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.

"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

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:

- 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.

"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

"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.

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."

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Investments Rise As PE Firms Favor Vision's Fundamentals

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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."

"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

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."

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."

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-Francois Hure

Partner, CapM

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."

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 foun-

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Recent Optical Acquisitions, Mergers and Private Equity Investments

A number of major deals have taken place within the last seven years:

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**	Merge 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**
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**	Announce 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 **Great 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**	Approve 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**.

Source: Vision Monday. Chart information valid as of presstime.

New Resources Help Practitioners and Groups Compete

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dation 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 Partner's 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."

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-David Sheffer

Chief Growth Officer, MyEyeDr.

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 roll-over 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.

"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.

"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."

-Scott Werry
Atlas Partner

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." ■

Alternatives for ECPs Seeking to Add, Change or Restructure Practice Ownership

NEW YORK—Taking the private equity investor route is not the only option for eyecare professionals who want to explore new ownership and equity structures for their practices.

Last month, the Practice Management Center (PMC), Vision One Credit Union and VSP Global teamed up through the website Optometrymatch.com to facilitate business connections and opportunities for ODs looking to buy or sell their practices. The goal of the collaboration is to "make the overall experience a seamless transition," according to the joint announcement.

Other options also exist, including such group practices as Vision Care Specialists, a doctor-owned entity in Colorado that has brought in two private practice locations under its operating umbrella over the past four months.

Vision Care Specialists is a "provider network" (a health care classification in Colorado), which allows for common ownership of a practice among ophthalmologists and optometrists, chief executive officer Jeff Poe said. "It really is a group of physicians coming together to provide superior eyecare," Poe told Vision Monday, noting that all of the group's ECPs are either board certified or pursuing this certification. "We are very committed to the clinical practice of eyecare, and we really want to be able to deliver exceptional medical eyecare in addition to exceptional comprehensive eye exams."

The group has grown, in part, by accessing bank financing, internal equity or other options. "Almost every deal is unique," Poe explained.

While many eyecare practices have followed the industry trend of private equity buyouts or have joined franchises and hospital-owned physician groups to gain advantages of scale, Vision Care Specialists said it believes strongly in physician-defined standards of care, which help drive the philosophy and operating principles of the group. This dedication to an independent medical practice model allows investment in state-of-the-art technologies and the "continual pursuit of the latest in eyecare science and technology."

Vision Care Specialists, founded in 1974 in Aurora, Colo., has 19 ODs and MDs among its staff and was the first private group of surgeons in Denver to offer laser cataract procedures.

Poe added, "We know as a company that the future of health care is tied to outcomes. So we want to be able to document clinically that we are following the latest and the greatest in clinical thinking."

For those ECPs who are more interested in making a practice purchase, the new Optometrymatch.com tool may be of more interest.

"Purchasing a practice can be a challenging experience for doctors," PMC chief executive officer Mark Wright, OD, said last month upon the launch of the new service. "Similarly, selling a practice can also be an overwhelming experience for retiring doctors. Our goal is to make the process smooth for both sides, which will in turn help ensure the future success and growth of independent optometry."

The founders of Optometrymatch.com describe the service as a "starting point" for ECPs who are in the market to buy or sell part or all of a practice. Doctors can utilize the tool by registering on the secure website. PMC then implements its "Smart Match" model to match the doctor with a buyer, seller or practice that meets the specified criteria. "Once a match is made, PMC works closely with the doctors, providing support and consultation throughout the practice transition process," the company said. ■