The Dealmaking Continues

PE-Backed Groups and Practice Transition Programs Resume Activity, as ODs Explore Their Options

BY MARGE AXELRAD / EDITORIAL DIRECTOR AND MARK TOSH / SENIOR EDITOR

NEW YORK—The outlook was rosy in January and February. Business was strong, the eyecare and eyewear sectors were firing on nearly all cylinders, and, from the perspectives of many involved in practice transitioning and the acquisition of independent and group eyecare practices in the U.S., fueled by private equity firms and other investment models, 2020 was going to be another active year.

Until the pandemic arrived. As the shutdowns began there was a "hard pause," primarily because those practices and platform/group operators had to prioritize managing their own existing practices, doctors, associates and patients and assessing what was and would be needed there.

From mid-March to at least late May or early June, there were few deals closed. But things shifted in late June and early July and now there is more momentum toward closing deals again, executives tell *Vision Monday*.

As of this writing in late July, COVID-19 cases were hitting record numbers in 30 U.S. states, and while much remains unknown, deals from PE-backed groups are proceeding. Other practice transition options, from programs facilitating investments in new practices and franchising, too, have started back up. Management services execs, known as "consolidators," and PE executives do acknowledge that the current economic climate makes future projections more challenging. These execs note that they need to assess a practice's fundamentals, and also the engagement and commitment of the current owner to determine who would be a prioritized acquisition candidate now.

Kavanagh Consulting, an advisory firm with extensive experience in health care and a specialty in vision care, represents clients in sell-side transactions to primarily private equity backed groups. Principal Anne Kavanagh pointed out, "Health care is a defensive sector, and is not generally considered discretionary spending but essential, so it bounces back faster than other business sectors like retail, consumer goods and restaurants. Coronavirus slowed the pace of consolidation but it's rebounding now as vision is more resilient than other sectors."

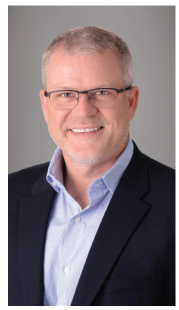
Added Francois Huré, a co-founder and partner of CAPM, an investment banking advisor that has been involved in several optical and vision care business transactions over the years, among those in other sectors, told *VM*, "Vision is a 'need,' and so people's view is that the demand and need for vision correction and eyecare remains consistent. Fundamentally, this is still a sound industry. How fast the deals will resume will depend on several things. We may see prioritization where deals are done in areas where the firms already have clusters of practices or density, perhaps they won't open in brand new markets for a time.

"It will be interesting to see who the real operators are and who is intent on adapting to the new health care and business environment," he said.

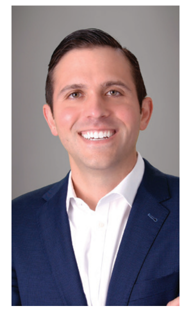
Kavanagh noted, "The buyers have been prioritizing further scale and development within existing markets but also expansion into new markets targeted for 2021. As for sellers, their priorities have remained the same but interest in selling has certainly increased with many doctors previously on the fence wanting to consider selling their practice to mitigate risk that has resulted from practice shutdowns and market uncertainty. Overall, we have seen a large uptick in interest from both younger and older ODs as the current market uncertainties that they face post-COVID, which are very challenging and require practice management and investments to compete in the current climate, has made fewer owners want to have to deal with the unknown."

In this Special Feature, *VM* talks to execs with the major PE-backed firms focused on the vision space as well as groups who are exploring ways to show practices transition options other than equity sales to help them navigate the future. ■

AEG Vision Sees a Healthy Pipeline of Acquisition Prospects Ahead



Eric Anderson



Joseph Terzo

DALLAS—It's been a roller-coaster year for the optical sector, and AEG Vision has experienced this as much as most. Its team of managers, doctors and staff who work across 150-plus locations in 12 states have rolled with every dip and curve thrown their way. AEG, which opened 2020 with a new name and branding (the firm was formerly known as Acuity Eyecare Group), got off to a fast start operationally and was primed for an action-filled year in the M&A space.

But then the coronavirus pandemic hit, the group closed all offices across the U.S. As the coronavirus situation moderated in June-July, AEG executed a very successful and gradual reopening across its markets. But just as operations got back on track, a resurgence of coronavirus in some markets (particularly Texas and Arizona where AEG has about 40 locations) has to be addressed. Still, AEG chief executive Eric Anderson and his team are optimistic about the balance of the year and planning for a return to the high points AEG had hit back in January.

"We were really on a roll in Q1," Anderson said, noting that top-line growth was strong and the pipeline of prospective acquisitions was full. But by February, Anderson said, he began to take note of what was happening in China and AEG took steps to set up a COVID-19 task force and to start preparations for a coronavirus outbreak in the U.S.

AEG moved quickly and closed its approximately 150 locations by early March. "Up until that point, I would say we were positive versus our plan and everything was really humming along for us," he said.

At that time, Anderson said AEG—which is a portfolio company of Riata Capital Group—was "pushing" about 20 transactions with independent practices. The firm will continue with its original operating plan for 2020 in terms goals for the existing legacy business.

Joseph Terzo, AEG's chief development officer, said the shutdown in March-April provided a "reset" opportunity for AEG, and he noted that the group expects to be "highly acquisitive" in the final few months of 2020. "We simply have a substantial pipeline to close through over the next couple of months," he added, noting that AEG continues to maintain selective posture on deals.

"During the down period, it really allowed us to critically review our existing processes from an acquisition and integration perspective," Terzo said. "We're really big on what I will call the seller-partner feedback loop, in terms of what we do well and what we need to improve upon. I am really excited to apply a lot of these new learnings." Terzo said he is pleased with the way AEG's practices have rebounded. "It's a great industry and the [pre-COVID] investment thesis is still pretty much intact," he sad.

"I expect us to be north of 200 [locations] by the end of the year," he added. "Our pipeline is stronger than it has ever been. AEG also is better resourced from an acquisition, diligence, integration and M&A execution standpoint than it has ever been."

Since reopening its practices, AEG has seen its operating results track ahead of year-ago performance, Anderson said. He cited a number of factors for this, including solid planning during the shutdown, new marketing and patient initiatives and the addition of telehealth options. "We also have much more of a rural footprint than a lot of the other optical providers," he said. "We're not in malls and we tend to be in smaller communities that were less affected [by coronavirus]. All of this really helped us."

In reviewing prospective acquisitions, Anderson said AEG is looking at the same performance metrics it considered in the past. Indy practices considering an ownership change have "a more acute awareness" of their options, Anderson said, which may include the safety and structure provided by a larger organization.

There also are funds available for PE-backed groups to use in deal making. "There are fewer places for large funds and private equity to invest post-COVID because so many sectors of the economy are down right now," Anderson said, which bodes well for the second half of the year and near future, even as the multiples that buyers are paying remain in flux as the coronavirus implications linger.

Anderson added, "What all of us need to do—whether it's on the buy side or on the organic growth side—is to demonstrate continuity of performance over a period of time. So far for us, May, June and July have been great. So we're demonstrating to our investors and others that we are doing the right things." ■

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EyeCare Partners Sees Growth 'Accelerating' in Second Half

ST. LOUIS—EyeCare Partners (ECP), which has reached the milestone of 500 "sites of service" this year, expects an even more ambitious growth trajectory in the second half of 2020 even as the impact of COVID-19 has slowed investment across the overall health care market by some private investor groups.

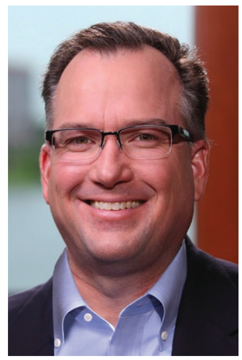
Yet, ECP—which is the second-largest investor-backed management group in the optical space behind MyEyeDr./Capital Vision Services—managed to remain moderately active in the M&A market during the first half, and last month announced the acquisition of six practice groups in various regional markets.

ECP also announced in June the addition of David A. Clark to its leadership team in the newly created position of president and, earlier this year, it transitioned to new ownership organization, the Swiss firm Partners Group. Overall, it has been a busy year for ECP, the No. 8 optical retail group in the *Vision Monday* Top 50 ranking for 2019, with 482 locations and annual volume of $757 million.

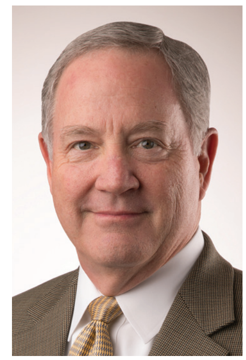
Looking back at the beginning of the year, ECP chief executive officer Kelly McCrann said ECP was off to a strong start with results "tracking on or above plan" when the coronavirus situation began. ECP—a network of full scope medical optometry and ophthalmology practices—was "very happy with where we stood," he said. In response to the coronavirus disruption, ECP moved quickly to close eyecare offices, reduce expenses and suspended capital projects, among other steps, he noted.

As of late July, ECP had reopened all offices (except for a few that it has chosen not to reopen) and was busily working to enhance safety measures and bring staffing levels back up to pre-closing levels across all offices.

The year has brought other major events, as well, with majority ownership changing to Partners Group. The Switzerland-based investor group made a significant investment in ECP as previous owner FFL Partners divested a stake it had held since 2015. The terms of the deal were not disclosed, but reports valued the deal (including debt) at about $2.2 billion. ECP's management team and physician partners continue to maintain a substantial equity stake.



David A. Clark



Kelly McCrann

Clarkson Eyecare is a core banner within ECP's portfolio.

McCrann said ECP is "delighted" with the new sponsor Partners Group. "We have total alignment philosophically on our commitment to full medical-scope optometry, the highest quality of patient care possible and a deep commitment to our distinctive vertical integration strategy," he said. "They are completely on board, and while we are all dealing with all of the challenges of COVID, they are still fully committed to the continued development of EyeCare Partners as an organization."

What this means, he noted, is that ECP continued to execute transactions in the eyecare segment during both the first and second quarters of 2020, with six separate deals covering new optometry, ophthalmology and eye surgery centers finalized in the second quarter. With the added care sites, ECP now operates more than 500 sites of service across 15 states throughout the Midwest, Southeast, Mid-Atlantic and Southwest regions.

"We expect this number [of transactions] to continue to accelerate in the third and fourth quarters as we have a very deep pipeline and there is a high degree of interest from the marketplace, both on the optometry and the ophthalmology side," McCrann said. "I would even say that I think the COVID experience has led to more practices being interested in the prospect of having a well-capitalized and well-resourced business and capital partner. It helps them manage going forward," he said, noting that the rate of inquiries to ECP has been increasing.

He added, "We view the business environment as very receptive and we are continuing our business development activities at full speed."

Mark Barron, ECP's vice president of mergers and acquisitions, agreed with this assessment. "We all know the world is unpredictable and we're not predicting what it's going to look like in the months ahead. But we do believe that this [coronavirus] will pass and we are a well-capitalized enterprise that is continuing to seek partnerships with great practices despite the economic climate."

In addition, Barron said he expects ECP will build upon its first-half deals with "a more active third quarter" of transaction activity beginning in August. "This will be a mixture of both large and small practices across the board. We have a lot of interest from practices ... who are attracted to what they view as a larger capital partner and the benefits that come with that."

Barron noted that the upcoming transactions include a mix of letters of intent signed pre-COVID as well as deals with practices that have just begun discussing options with ECP in the past couple of months. "We're active on both fronts," he said, noting that there are many practices with strong operating results who are still looking to sell "but at good value because they know what they have." ■

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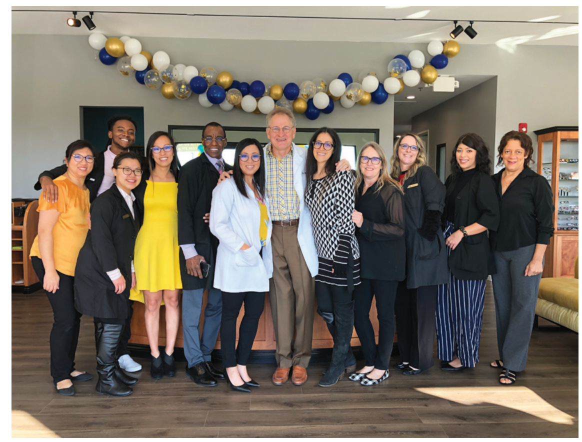
Keplr Vision Acquisitions Continue as Group Builds Off Launch of New 'Advocacy' Panel

BLOOMINGTON, Ill.—Keplr Vision, like other groups within eyecare practice management, spent much of the March-April period this year reviewing operations and planning for the expected recovery in the back half of the year. The goal was to prepare to restart the dealmaking process with independent ODs once the coronavirus situation cleared and eyecare, like other business segments, returned to something resembling normal.

This is still much the mindset at Keplr, which announced a series of transactions with independent ODs in July. "We have a lot going on," Keplr chief executive officer Nick Williams told *Vision Monday* in mid-July. He noted the group is in "a good spot" in terms of financing.

Nick Williams



Keplr's team at Eye Designs in Roseville, Calif., and Cool Springs location (top right) in Tennessee.

The group made a significant move in early July with the announcement of a series of transactions involving practices in the Pacific Northwest that added 10 practice locations and several distinguished ODs, including Dr. Bradley Smith and Dr. David Wolf, two of the co-founders of Professional Eye Care Associates of America (PECAA). (Neither Keplr nor Drs. Smith and Wolf are currently affiliated with PECAA.)

Keplr Vision, which offers a comprehensive operational and support platform for optometric practices, launched in July 2019. It now has about 150 practice locations across approximately 30 states. This includes the combination of practice locations that previously were part of either Visionary Eye Partners or Total ECP—two portfolio companies of Canada's Imperial Capital that merged to become Keplr Vision.

During the initial days of the coronavirus pandemic, Williams said the No. 1 priority at Keplr was "to protect the investment of our partner doctors" and to review the performance of these practices that had become part of the group. Keplr management spent much of the time "paying earnest attention to the practices that we already have," Williams said. As a result of this planning and ideas put in place, Williams said the group's practices returned to about 90 percent of pre-COVID-19 revenue performance by early to mid-June.

He added, "We wanted to make sure we protected their staff and their health as well the health of their investments. We didn't want to do acquisitions until we made sure the practices we had already partnered with had regained economic health."

Later in July, Keplr made another major move with two announcements, including a strategic partnership with Cockrell Eyecare Center in Stillwater, Okla. At the same time, Keplr announced the launch of Keplr Advocacy with Dr. David Cockrell as its leader, a key development given the increasing importance of advocacy around important issues in eyecare, according to Williams. (Dr. Cockrell has held several roles at the American Optometric Association (AOA), including membership on its Statutory Scope Committee and board of trustees. He also was AOA's president in 2014.)

Along with Dr. Cockrell the inaugural members of Keplr Advocacy are: Keplr Vision chief medical officer Dr. Ben Gaddie and Keplr Vision partners Dr. David Nelson (a former AOA president) and Louisiana Senator Dr. David Heitmeier.

Keplr Advocacy was created to "pursue policy and regulatory changes at the state and federal levels to expand and protect the practice of optometry, allowing Keplr Vision providers to practice the highest level of care while increasing access to the patients that they ultimately serve," according to the announcement.

"When I learned about the opportunity to launch Keplr Advocacy, it was clear that Keplr Vision was the right place for myself and our practice," Dr. Cockrell said in the announcement. "By joining Keplr Vision, I know that I will be able to continue to do the work that will make our industry better, now and into the future."

Williams said that Keplr—as of mid-July—anticipates significant M&A activity within eyecare and optical in the third and fourth quarters of 2020. "We are hopeful that we come close to accomplishing our [pre-COVID-19] annual goal," he said, noting only that it was an "aggressive" goal that Keplr had set at the beginning of the year.

Keplr expects to close shortly on two additional deals with large independent practices and then expects in August to resume the pace it had established prior to the coronavirus in the spring, Williams said. For Keplr, the transactions it completes tend to be with large practices operating one or two locations. This is the type of independent practice that best fits the Keplr model, Williams said. ■

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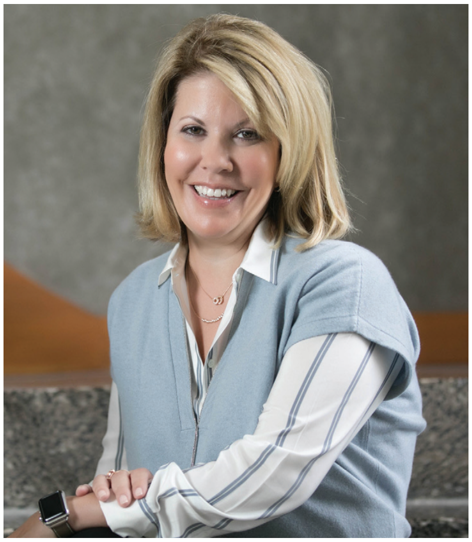
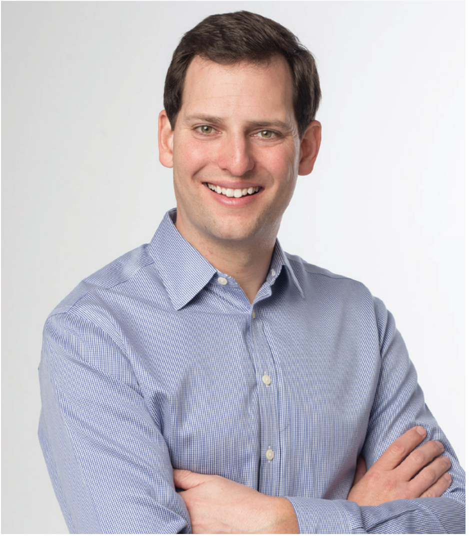
The Dealmaking Continues

With Strict Criteria for Partners, MyEyeDr. Resumes Plan To Add More Than 100 Practices This Year



Sue Downes



David Sheffer

VIENNA, Va.—One of the first U.S. major eyecare groups to close its offices on March 19 due to the arrival of COVID-19 as the CDC, AOA and other states started to recommend the postponement of routine eyecare, MyEyeDr. marshalled its executive, regional, staff and professional doctors' teams to move to emergency and urgent care. The 600-location group, managed by Capital Vision Services, which late last year moved into a new partnership with Goldman Sachs' Merchant Banking, had been gearing up for another year of growth and expansion.

Acquisition activity needed to take a back seat to other things for a time. Stated Sue Downes, co-founder and CEO, "Our energy continues to be focused on maintaining MyEyeDr.'s position as the leader in patient experience, team member experience, and partner of choice for doctors. While the pandemic certainly presented some unique challenges that we had to adapt to, we have not wavered from our core values and also plan to forge ahead with measured growth this year."

David Sheffer, MyEyeDr.'s chief growth officer, added, "We paused closings between March and August just to give our business time to get back open and become accustomed to new operating protocols putting everyone's safety and health as our first priority. We also needed time for our practices who will be joining us to open back up and bring their talented teams back to work."

Today, all but a few MyEyeDr. offices are open. But, he said, "We are seeing a stability in our existing offices and forging ahead with our plans for expansion so long as each opportunity meets our criteria." Sheffer told *VM*, "We originally planned to acquire more than 100 practices in 2020 and that is still the case."

Explained Downes, "Pre-COVID, we were very focused on continuing to drive the modernization of our patient experience and we have used this time to really drive that transformation as well as securing PPE, improved practice metric tracking, daily recognition of our teams who go above and beyond, and exploration of various telemedicine technologies. We intend to stay focused at those even as we bring in new practices to the organization."

Asked if the current climate has changed the nature of the deals that MED intends to pursue, Sheffer said, "We have always been picky about who we align with and that will continue. I can't speak for others, but I do think there will continue to be a flight to quality in terms of clinician, strength of practice, etc. We have a great partner in Goldman Sachs who has arguably some of the best insights and perspective on the macroeconomic environment in the world, so we will continue to leverage their information and guidance."

He added, "We are in a very strong position financially thanks to our partnership with Goldman but want to protect that so we are very thoughtful about each and every decision. "

Stated Downes, "We certainly can't ignore the fact that we are in the middle of a global pandemic. We also must recognize as an industry that changes have occurred to how we interact with our patients that may fundamentally change the way eyecare practices operate for years to come. With no way to predict when this will pass, MyEyeDr. will remain measured with each decision but we are a growth oriented business and intend to stay that way."

MyEyeDr./Capital Vision Services achieved double-digit sales growth in 2019 and finished last year with 569 locations (in 26 states), an increase of 132 offices. The group also saw sales increase 28.2 percent to $772 million in calendar year 2019. MyEyeDr. once again ranked No. 7 on the May 2020 Vision Monday Top 50 Optical Retailers list. MyEyeDr. entered seven new states in 2019, and it expects to continue expanding in such new geographies as Texas, Colorado, Kentucky, Ohio, Oklahoma, Michigan and Wisconsin. Increasingly, MyEyeDr.'s almost-1,000 optometrists are offering a range of specialty eye health services and are elevating new training and leadership programs. ■

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The Dealmaking Continues

Pearle Vision Franchising Continues, While Ignite Program Offers Conversion Options to Independent Docs

MASON, Ohio—Pearle Vision has continued to forge ahead with its expansion plans this year, even through the environment of a pandemic, according to Alex Wilkes, general manager of Pearle, a division of the Luxottica Retail Group. "We started with a very solid pipeline in 2020 and haven't had anyone fall out of the pipeline since the pandemic, in fact, we have seen it expand."

Wilkes emphasized, "The resilience of our pipeline has been amazing. We currently have 53 new ones under contract to be opened over the next few years, via our area development deals. And, during the pandemic we have opened 11 new franchised locations, so we are exceeding our internal expectations."

Most recently, as *VM* reported, in June, Pearle signed a new franchise area development agreement in the Sacramento, Calif. region and in April, announced agreements in Southern California and Colorado Springs.

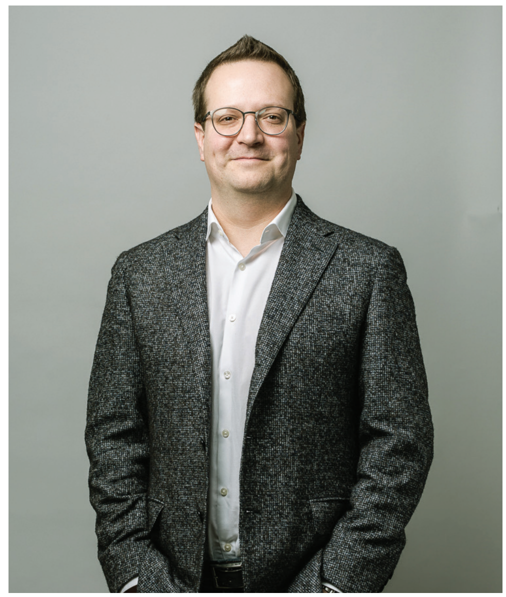
Pearle Vision operates more than 500 eyecare centers throughout the U.S., Canada and Puerto Rico. Its licensed owners with area development agreements are granted exclusive territory rights and pay a reduced franchise fee and lower royalty fees, according to Pearle Vision's announcements.

Pearle has continued its messaging to patients with a "doctor forward focus, emphasizing the group's position as the brand that cares for eyes, inspired by the award-winning campaign. As it did late last year, Pearle continued to underscore the messaging of caring in its "Small Moments" campaign in early 2020, featuring story telling with the characters of Olivia and Ben and their personal connections to seeing clearly. When the pandemic arrived, the Pearle marketing team pivoted to a new message, now running and offering a way for Pearle to reimburse patients' co-pay toward their eye exams or to take care of the cost of their exam during trying times. "It's a message that's resonated with customers," Wilkes said.

Also conceptualized in the past year, Pearle has been seeing traction with its Ignite program. Wilkes said, "In the next couple of months, we'll have 12 total Ignite locations opened this year and several more in process. And we have others in due diligence now. Existing franchisees want to take on an additional location and there are independent practices keen to talk to them."

Ignite is "a strategic independent optometrist conversion program," which Pearle says is tied to its commitment to growing the Pearle brand in new communities.

Noted Wilkes, "Given the climate we are in today, there are many resources that we can offer, that are appealing to independent doctors with an entrepreneurial spirit. Ignite offers solutions for independents who are seeking greater structure, support and marketing expertise." ■



Alex Wilkes

"The resilience of our pipeline has been amazing. We currently have 53 new ones under contract to be opened over the next few years, via our area development deals. And, during the pandemic we have opened 11 new franchised locations, so we are exceeding our internal expectations."

- Alex Wilkes

Pearle Vision in Westminster, Calif.

PEARLE EST. 1961 VISION

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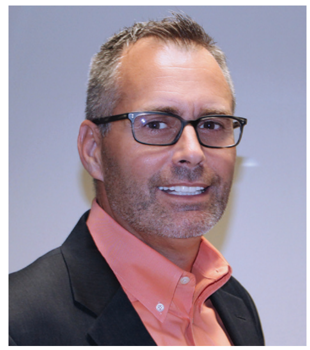
Total Vision Emphasizes Safety, Patient Care as it Builds Second-Half Momentum


Neil Collier


Steve Klein, OD

Total Vision has been working to provide its practices adequate PPE and new workflow and scheduling processes as it reacts to Covid-19.

MISSION VIEJO, Calif.—Total Vision LLC, a practice management group that was founded in Southern California, has hit a number of milestones in the past 12 months. The firm named a new chief executive officer, Neil Collier, this past spring and also made its initial move into Northern California beginning late last year with the addition of eyecare practices in Los Gatos, San Francisco and the East Bay area.

Total Vision, which is a portfolio company of New York City-based Bregal Partners, operated 35 practice locations as of July 1. It finished 2019 with 32 locations and estimated annual eyecare volume of $34 million, which ranked the group at No. 31 on the annual *Vision Monday* Top 50 report.

Prior to the coronavirus outbreak in March, Total Vision had set out an ambitious plan for 2020, and it continues to make progress on achieving its goals.

"Total Vision was looking at several primary objectives in 2020," said co-founder and chief growth officer Steve Klein, OD. "Our top priorities were, and still are, to partner with strong independent optometrists that are focused on delivering great team member and patient experiences. Another key objective for Total Vision was to recruit and hire a marketing leader. We recently accomplished that goal, and we are hard at work to grow our brand and patient base." (The company recently named Leslie Polley as director of marketing.)

Added Collier, "We have been working with our practices to enhance our frame assortments, packages, and promotions to ensure we meet all of our patients needs when visiting any of our practices."

Dr. Klein and his wife, Kim Plattner, OD, operated three practices in San Diego for nearly 30 years with the same Total Vision name and logo. These became the first practices under the Total Vision umbrella.

Collier, who has more than three decades of operations experience at large-scale, multi-site health care businesses, has successfully driven business growth and has led high-performing field operations and professional service teams, most recently as the chief operating officer of Center for Vein Restoration, a multi-site practice management business based in Virginia.

In terms of adjusting philosophy and strategy, Collier said the primary strategy shift after the pandemic began was to provide a safe and comfortable workplace for the group's teams and patients. "Providing adequate PPE, changing workflow, adapting scheduling and staffing became the primary objective," he said. "We also increased the communication to our doctors and team members."

In terms of both organic and acquisition growth this year, Total Vision expects a return to dealmaking in the second half of the year.

"We are looking forward to providing a safe environment for our team members and patients as we continue to navigate through this pandemic," Collier said. "We expect to ramp up the number of acquisitions/partnerships in Q3 and Q4. With respect to organic growth, we are focused on meeting every patient's needs through an increased focus on operational excellence, training, and marketing."

Added Klein, "It is still unknown how the pandemic will impact the role PE will play in health care however we're seeing patient demand in our space. ... It appears the activity of PE backed groups will move cautiously until there is comfort that the optometry space is back to full speed."

Collier also noted that he believes that, primarily because of recent positive news regarding potential vaccines, "whatever impact the financial climate has upon deals will be relatively short-lived."

"We are quite bullish regarding the coming year," Klein added. "Many patients made the decision to delay their eye exams during the pandemic. However, we're seeing our patient demand starting to increase." ■

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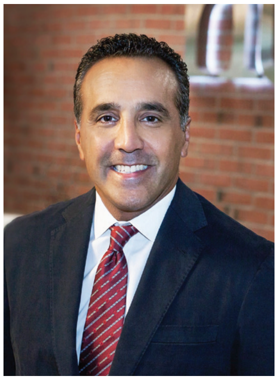
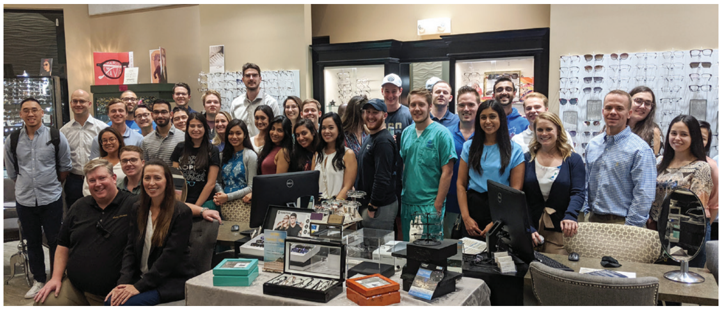
The Dealmaking Continues

Vision Source Next Rolls Out More 'Robust Offering' for Private Practitioners



Amir Khoshnevis, OD



Students from Nova Southeastern University visited Family Vision Center and Dr. Lori Mazza in Wellington, Fla., on one of the Vision Source Next "practice crawls" that were popular among students late last year.

KINGWOOD, Texas—With activity paused across many of its business programs this spring, Vision Source executives worked diligently to review the progress of its Vision Source Next initiative and to put in place new ideas and tactics that position Next as an attractive option for independent and new ODs who want to provide eyecare via an independent practice setting.

Vision Source Next, which was launched in May 2018, is a "professional advancement program [designed to shape] the future of independent optometry by providing a path to start, buy or work in private practice." Overall, Vision Source, a franchisor, is the largest network of OD practices in the U.S., with about 3,200 locations.

"The COVID situation has really created a bit of a pause moment for Vision Source Next," chief medical officer Amir Khoshnevis, OD, said. "But we've worked throughout the pandemic to make sure that the program has more of a robust offering coming out [of this], as we took advantage of the opportunity to 'pause' and to rethink and strategically deploy new strategies. It's a never-ending process of trying to make sure that we offer sustainable programs for private practice."

With the planning accomplished this spring, Vision Source has now established Vision Source Next around a group of four "buckets" for independent ODs to utilize. These include financing opportunities that would enable ODs already in private practice to expand and/or new ODs to open their first practice location under the Vision Source umbrella.

The first bucket is all about working to continue building the community of private practitioners, which includes students and new graduates, Khoshnevis said. This is centered about a portal known as the "Vision Source Next Community," which has been extremely successful in engaging students, he said. About 2,500 students have signed up on the portal as a way to connect with the 3,200 Vision Source locations and practitioners who are looking for either associates or business partners.

"Our goal in that program has been to accelerate not only the path between a new grad or an interested party and the optometrists in our network who are asking for associate help, but to help our doctors with their practice growth strategy," he said. "We believe the rate-limiting step for growth for many of our practitioners is having an associate who can drive the patient-volume growth. And we also want our doctors to be able to transition more into a CEO mentality as opposed to just seeing patients day in and day out, if we can."

The second bucket in the Next program focuses on continuing and expanding Vision Source's relationship with young practitioners who have expressed interest in starting their own first-time practice. This is called the "warm start" program for young ODs, and its objective is to give a practitioner "a running start as opposed to a slow crawl" on the opening of their new business, Khoshnevis said.

This program can help a start-up practice reach profitability in close to 14 months, which cuts the typical path to profitability in about half, Khoshnevis said. This bucket of the Next program had about 40 start-up practitioners participating as 2019 came to a close and Vision Source expects 40 to 50 new practices per year will take advantage of this start-up program. (This may be moderated by the coronavirus pandemic this year.)

"We have aspirations and we are on pace to do 40 to 50 [start-ups] per year," general manager Jeff Duncan noted. "Of course, this year is an exception. But we don't think coming out of the pandemic that the appetite or the desire among young ODs to start a private practice is going to drastically change once we get back to what we will call normalcy."

Bucket three of the program is the Vision Source Next fund, which provides an opportunity for Vision Source doctors to expand their own practice or to acquire an existing independent practice location. This also is a way in which Vision Source can move to perpetuate private practice by "enabling a practitioner to buy an existing Vision Source practice or a practice beyond Vision Source to bring into the fold," Khoshnevis said. "The goal is to continue to invest in the perpetuation and growth of private practice."

While some of the components of this program are still being developed, the important thing to note, Duncan said, "is that the practitioner has ownership of the practice." Vision Source is not buying practices, but may help facilitate a transaction and to work toward fair-market rates for both buyer and seller.

The fourth bucket is a broader initiative that aims to balance patient care with business management, Khoshnevis said. It also tries to address ways in which Vision Source can deliver value at the practice level for the remaining [Vision Source] practitioners who are happy, and who are thriving and growing. One way is to make strategic investments in expert resources. This could be collaboration with partners in industry or even working with some of Vision Source's leading supplier partners. ■

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VSP Ventures Builds Upon Core Elements of Differentiation

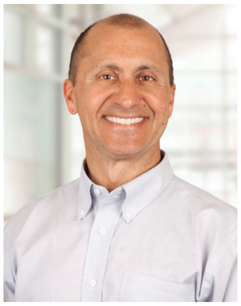
RANCHO CORDOVA, Calif.—Just a little over a year out of the starting gate, VSP Ventures has assembled a portfolio of leading private practices that serve as the foundation of the new initiative. The goal of VSP Ventures, which was launched by VSP Global in early 2019, is to provide a "care-focused practice transition partner" to ODs across all stages of the business continuum.

Ventures, which was expected to announce a series of acquisitions early this month as *Vision Monday* went to press, finished 2019 with 12 locations, and has since expanded to about 20 practices under its management. Among the transactions announced in the fall of 2019 were the acquisition of Redhawk Vision Center of Temecula, Calif. (southern California) and Palo Alto, Calif.-based University Optometry. The organization began 2020 with high expectations and a healthy pipeline of acquisition prospects to review, according to VSP Ventures president Steve Baker.

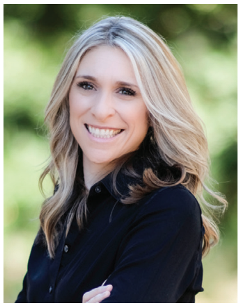
What Baker and VSP Ventures executives, including chief operating officer Tiffanie Burkhalter, discovered in the months shortly after launch is that the firm's model appealed to a diverse group of ECPs and not simply doctors transitioning into retirement. "Doctor-owners have two jobs: they are a doctor and they are a CEO," Baker said. "What they are looking to 'retire' is the CEO part of their role, and that sometimes isn't always connected to age."

Burkhalter said Ventures quickly realized that its model for buying and supporting practices had a broader appeal than first envisioned. "Right now, we're fairly [balanced] in terms of our doctor demographics," she said, noting that participating practices span a range of ages, ethnicities and male-female ODs.

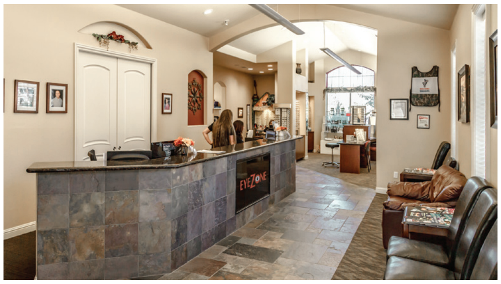
She also noted that the entrepreneurial mindset of independent ODs has been a smooth fit with the Ventures' business model. The ODs who are now part of Ventures via acquisition have adapted to a partnership approach and haven't changed how they approach eyecare or the way they seek to solve problems."



Steve Baker



Tiffanie Burkhalter



The six-location EyeZone optometry practice in Nevada was one of the first VSP Ventures' acquisitions.

A key factor in Ventures' appeal is its core principles and message of differentiation. These key points are: VSP Ventures will not resell a practice for profit, nor will it rebrand the practice with a new name or modality. It will, however, invest in aspects of patient care, according to Baker.

"These are the core elements of our program and they resonate with doctors young and old," he noted. "They are looking for a partnership where they can feel comfortable [and know] that the partner is closely aligned with the same values they have for running the business."

Ventures also strives to maintain "the operating modality of the practice," whether it's medically focused, pediatric-centric or boutique-type location with an emphasis on style, experience and frame assortment. "Who are we to change this?" Baker said. "So, we keep the operating structure in place from a patient-experience standpoint. ... It's what that practice stands for in the community that we seek to preserve and endure."

Addressing the effect COVID-19 has had on practice valuations for ODs transitioning out of ownership, Baker said he believes there has been an impact on prospective deals both structurally and from a value perspective. "Structurally what I am starting to see more of ... might be that more of the purchase price is associated to future performance. And that is perfectly natural," he said. "But how much that is and how aggressive that is might change from player to player. But some level of association with future performance is piece of this."

Yet, strong practices in good locations that are operating at a top level will still command premium value, Baker added.

In addition, Burkhalter noted that the VSP Ventures model—which does not include an equity carry—might seem more attractive to prospective sellers in the current uncertain operating environment. "We'll see how this plays out, but I think this is something that in light of COVID-19 has changed."

One follow-on factor of the coronavirus pandemic is that it has led ODs to become more focused on operational discipline, Baker said, as they seek to "reboot their practice in a new world." But he doesn't see the pandemic as a driving force in moving ODs to seek new practice ownership models.

Instead, VSP Ventures is seeing a diverse group of doctors seeking its partnership "not as much about retirement, although that is an element," as from a career transition perspective.

Looking ahead to the balance of 2020, Baker said he feels "strong but cautious." This is to say he's still seeing strong demand among doctors who are interested in the VSP Ventures program.

Even with ongoing uncertainty, Baker said he expects to see the pace of deals in the eyecare sector to maintain a steady pace going forward. "Our forecast is strong, but we don't really have a number target. .... The way we run our business is much more of us being responsive to the profession and [whether] we can onboard, engage and thoughtfully operate practices in a way that is not too slow, but not too fast." ■