# Vision Industry Overview

January 2015

Harris Williams & Co.
middle market®

# VISION INDUSTRY OVERVIEW

## Vision represents a ~$36 billion industry comprised of services (~$15 billion) and sale of corrective eye glasses and lenses (~$21 billion) with steady expected growth of ~1-2%.[1]

- Industry participants include independent opticians, optometrists, ophthalmologists, corporate providers/mass merchandisers, and glasses/contact lens manufacturers and distributers.
  - Vision care providers compete based on service quality, patient loyalty, professional training, and personalization of service
  - Corrective device retailers compete based on location, merchandising, price, treatment technologies/products, and ability to franchise operations
- Vast majority of vision service providers also sell corrective devices; highly fragmented independent provider landscape.

### VISION SERVICE AND PRODUCT SUPPLY CHAIN[2]

| | Manufacturers | | Service Providers | | | |
|---|---|---|---|---|---|---|
| | | | | Independent | | |
| Activity | Contact Lenses | Glasses | Mass Retail | Optometrist | Ophthalmologist | Market Structure |
| Corrective Device Manufacturing | ✓ | ✓ | | | | – Highly concentrated |
| Eye Exams | | | ✓ | ✓ | | – Mass retail ~32% patient share<br>– Independent ~68% patient share |
| Medical Eye Care | | | ✓ | ✓ | ✓ | |
| Surgical Eye Care | | | | | ✓ | – Highly fragmented |
| Retail Sale Corrective Device | | ✓ | ✓ | ✓ | ✓ | – Mass retail ~54% share<br>– Independent ~46% share |
| Notable Participants | Johnson & Johnson, Valeant, The Cooper Companies, Novartis | Luxottica Group | Luxottica Group, Pearle Vision, LensCrafters, Target Optical, Costco Optical, Walmart Vision Center, Visionworks | – ~23K independent providers | – ~18K independent providers | |



1. Novartis, Investor Day, 2013.
2. Dark green denotes higher level of focus.

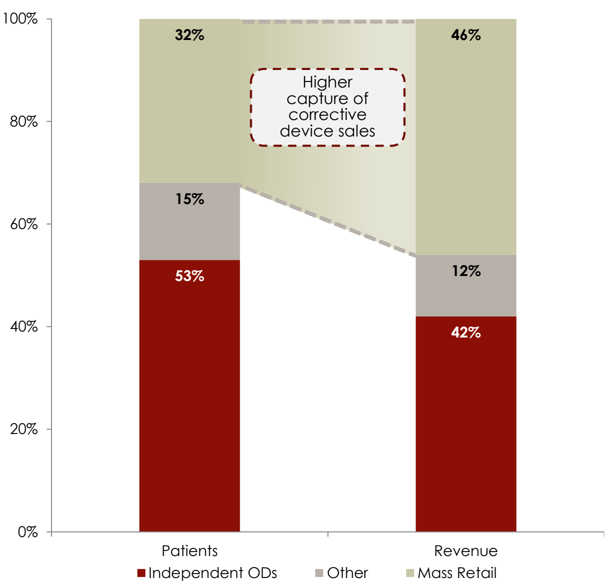
# VISION CARE OVERVIEW: *PRIMARY EYE CARE*

## Independent eye care providers control a significant portion of the patient population.

- Eye care services include exams, treatment for dry eye, glaucoma, cataracts, diabetes, and macular degeneration.
- Differentiated patient relationships, service quality, earlier technology adoption, and clinical/product knowledge enable strong independent market share position.
  - Independents perform 68% of all patient eye care service with share remaining stable and increasing slightly over the past 5 years vs. chains
  - Despite lower service share, chains capture 46% of all primary eye care revenue driven by higher sales of eyeglasses / contact lenses
- Growth in eye care professionals driven by steady increase in ODs, with number of ophthalmologists expected to remain stable.

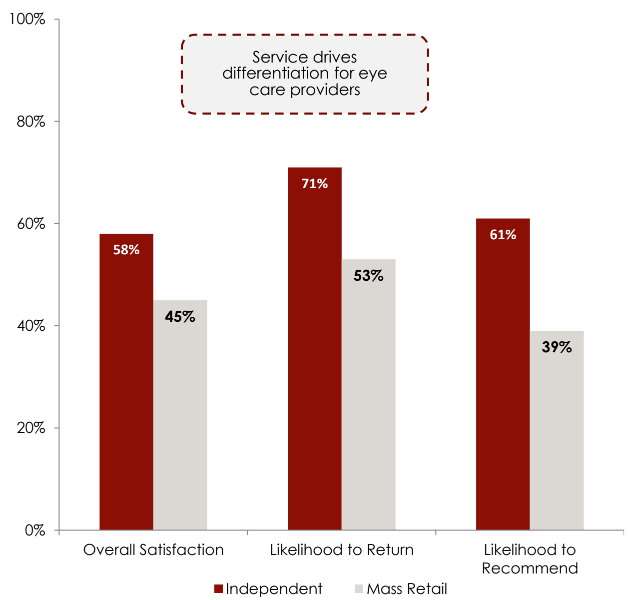
### PRIMARY EYE CARE PROVIDER SHARE[1]

*% of patients, revenue in 2013*



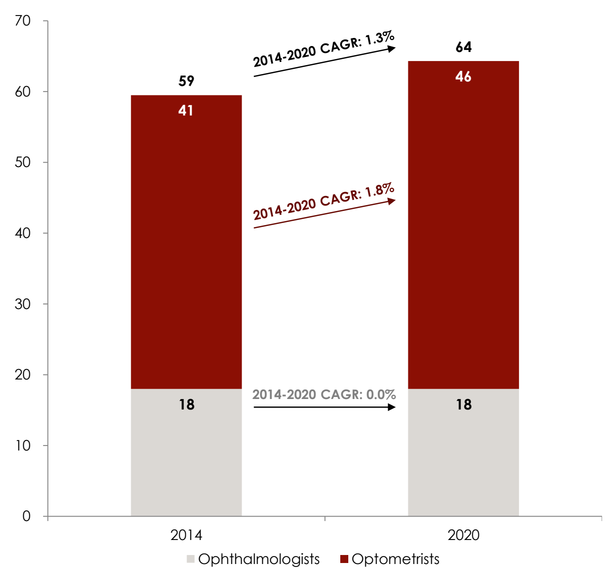

### PATIENT ASSESSMENT OF EYE CARE[2]

*% of patients extremely satisfied*




### EYE CARE PROFESSIONALS BREAKDOWN[3]

*# in '000s*



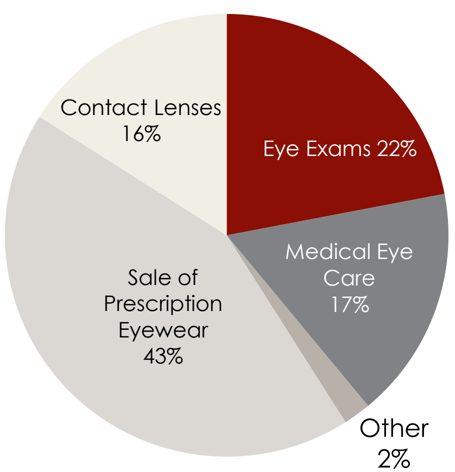

1. Practice Advancement Associates (Jobson) estimates. Note: primary eye care market includes revenue from prescription eyewear, contact lenses, eye exams offered by eye care professionals.
2. Jobson Optical Research (2012, 2009) and Bain.
3. Jobson Medical Information estimates.

# VISION CARE OVERVIEW: *OPTOMETRISTS*

## Optometrists capture ~$14 billion of annual vision service and product spending.

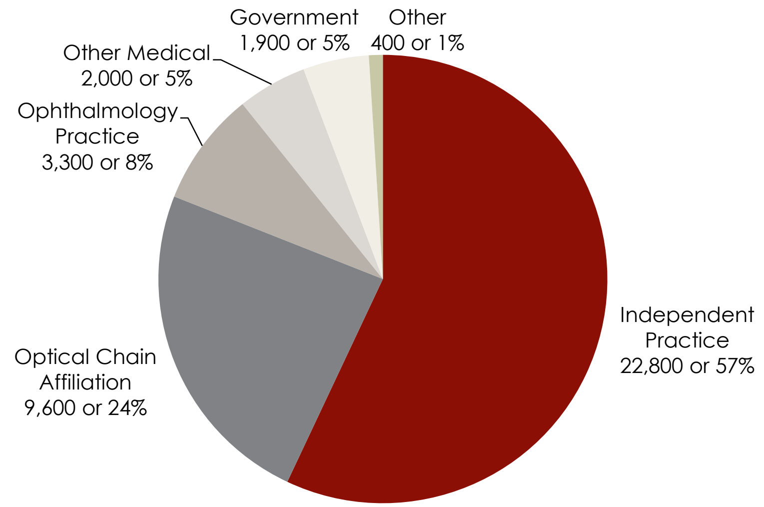
- Optometrists offer services through private practices, chain/mass merchandisers, and government organizations.
  - ODs are licensed practitioners who have obtained Doctor of Optometry degree (DO) from an accredited optometry school (four year program post undergraduate degree) and passed both a written and clinical state board examination
- Independent optometrists are differentiated by strength in eye exams and medical eye care through personalization of care, patient loyalty, and clinical care.
- Increasing proportion of U.S. population will rely on ODs for refractive and medical eye care services.
  - Perform ~88 million refractive eye exams annually, representing 85% of all comprehensive eye exams[1]
  - Number of practicing optometrists expected to grow 2% annually through 2020 to 46,300 to meet rising demand
  - Number of ophthalmologists/primary care physicians will not keep pace with demand growth
- Expanding scope of service offering drives new revenue opportunities.
  - Medical service offering includes treatment of ocular diseases from diabetes, ocular infection, dry eye, ocular allergies, and glaucoma
  - 80-85% of optometrists have some level of involvement with medical eye care, representing 17% of optometrist total revenue
  - Push for new legislation to allow ODs to perform vision correction surgery within licensed service portfolio would grow their share of the market

### OPTOMETRIST SERVICES SEGMENTATION[2]




Licensed services, ***41% of business***, generally include: eye exams; treatment of eye conditions; prescription of glasses/ medications; diagnosis of eye conditions; pre/post-operative care; post-traumatic care for injuries; treatment plans for vision rehabilitation

### PRIMARY PRACTICE SETTING BREAKDOWN (# OF ODs)[3]






1. The State of the Optometric Profession (Jobson Medical Information, 2013).
2. Optometrists in the US (IBISWorld, Jan. 2014).
3. AOA.

# VISION CARE OVERVIEW: *OPHTHALMOLOGISTS*

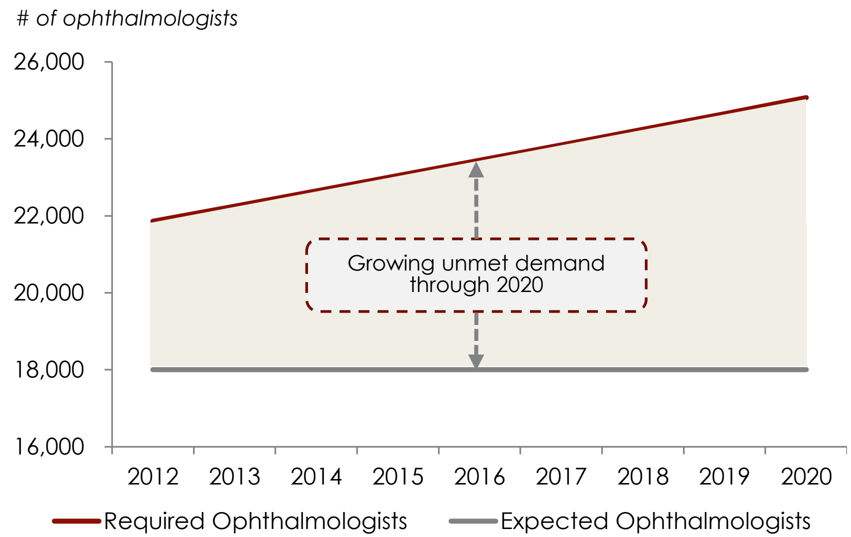
## Ophthalmologists capture ~$12 billion of vision service and product spending annually.

- Ophthalmologists are trained MDs specializing in vision care; key difference areas from optometrists include:
  - Education requirements – 8+ years of medical training plus optional additional "vision specialty" area training
  - Licensed procedures scope – can diagnose and treat full spectrum of eye diseases and perform eye surgery
  - Refractive surgery/LASIK – licensed to perform vision correction surgery in all states
  - Higher average revenue per patient visit – provide premium, specialized services (i.e. $600-$2,000 per cataract surgery)
- Stable number of practicing ophthalmologists expected through 2020 will not keep pace with underlying demand.
  - Likely to drive higher production per clinic going forward as demand for medical / surgical eye care grows with aging population
  - Facilitates OD practice scope expansion and OD new entrants and supports rising demand for ophthalmologists

### EYE CARE SERVICE COMPARISON

| OD | MD | |
|---|---|---|
| ✓ | ✓ | **Vision Services** (i.e. eye exams) |
| ✓ | ✓ | **Medical Eye Care** (e.g. glaucoma, iritis, chemical burns) |
| ✗ | ✓ | **Surgical Eye Care** (e.g. trauma, cataracts, crossed eyes) |
| ✗ | ✓ | **Plastic Surgery** (e.g. drooping eyelids, smoothing wrinkles) |
| ✗ | ✓ | **Refractive Surgery** (i.e. LASIK, PRK, LASEK, RLE, EpiLasik) |
| ✓ | ✓ | **Other** (i.e. diagnose/treat diabetes/arthritis eye conditions) |

### INCREASING NEED FOR DELIVERY OF SERVICES[1]




***Shortage of ophthalmologists creates opportunity for ODs to provide greater role in delivery of services***

Harris Williams & Co. middle market

1. DHHS Physician Supply and Demand Projections to 2020, Jobson Optical Research (2012, 2009), and Bain.

# Vision Care Industry Growth Dynamics

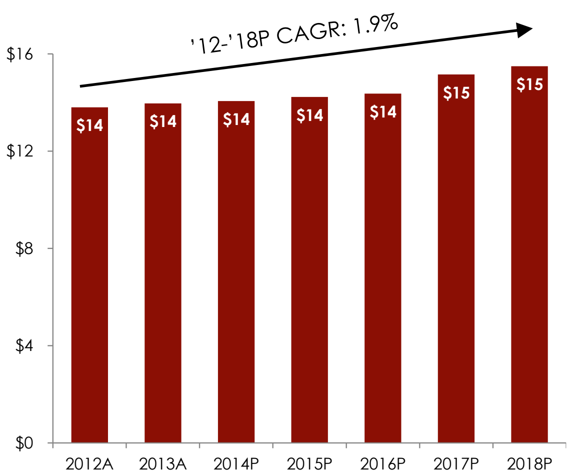
## The independent optometrist, mass retailer, and ophthalmologist segments of the vision care industry represent a combined ~$36 billion market, growing ~1-2% annually.[1,2]

- Modest, but steady growth of vision care services driven by the following key market trends:
  - ✓ Aging Population
  - ✓ Growing Coverage for Vision Care
  - ✓ Increasing Prevalence of Chronic Disease
  - x Growing Adoption of Refractive Surgery
- Ophthalmology growing more rapidly at 4-5% driven by increasing incidence of conditions such as glaucoma, cataracts, and macular degeneration requiring medical/surgical procedures, combined with stable number of practitioners.
- In addition to positive secular trends driving long-term growth, the vision market exhibits highly stable demand due to:
  - ✓ Non deferrable nature of service and corrective device purchases
  - ✓ Limited instance of excess utilization providing for stable reimbursement

### U.S. VISION CARE INDUSTRY GROWTH[1,2]

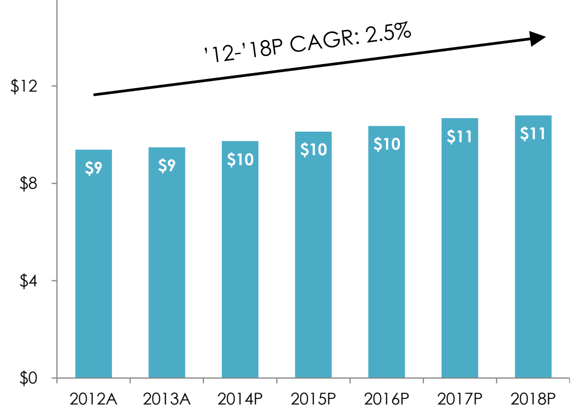
**Independent Optometrists**

*$ in billions*




**Mass Retailers**

*$ in billions*




**Ophthalmologists**

- ~$12 billion market size
- Annual growth 4-5%
- Likelihood of price inflation with total number of practicing ophthalmologists expected to be stable at ~18K
- Higher production per clinic
- ~29% of the broader US vision care category spend

1. Optometrists in the US (IBISWorld, Jan. 2014).
2. Eye Glasses & Contact Lens Stores in the US (IBISWorld, Jan. 2014).

# KEY MARKET TRENDS: *AGING POPULATION & INCREASING PREVALENCE OF CHRONIC DISEASE*

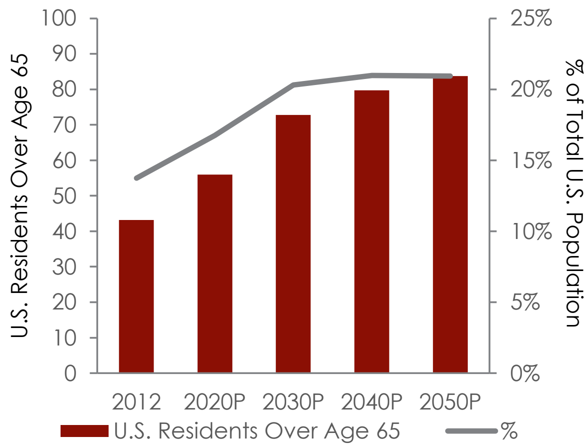
## The aging U.S. population and increasing prevalence of chronic diseases resulting from unhealthy lifestyle will continue to drive growth in therapeutic eye care services.

- 75% of adults use some form of vision correction.
- The aging of the baby boomers generation will result in accelerating demand for medical eye care services.
  - Over 65 age group will grow 36.2% from 40.2 million in 2010 to 54.8 million in 2020P[1]
  - People over the age of 55 will be the fastest growing population segment through 2020[2]
- The four leading eye diseases affecting Americans are related to age and/or lifestyle.
  - Cataracts, macular degeneration, and glaucoma occur at a rate of 17.2%, 7.6%, and 1.9%, respectively, in populations over 40
  - Obesity directly linked to diabetic retinopathy; 50% of U.S. adult population expected to be obese by 2030 up from 36% currently

### AGING POPULATION WILL GROW KEY CONSUMER DEMOGRAPHIC

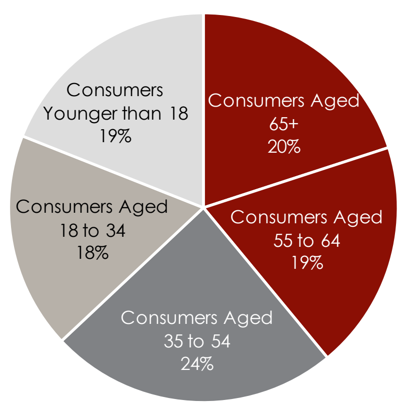
**U.S. Residents Aged 65+[2]**

*# in millions*



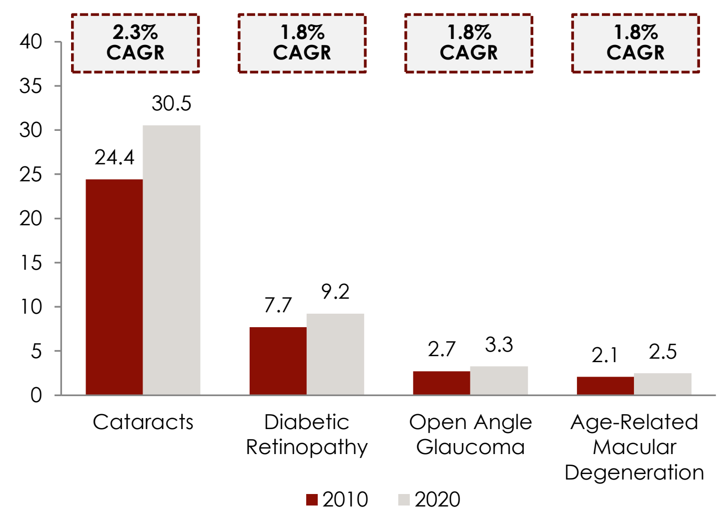

**OD End Market Segmentation[3]**

*% of OD revenue*




### U.S. POPULATION WITH OCULAR CONDITIONS[4]

*For the years 2000-2020*
*# in millions*



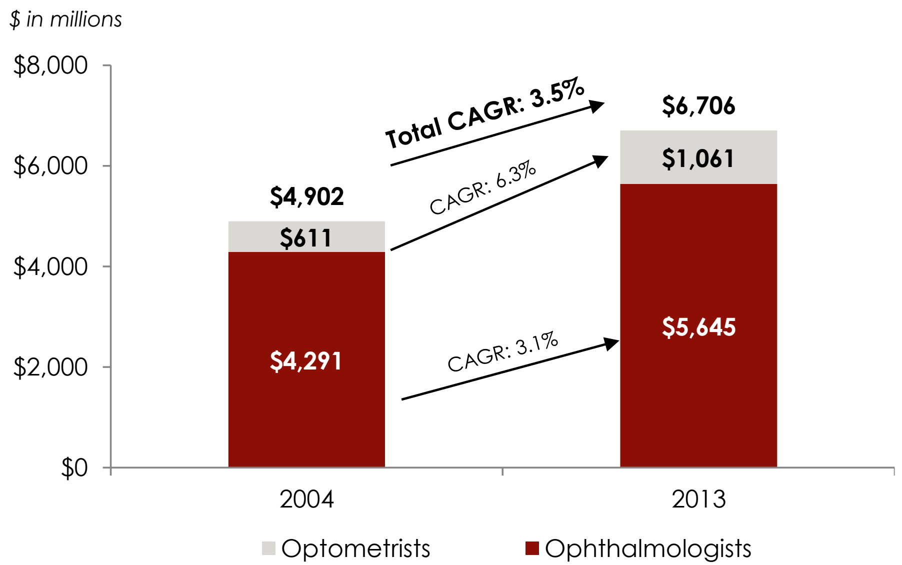

1. Department of Health and Human Services, Administration on Aging.
2. U.S. Census Bureau projections.
3. Challenges and Opportunities in the Future of Independence Optometry (Review of Optometric Business, Apr./May 2013).
4. 2000-2010 estimates from Prevent Blindness America. PAA projection to 2020 assumes disease incidence by age group will remain constant.

# KEY MARKET TRENDS: *GROWING COVERAGE FOR VISION CARE*

## Recent healthcare initiatives have expanded pool of insured and coverage for eye care.

- New federal healthcare programs are expected to expand the number of people with vision benefits.
  - Insurance coverage reduces the out-of-pocket costs for patients, increasing demand/ability to pay for vision services
  - The ACA defined pediatric eye care as an essential benefit which will increase access to optometric care (children currently 19% of OD end market)
- Vision benefits offered under Medicare include cataract surgery, corrective eyewear following cataract surgery, glaucoma screening, and ocular prostheses.
  - By 2020, the number of Medicare beneficiaries will increase by 10 million
- Harkin Amendment aims to expand patient access and eliminate health plan discrimination against optometry and other forms of medical care.
  - Eye exams now included as medical healthcare, requiring coverage in all health plans in new state and federal insurance exchanges

**MEDICARE PAYMENTS TO EYE CARE PROFESSIONALS[1]**




1. Centers for Medicare and Medicaid.

# KEY MARKET TRENDS: *GROWING ADOPTION OF REFRACTIVE SURGERY*

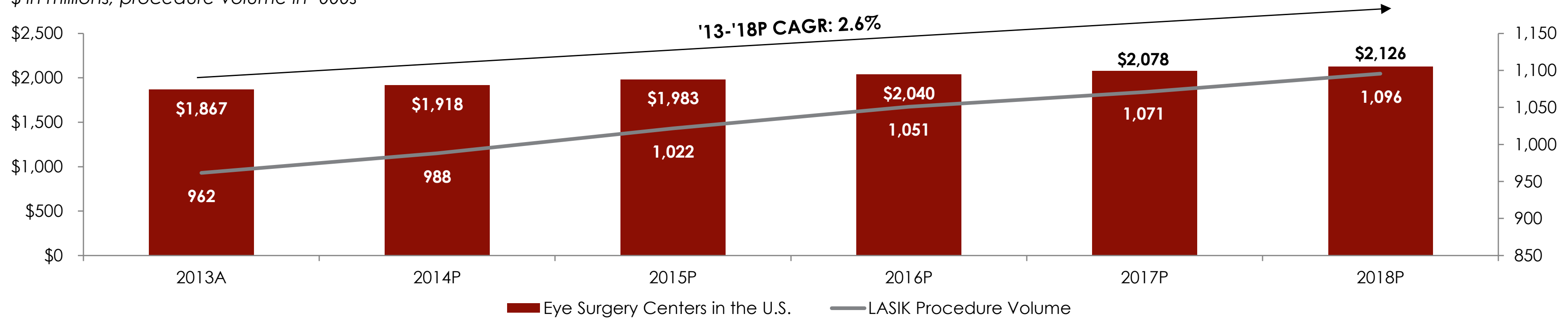
Vision correction surgery will continue to serve as only a mild demand deterrent for traditional vision care services as some potential patients are removed from the population.

## U.S. VISION CORRECTION SURGERY OVERVIEW

- The maturation of refractive surgery has not dramatically impacted demand for eye exams or corrective devices.
- Potential refractive surgery market size of 10+ million individuals;[1] expected to grow 2.6% annually to $2.1 billion by 2018.
- Corrective eye surgery (i.e. LASIK) is removing 500K patients annually from the 150 million vision correction population.
  - Surgery volume to increase as quality improves and price continues to decrease (19 million LASIK surgeries through 2012 in the U.S.)
  - Consumers beginning to view refractive surgery as a safe and reliable procedure to address their refractive errors
  - Ophthalmologists continue to experience steady business growth
- Growing popularity of corrective eye surgery would lead to higher patient pre/post-operative care volume for optometrists.
- Optometrists currently seeking to expand scope of service to include vision correction surgery.

## U.S. VISION CORRECTION SURGERY INDUSTRY GROWTH[2,3]

*$ in millions; procedure volume in '000s*




1. AAO.
2. Eye Surgery Clinics in the U.S. (IBISWorld, Jul. 2014).
3. Procedure volume assumes average LASIK procedure cost of $2,073 per eye.

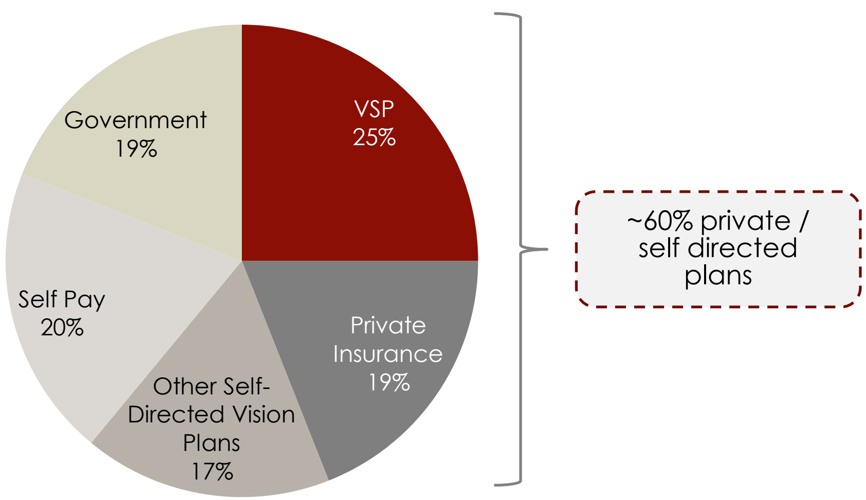
# Reimbursement Environment

## Commercial and self directed plans account for the majority of third party reimbursement for vision care services.

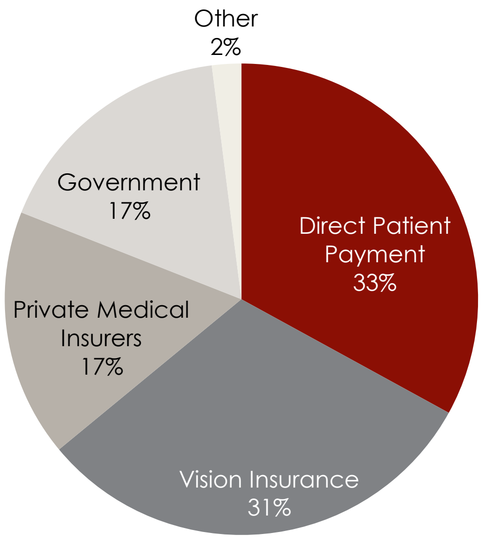
- Vision insurance plan reimbursements totaled 67% of OD revenue in 2011, with 80% of patients covered by a managed vision care plan.[1]
  - Expected to increase as more individuals gain access to health plan coverage under PPACA legislation
  - Private and self-directed plans represent ~60% of plan coverage
  - Self pay currently accounts for ~20%
  - Low level of government reimbursement
- Direct patient payments totaled 33% of OD revenue in 2011 while 20% of patients were not covered by a managed care vision plan.[1]

### MANAGED CARE PLAN COVERAGE[2]

*% OD patients*




### OD SOURCES OF REVENUE[3]




1. ACA Member Survey.
2. American Optometric Association as of 2011.
3. ACA 2012 Survey of Optometric Practice.

# INDUSTRY PARTICIPANTS OVERVIEW

## The vision care industry is comprised of a select set of national and regional chains and a large number of independent providers.

- Two-thirds of practicing optometrists are in private practices.[1]
- Currently little to no consolidation within ophthalmology on regional or national basis.
- ~33,500 companies in the industry today; 39% are sole proprietorships.[2]

### OVERVIEW OF VISION SERVICES MARKET PARTICIPANTS

| | Mass Retailer / Corporate | | | | |
|---|---|---|---|---|---|
| | Costco Optical | Luxottica Group (Pearle Vision, LensCrafters) | Target Optical | Walmart Vision Center | Visionworks |
| **Sites** | 440 | 7,000 | 330+ | 3,200 | 620 |
| **Revenue ($ mm)** | $757 | $7,000 | $79 | $1,500 | $556 |
| **Services** | | | | | |
| Retail | ✓ | ✓ | ✓ | ✓ | ✓ |
| Optometry Services | ✓ | ✓ | ✓ | ✓ | ✓ |
| Ophthalmology Services | | | | | |
| Refractive Surgery | | | | | |
| eCommerce | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Geography** | | | | | |
| Northeast | ✓ | ✓ | ✓ | ✓ | ✓ |
| Southeast | ✓ | ✓ | ✓ | ✓ | ✓ |
| Midwest | ✓ | ✓ | ✓ | ✓ | ✓ |
| West | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Ownership** | Public | Public | Public | Public | Highmark |

| | Multi-Site Independent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Allegany Optical | CEI Cincinnati Eye Institute | Claris Vision / Koch Eye Associates | Clarkson Eyecare | eyemart express.com | Katzen Eye Group | myeyedr. | Refac Optical Group / OptiCare | Rxoptical | SVS Vision | TLC Vision | Vision Source |
| **Sites** | 17 | 18 | 12 | 62 | 149 | 6 | 54 | 758 | 43 | 59 | 67 | 2,800[3] |
| **Revenue ($ mm)** | NA | NA | NA | NA | NA | NA | NA | NA | $21 | $24 | $222 | NA |
| **Services** | | | | | | | | | | | | |
| Retail | ✓ | | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Optometry Services | ✓ | | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Ophthalmology Services | | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | | | ✓ | |
| Refractive Surgery | | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | | | ✓ | |
| eCommerce | | | ✓ | ✓ | ✓ | | | | | ✓ | | |
| **Geography** | | | | | | | | | | | | |
| Northeast | | | ✓ | | ✓ | ✓ | | ✓ | | ✓ | ✓ | ✓ |
| Southeast | ✓ | | | | ✓ | | ✓ | ✓ | | ✓ | ✓ | ✓ |
| Midwest | | ✓ | | ✓ | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| West | | | | | ✓ | | | ✓ | | | ✓ | ✓ |
| **Ownership** | Private | Private | Bay Capital Investment Partners | Private | FFL | Varsity Healthcare Partners | Monitor Clipper Partners | ACON | Private | Private | HLG Capital / Charlesbank Capital Partners LLC | Brazos |

1. American Optometric Association.
2. Optometrists in the US (IBISWorld, Jan. 2014).
3. Represents franchisee locations.

# INDUSTRY LANDSCAPE AND M&A

## Vision services M&A activity has remained steady across both strategic and financial buyers.

- Continued broad-based middle-market interest in the vision services sector over the past 24 months.
  - Small industry players want to broaden their network and expand access to patients and referral networks
  - Platform providers with scale seek add-on acquisitions to spur growth, realize synergies, and increase purchasing power
  - Financial sponsors have exhibited strong interest in assets spurred by positive long-term demand drivers, attractive reimbursement dynamics, and high level of market fragmentation

### M&A ACTIVITY 2012-2014YTD

| Date | Target Company | Acquirer | Date | Target Company | Acquirer |
|---|---|---|---|---|---|
| Nov-14 | Eyemart Express, LLC | Friedman Fleischer & Lowe, LLC | Oct-13 | Yonge Eglinton Laser Eye | TLC Vision Corporation |
| May-14 | Katzen Eye Group PA | Varsity Healthcare Partners | Sep-13 | Nationwide Optical Group | U.S. Vision, Inc. |
| May-14 | C & C Optical Shop Inc. | Eye Care One, Inc. | Sep-13 | Rosenthal Vision Center | Dr Mark H Rinkov, Inc. |
| Mar-14 | Baptist Eye Surgery Center | Baptist Health South Florida, Inc. | Aug-13 | The Optical Solution | Levin Eye Care LLC |
| Feb-14 | Heartland Eye Care | Wolfe Eye Clinic, P.C. | Feb-13 | Eye Institute of Southern Arizona, LLC | Southwestern Eye Center, Ltd. |
| Feb-14 | Tristate Eye Care, P.C. | International Eyecare Center, Inc. | Jan-13 | Seacoast Eye Associates Inc. | Koch Eye Associates, Inc. |
| Feb-14 | Nevada Eye Care | NVISION Laser Eye Centers Inc. | Dec-12 | MyEyeDr., Inc. | Monitor Clipper Partners, LLC |
| Jan-14 | 1-800 CONTACTS, Inc. | Thomas H. Lee Partners, L.P. | Dec-12 | Eye Health Vision Centers, LLC | Koch Eye Associates, Inc. |
| Jan-14 | Doctors Vision Center, Inc. | MyEyeDr., Inc. | Nov-12 | Lodi Optometry Group | Zeiter Eye Medical Group, Inc. |
| Dec-13 | Block Vision Inc. | Superior Vision Services, Inc. | Nov-12 | Southwest Eye Clinic, P.C. | Southwestern Eye Center, Ltd. |
| Nov-13 | Capital Eye Medical Group | NVISION Laser Eye Centers Inc. | Feb-12 | Eye Center South, Albany | Eye Center South, P.C. |
| Oct-13 | Southcoast Eye Care Inc. | Claris Vision | Jan-12 | Koch Eye Associates, Inc. | Bay Capital Investment Partners |



Source: CapIQ
Indicates financial buyer.

# DISCLOSURES

Harris Williams & Co. (www.harriswilliams.com) is a preeminent middle market investment bank focused on the advisory needs of clients worldwide. The firm has deep industry knowledge, global transaction expertise, and an unwavering commitment to excellence. Harris Williams & Co. provides sell-side and acquisition advisory, restructuring advisory, board advisory, private placements, and capital markets advisory services.

Investment banking services are provided by Harris Williams LLC, a registered broker-dealer and member of FINRA and SIPC, and Harris Williams & Co. Ltd, which is authorised and regulated by the Financial Conduct Authority. Harris Williams & Co. is a trade name under which Harris Williams LLC and Harris Williams & Co. Ltd conduct business.

**THIS REPORT MAY CONTAIN REFERENCES TO REGISTERED TRADEMARKS, SERVICE MARKS AND COPYRIGHTS OWNED BY THIRD-PARTY INFORMATION PROVIDERS. NONE OF THE THIRD-PARTY INFORMATION PROVIDERS IS ENDORSING THE OFFERING OF, AND SHALL NOT IN ANY WAY BE DEEMED AN ISSUER OR UNDERWRITER OF, THE SECURITIES, FINANCIAL INSTRUMENTS OR OTHER INVESTMENTS DISCUSSED IN THIS REPORT, AND SHALL NOT HAVE ANY LIABILITY OR RESPONSIBILITY FOR ANY STATEMENTS MADE IN THE REPORT OR FOR ANY FINANCIAL STATEMENTS, FINANCIAL PROJECTIONS OR OTHER FINANCIAL INFORMATION CONTAINED OR ATTACHED AS AN EXHIBIT TO THE REPORT. FOR MORE INFORMATION ABOUT THE MATERIALS PROVIDED BY SUCH THIRD PARTIES, PLEASE CONTACT US AT +1 (804) 648-0072.**

*The information and views contained in this report were prepared by Harris Williams & Co. ("Harris Williams"). It is not a research report, as such term is defined by applicable law and regulations, and is provided for informational purposes only. It is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy. The information contained herein is believed by Harris Williams to be reliable but Harris Williams makes no representation as to the accuracy or completeness of such information. Harris Williams and/or its affiliates may be market makers or specialists in, act as advisers or lenders to, have positions in and effect transactions in securities of companies mentioned herein and also may provide, may have provided, or may seek to provide investment banking services for those companies. In addition, Harris Williams and/or its affiliates or their respective officers, directors and employees may hold long or short positions in the securities, options thereon or other related financial products of companies discussed herein. Opinions, estimates and projections in this report constitute Harris Williams' judgment and are subject to change without notice. The financial instruments discussed in this report may not be suitable for all investors, and investors must make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives. Also, past performance is not necessarily indicative of future results. No part of this material may be copied or duplicated in any form or by any means, or redistributed, without Harris Williams' prior written consent.*