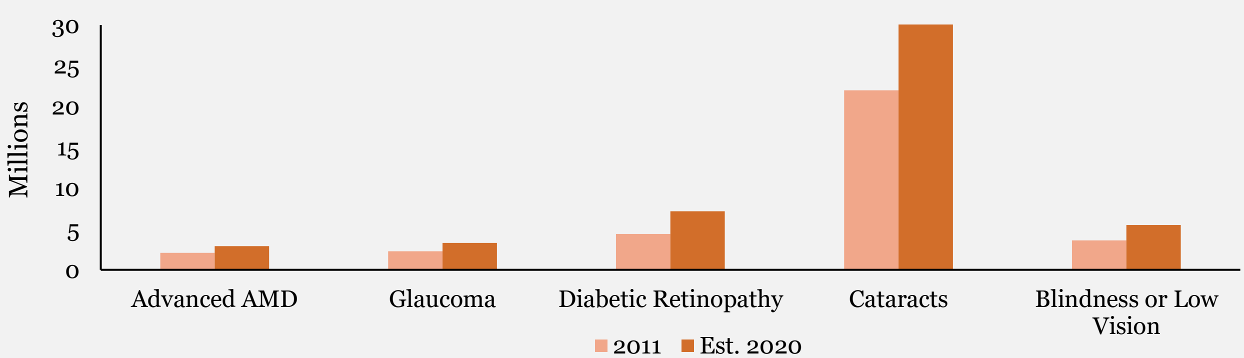
CONSOLIDATION OPPORTUNITY IN A GROWING MARKET

The eye care surgical market is projected to increase in procedural volume, primarily driven by a rapid increase in cataract surgeries among the 65 and older population.

New surgical technologies that yield better outcomes and minimize the severity and frequency of vision errors, will further drive demand and public acceptance of eye surgery.

The growth prospects of the industry and opportunity from the fragmentation of the market will result in continued interest from private equity groups looking to invest in platform companies and grow rapidly through acquisitions and de novo growth.

FIGURE 3:
EYE DISEASE PREVALENCE, AGE 40 AND OVER



Source: National Eye Institute, American Academy of Ophthalmology

BUILDING A ONE-STOP SHOP FOR VISION CARE

Vision care transactions have historically been largely focused on optical and optometric service lines, and there remains a significant void in the market in terms of comprehensive providers that are able to provide a one-stop shop for all eye care services. Patients can receive primary vision care services through employed optometrists, surgical care through internal ophthalmologists at company owned ambulatory surgery centers (ASC), and also be fitted for and receive optical products all under one roof. Given the emphasis on managed care as part of healthcare payor reform, this is an attractive model that allows an organization to directly manage the outcomes of all vision care services associated with its patient population through vertical integration.

Optometric practices can look at hiring ophthalmologists, or through transactions, acquire established surgical practices within its footprint to provide ophthalmic services to its patients internally. This is a strategy EyeCare Partners has developed in the St. Louis and Southern Illinois markets, an area that the organization has been dominant in through Clarkson Eyecare for many years, and most recently it added two of the leading surgical practices in the same region with multiple surgery centers. The expectation is the organization will look to replicate this strategy in other markets across the U.S.

A shift towards a one-stop shop for vision care will be a significant change in the mindset for many ophthalmic practices across the industry utilizing a strategy of co-management with an external OD network and will undoubtedly be a strategy that is met with shareholder resistance. However, private equity-backed groups can look to carefully integrate optometry alongside a co-management strategy to provide minimal disruption to external referral patterns.

CONCLUDING THOUGHTS

With the high level of fragmentation within the optical, optometric, and ophthalmology sectors, private equity investment in a comprehensive vision care practice provides a highly compelling opportunity for de novo growth coupled with acquisitions across all three sub-sectors. Ophthalmology and optometry provide near recession-resistant service lines given the necessity for people to receive timely vision care treatment covered by health insurance. In addition to optical products, cash-based premium cataract services offered by practices that invest into advanced laser technology will continue to improve patient outcomes and public acceptance as well as provide an additional revenue source above the standard government reimbursement for cataract procedures. Investors will continue to compete for platform opportunities with strategic players looking to expand into new markets or diversify service lines and capture outside referrals in-house.

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