FOCUS

Investment Banking

Healthcare Team

PRIVATE EQUITY INVESTMENT AND CONSOLIDATION STRATEGIES IN OPHTHALMOLOGY

Investment Banking and Advisory Services

FOCUS Investment Banking LLC is a leading Investment Bank with specialized healthcare services expertise, concentrating on providing highly tailored services to middle market and larger organizations in this sector:

- Mergers & Acquisitions Advisory
- Corporate Development Consulting
- Strategic Partnering & Alliances
- Capital Financing, Debt & Equity
- Corporate Valuations

January 2020

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Physician Owner Specialization

Our Services .. New Highs in 2019

FOCUS Healthcare specializes in investment banking services focused on mergers & acquisitions involving clinicians. We represent physician groups in transactions with private equity and ASC management company investors across the United States. The demand for our services hit new highs in 2019. Since July of 2019, we have had seven successful closings and have eight additional businesses under Letter of Intent as we begin 2020.

We are a leading expert on this market and its participants. This White Paper is designed to share those insights with you – physician owners with valuable practices and ASCs contemplating their own transactions with private equity.

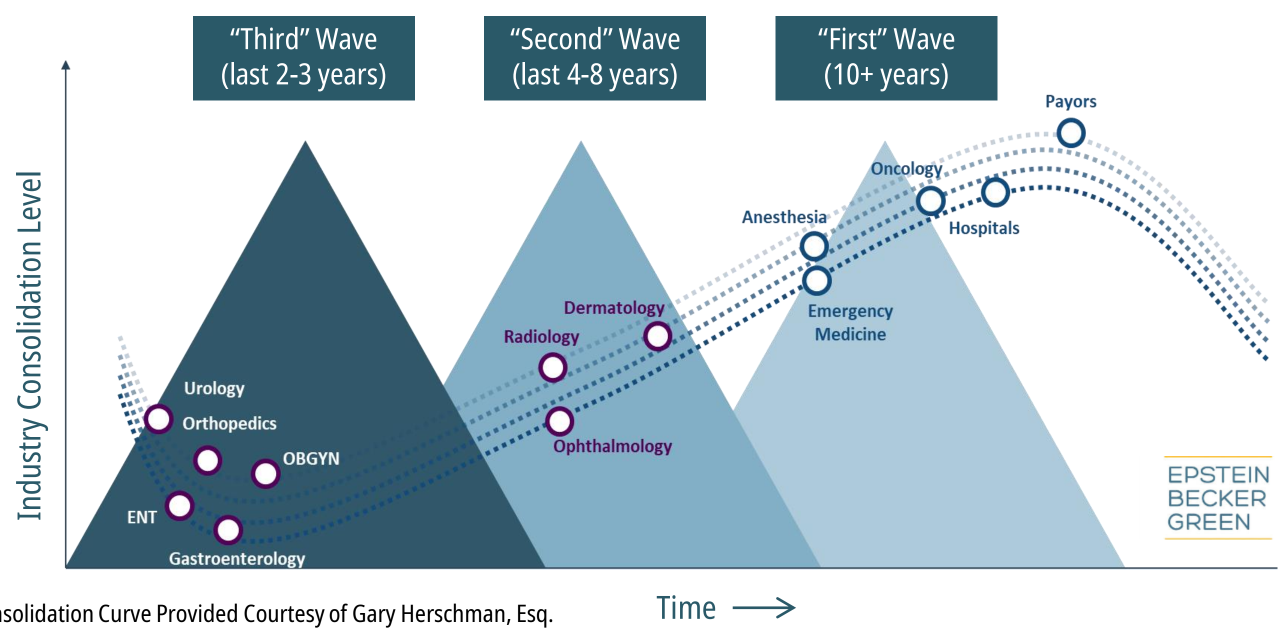
As former operators, we understand the unique attributes of specialty practices and surgery centers. We invest our time and money in the best data available and our partners constantly track transaction activity, conduct independent research, and analyze critical issues. We represent physicians every day and leverage the resulting experience and relationships to benefit our clients.

We Specialize in Second and Third Wave PPM

We focus on the emerging second and third wave sectors across the full spectrum of physician practices.

Consolidation Curve

Volume of M&A activity in each healthcare sector is driven by stage of consolidation



Consolidation Curve Provided Courtesy of Gary Herschman, Esq.
Epstein Becker & Green, P.C.

Recent Transactions

Our services are designed to provide exceptional investment banking services to specialty practices and ASCs. Our principals lead and manage every transaction from start to finish. That's why we are selective about who and how many we work with.

We partner with a wide range of practice specialties with anywhere from two to twenty plus physicians. Every client gets our personal attention.

Transactions Closed

04

Specialty Medical Practice Closings

Practice		Acquirer
Rosenbaum Eye & Laser Center	ACQUIRED BY	Midwest Vision Partners
Carroll Vision Center	ACQUIRED BY	Vision Innovation Partners
Olympia Eye Clinic	ACQUIRED BY	NVISION Eye Centers
Center for Total Eye Care	ACQUIRED BY	Vision Innovation Partners

03

Ambulatory Surgery Center Closings

Center		Acquirer
Vista Surgical Center	ACQUIRED BY	Surgery Partners
Carroll County Surgery Center	ACQUIRED BY	Vision Innovation Partners
Olympia Eye Surgery Center	ACQUIRED BY	NVISION Eye Centers

Transactions In Progress – 2020 Close Anticipated

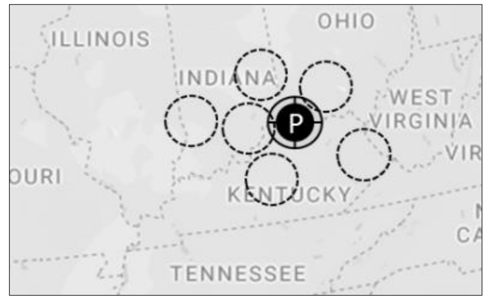
08

Businesses Under Letter of Intent

03	Ophthalmology
02	Women's Health
03	Ambulatory Surgery Centers

Consolidation Strategies Underway

The PPM Management Company Strategy



The predominant private equity acquisition strategy is best defined as "Platform-Growth". Executing this strategy with success requires the acquisition of a large practice or practices which act as a foundation. Those platforms are expanded through "Add-On" acquisitions of medium and small practices and ASCs within a geographic region.

We consider large practice acquisitions to be the key driver of market expansion and a primary indicator of future investment in medium and small practices in a geographic area. A platform practice is defined by a variety of factors, determined in part by the buyer's preferences. Our market analysis simplifies this and considers the acquisition of practices with ten or more physicians. We feel this is a strong indicator of overall platform acquisition activity.

The Physician-Owned Area Consolidation

We are seeing an increasing number of physician-owned practices combine to form larger practices to reap the rewards of increased market coverage, expansion of services, consolidated investment and operating cost efficiencies. This approach can create the most lucrative selling opportunity for physician owners.

Physicians pursuing this strategy are aware of the potential to sell to private equity in the future at favorable multiples. However, the challenge of running a practice while pursuing consolidation is very demanding and prohibitive for most physicians.

We offer specialized services for groups pursuing this strategy. These include strategic consulting, transaction advisory, and unique financing solutions. Please contact us for more information.

The Participation Investment Strategy

A handful of players are engaged in what we call a "Participation" strategy – one with less emphasis on geographic density. They seek to acquire strong practices with less regard to geography and are often willing to enter a new area through a smaller acquisition.

The End Goal for Private Equity and Physician Sellers

Improved Patient Care, Revenue Growth, Profit Improvement

In order to gain a return on their investment, PE firms look to improve operations and grow their portfolio companies through organic and inorganic initiatives, ideally driving a much higher valuation and EBITDA multiple when the portfolio company is sold (usually in 5-7 years).

Principal areas for organic growth include referral networks, physician recruiting, contract negotiations and revenue cycle and cost containment initiatives. They will also invest in practices via capital improvement projects - perhaps additional offices, new technology or construction of a surgery center. Each investment will present unique opportunities, such as combining multiple practices under a single umbrella for reimbursement purposes. Investors will leverage their size, financial resources, and human capital expertise to achieve desired growth outcomes.

Inorganic growth comes through the acquisition of gastroenterology practices, ambulatory surgery centers, and other complementary businesses. Investors provide capital and leverage physician knowledge and relationships to identify and pursue appropriate opportunities.

Physician Autonomy

Importantly, most physicians will be surprised by how hands-off these investors are when it comes to day-to-day practice operations. They are rarely, if ever, interested in physician schedules and local management issues, believing instead that these things are best handled by the physicians themselves and their local management teams. This emphasis on growth and improvement rather than operational change means that physicians can continue to focus on their patients while a well-funded partner works to grow and perpetuate their practice.

Successful Recapitalization at Higher Multiples

Many firms offer physician sellers the opportunity to “roll over” equity into the acquiring company, thus investing along side its other physicians and the PE firm. That equity may be sold in later transactions at a higher value (or EBITDA multiple). This strategy allows physicians to participate in the gains private equity firms achieve.

Private Equity Investors in Ophthalmology

Private equity firms usually create a subsidiary Practice Management Company within their portfolios to acquire and manage gastroenterology practices and ancillary businesses. Most transactions include some equity ownership in that parent management company.

The combination of the private equity firm names and the new practice management company names can be confusing and is simplified below.

H.I.G. Capital	⇨	American Vision Partners	Alpine	⇨	Midwest Vision Partners
Sheridan Capital Partners	⇨	Atlantic Vision Partners	Physician Owned	⇨	NVision Eye Centers
Sterling Partners	⇨	Blue Sky Vision	NMS Capital	⇨	OOMC
ShoreView	⇨	California Retina Associates	Ridgemont Equity Partners	⇨	OSM Ophthalmic Specialists of Michigan
Eli Global	⇨	Century Vision Global	Quad-C	⇨	Prism Vision Group
Revelstoke Capital Partners	⇨	CVP CEI Vision Partners	Zenyth Partners	⇨	ReFocus
Gauge Capital	⇨	Comprehensive EyeCare Partners	Flexpoint Ford	⇨	SEES Group
KKR (Note: KKR entered 1/21/20 … not included in 2019 analytics)	⇨	Covenant Physician Partners	Chicago Pacific Founders	⇨	SightMD eye doctors • eye surgeons
Cortec Group	⇨	EVP EyeCare	Blue Sea Capital	⇨	Spectrum Vision Partners
Partners Group	⇨	EyeCare Partners	Waud Capital	⇨	Unifeye Vision Partners
LLR	⇨	Eye Health America	Pamlico Capital	⇨	US Eye
Harvest Partners	⇨	esp EyeCare Services Partners	CentrePartners	⇨	Vision Innovation Partners
Shore Capital Partners	⇨	EyeSouth Partners	The Firmament Group	⇨	Vision Integrated Partners

Positive Recapitalization News

Partners Group Buys FFL's EyeCare Partners for $2.2 Billion

A highly successful ophthalmology recapitalization just occurred in December of 2019 when Partners Group Holding AG acquired EyeCare Partners, adding one of the largest U.S. ophthalmology and optometry services groups to its portfolio of healthcare investments.

At the time of the transaction, EyeCare Partners was reportedly valued at $2.2 billion including debt. At that valuation, the transaction carries a multiple of about 16x based on EyeCare Partners reported adjusted EBITDA of approximately $135 million.

The deal results in the exit of PE firm FFL Partners after five years of building a successful eye care portfolio company. FFL made its first optometry investment in 2015 and grew to include ophthalmology acquisitions in Missouri, Illinois, Alabama, Kentucky, Kansas and Michigan.

Under San Francisco-based FFL's ownership, EyeCare Partners revenue grew at a compounded rate of 65% through organic and inorganic initiatives over the last five years. During that time, EyeCare Partners grew to 435 locations from 63.

According to PE Hub (December 16, 2019), "Partners Group claims victory for FFL's EyeCare Partners in $2.2 bln deal"

Harvest Partners Buys Varsity's EyeCare Services Partners

In May of 2017, Harvest acquired Varsity's majority ownership interest in ESP. Since it's founding in May 2014, the company had scaled to 46 practice locations and seven ambulatory surgery centers across California, Colorado, Delaware, Illinois and Maryland at the time of this acquisition.

The existing management team was chosen to continue to lead ESP and retained a significant stake in the company. Harvest Partners said, "ESP is exactly what we look for in a partner company. It is an undisputed leader in a burgeoning business model where there are few sizeable players. There is a clear path for growth as an aging population will require more and better services in eye and vision care."

According to Harvest Partners Press Release (May 22, 2017), ""Varsity Healthcare Partners and Harvest Partners Announce Recapitalization of EyeCare Services Partners"

Are EBITDA Multiples at Their Peak?

Shifting Priorities

We believe the ophthalmology consolidation wave is maturing to a more stable and predictable phase. Many of the large platform practices open to a transaction with private equity have already done a deal. Geographies have been established and networks are being built through add-on acquisitions – a key component of success in most private equity strategies.

Exceptions may include areas with great opportunity but little activity to date, such as Texas and multiple areas on the West Coast. We expect to see a lot of activity here in 2020 including large platform acquisitions.

Cautionary Signals

There are now 25 firms invested in ophthalmology, all in various stages of integration, infrastructure buildout, and organic/inorganic growth initiatives. The fact that twelve firms have not closed a transaction in the last six months may be an indication that some early entrants are evaluating their position and long-term strategy. Given competitive activity in the market, they may not be able to grow as originally expected and will likely sell to another private equity firm. We expect that at least one such "sponsor-to-sponsor" merger will occur in 2020.

How Will 2020 Change?

Generally, we feel that strategic small and medium add-on acquisitions will dominate in 2020. One or a handful of new PE firms may join in 2020, but conversations tell us that many of these potential investors are looking for platforms in GI, orthopedics, and urology where minimal activity has occurred. We also hear a consensus that EBITDA multiples are now at their peak, and that most investors are proceeding cautiously with multiples at that level.

PPM Dashboard

Definition: A dashboard is a graphical user interface that provides at-a-glance views of key performance indicators (KPIs) to provide a clearer understanding of business or market activity.

The following key performance indicators help provide an unbiased numeric view of the marketplace. It is a useful tool that brings data into the quest to understand complicated market dynamics.

We use this data in context with other input we receive in our day-to-day dealings. Properly designed, a dashboard can provide a numeric picture of market strength and direction.

Since the first quarter of 2017, our dashboard has signaled Expansion – characterized by consistent new firm entries and expansion into new geographic areas. Now, we believe the market is signaling a transition to Network Growth – a more mature phase characterized by consistent add-on acquisitions and expansion into strategic areas. That shift is consistent with our other market feedback.

Maturation Signals

Key items of note in the latest quarter -

- For the first time since the 4th quarter of 2017, no new PE firm entered ophthalmology.
- For the first time since the 3rd quarter of 2016, no New Geographic Area (NGA) was entered.
- Add-on acquisitions accounted for 81% of total acquisitions.
- A record number of participating firms (12) did not acquire in the last six months.

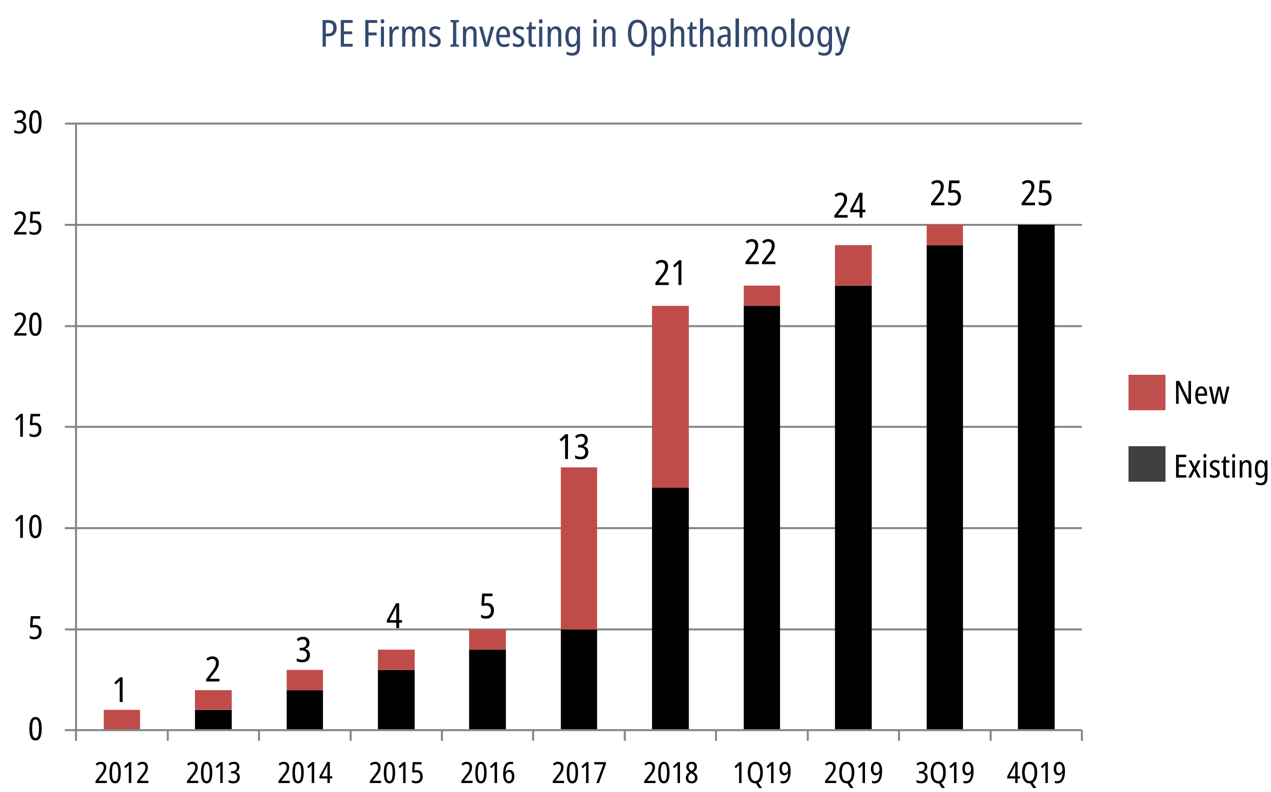
	2017				2018				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of New PE Firms Entering The Ophthalmology PPM Sector	4	1	3	0	3	2	2	2	1	2	1	0
Total Acquisitions	9	7	12	9	19	10	14	29	10	18	20	16
Platform Acquisitions (5+ MD)	4	3	4	4	10	6	3	12	5	7	8	3
Add-on Acquisitions	5	4	8	5	9	4	11	17	5	9	12	13
Number of New Geographic Areas (NGA) Entered through Acquisition	5	1	2	3	4	2	2	3	2	8	5	0
Number of Firms Closing an Acquisition in the Quarter	6	4	6	5	10	6	8	14	9	12	9	8
Number of Firms Invested with No Acquisition in the Last Six Months	2	3	4	5	2	3	7	4	4	7	10	12
Management Company Recapitalizations		1										1

Note: Data Scorecard data is based on publicly available records and information provided to us by acquiring firms with authorization to publish.

Market Attraction: Saturation and Profit Potential

For any business, entering a new market is a big decision. The key drivers to that decision are saturation and profit potential. When a market has high profit potential and low competitor saturation, new entries are attracted. This is clearly exhibited by the large number of new PE firms entering ophthalmology in 2017 and 2018.

In 2019, only four new firms entered ophthalmology. Perhaps even more of an indicator, no new firms entered in the fourth quarter of 2019. That is the first time since the fourth quarter of 2017 that a new entrant was not attracted to this consolidation movement.



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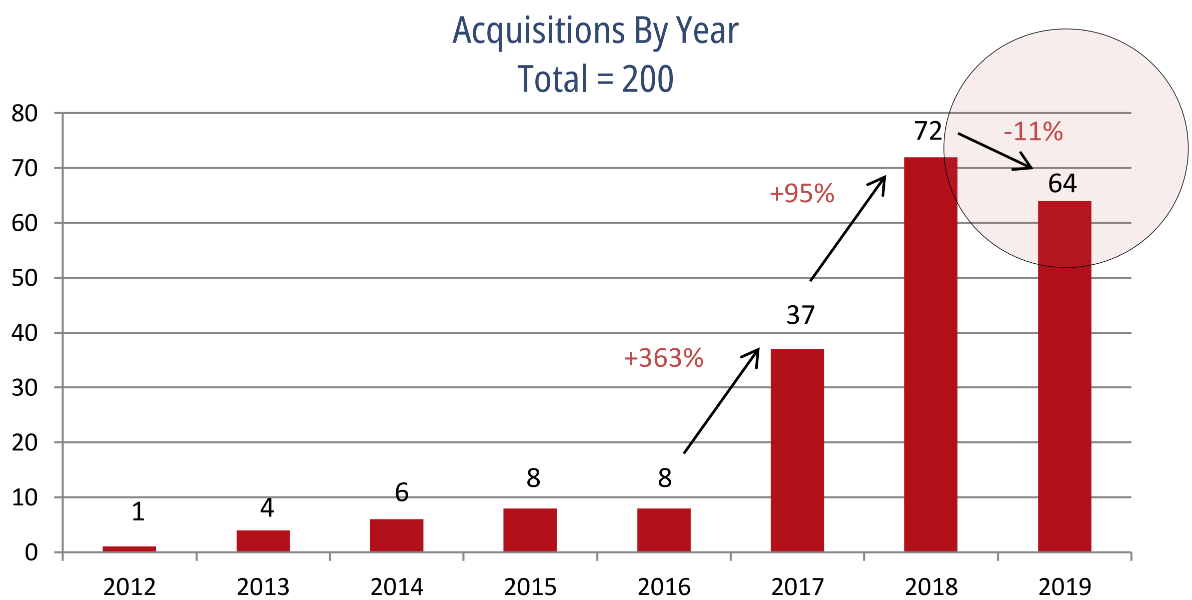
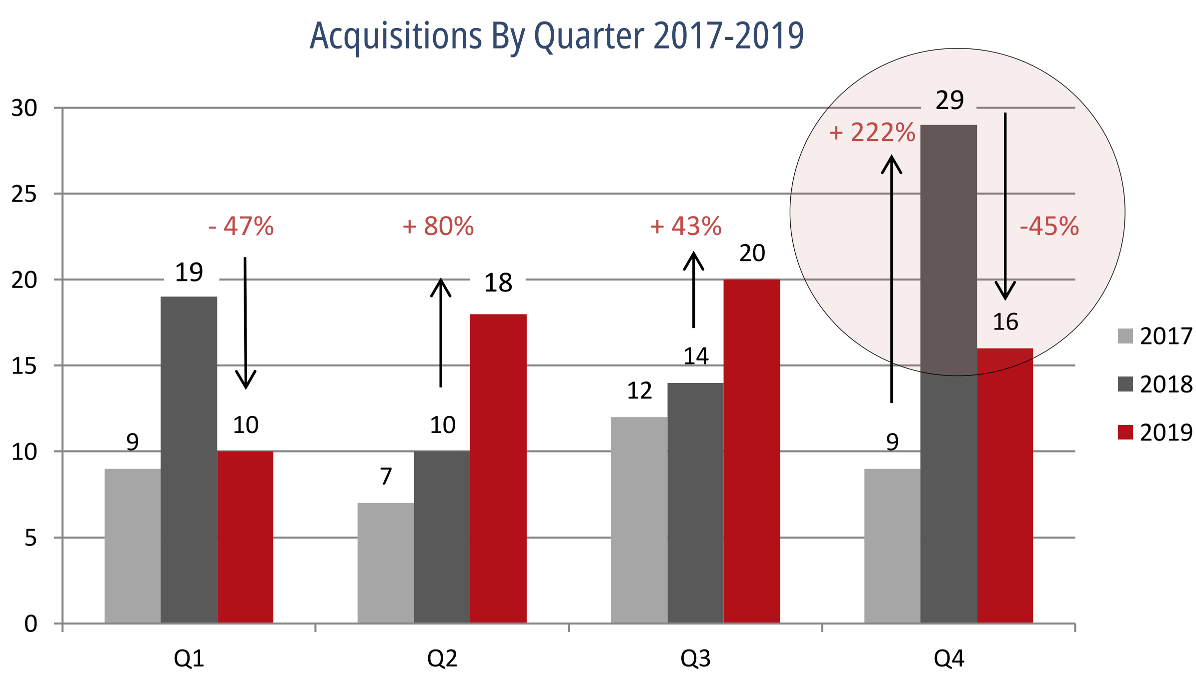
The Acquisition Surge Begins to Level

We expected the tremendous growth in acquisition volume experienced in the 2017 and 2018 calendar year to eventually slow. That happened in 2019 as the consolidation has matured into a more stable growth phase with actual acquisitions down 11% from 2018.

Of note, the total number of practices and ASCs acquired is now at 200.



Actual fourth quarter acquisitions fell 45% from the record fourth quarter of 2018 and was down 20% from the previous quarter.



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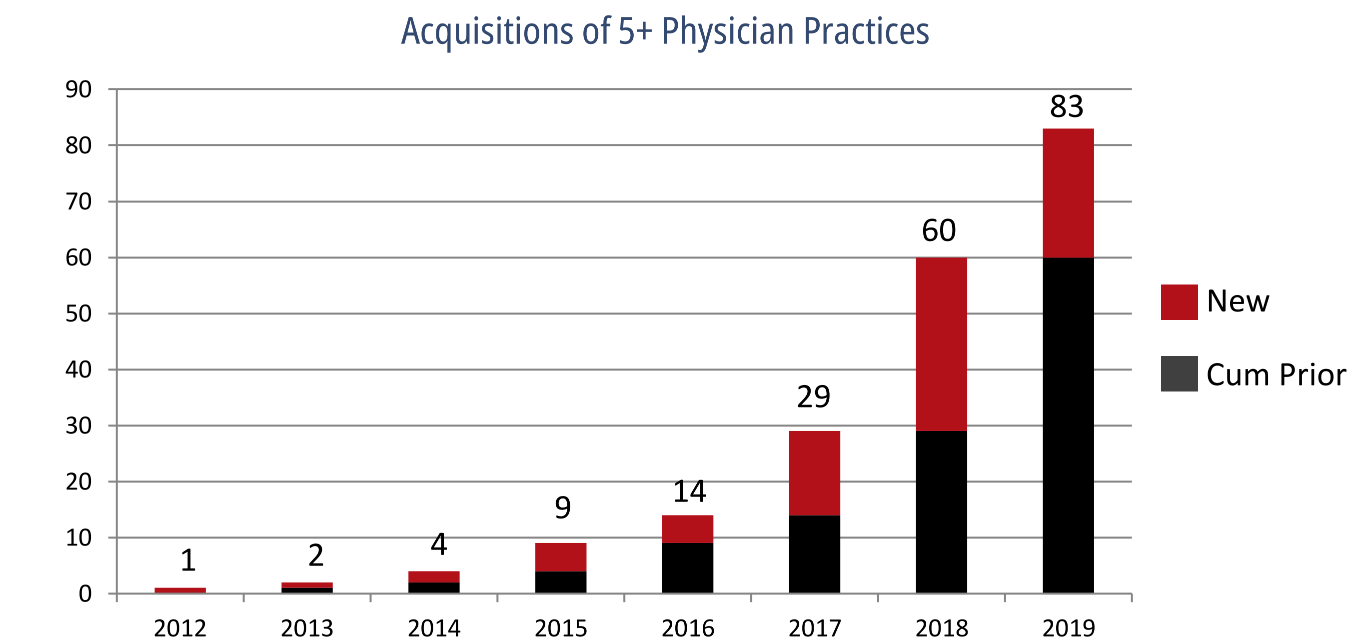
Tipping Point? ... The Transition to Add-ons

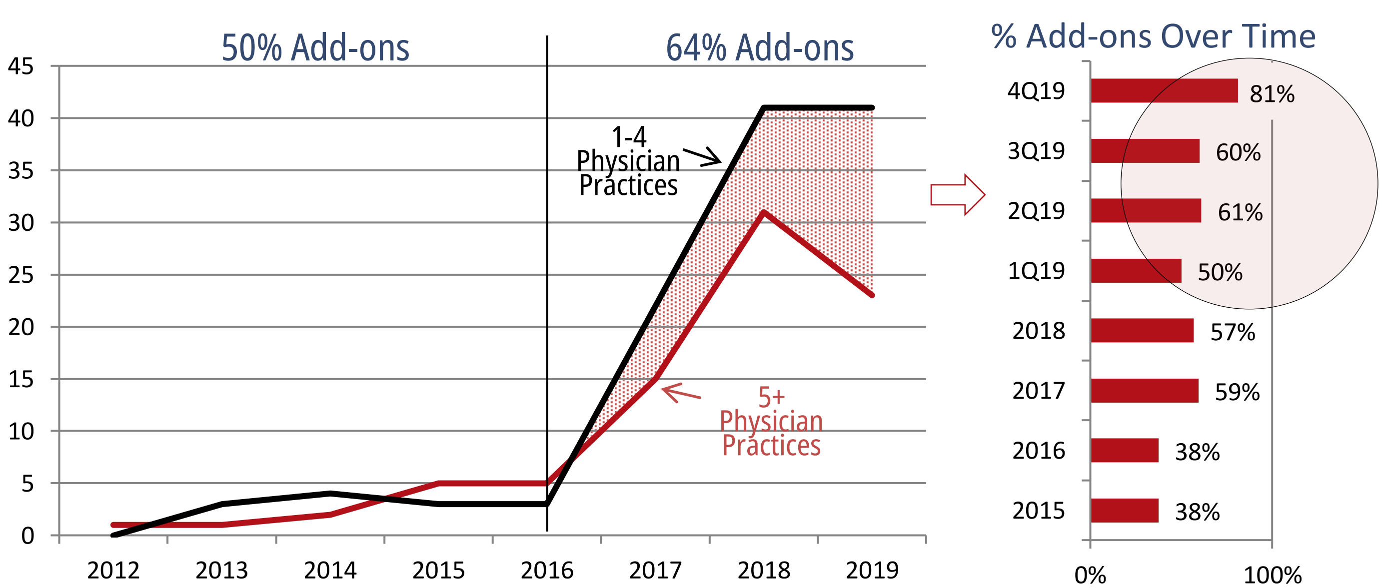
We consider large practice acquisitions to be the key driver of market expansion and a primary indicator of future investment in medium and small practices. Based on our experience, those expansion drivers can be identified as practices with five or more physicians.

In 2019, 23 practices with five or more physicians were acquired, down 26% versus 2018. Total acquisitions of 83 represent 42% of total ophthalmology acquisitions to-date.



Note: Does not include confidential acquisitions of Century Vision Global

Viewing the activity by quarter reveals an indicator of a potential tipping point toward a more concerted focus on network building through add-ons. In the fourth quarter, add-on acquisitions were a record high 81% of total acquisitions. We expect this trend to continue.



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Geographic Targeting and Development

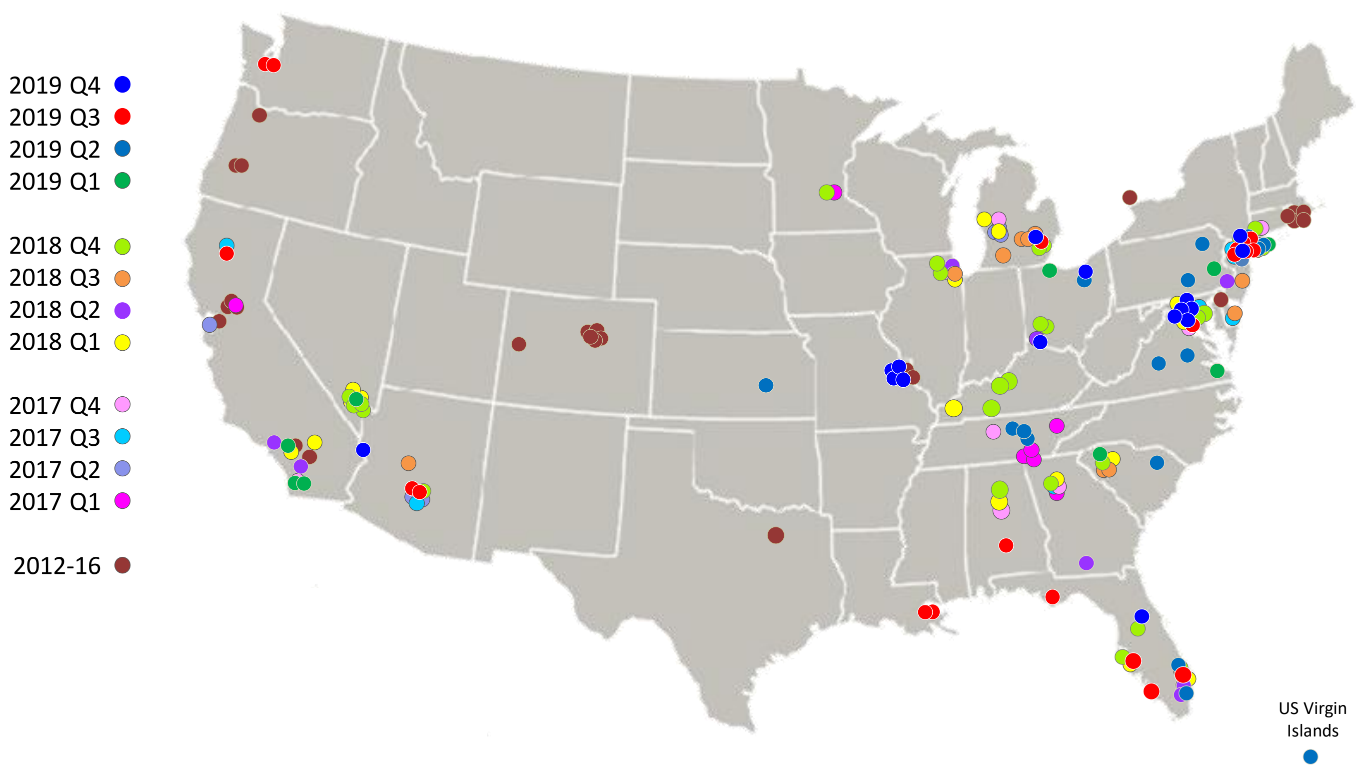
Fourth quarter 2019 activity is shown in bright blue below in the following areas:

- St Louis, MO (4)
- Westminster, MD (3)
- Chevy Chase, MD
- Washington, DC
- Cleveland, OH
- Cincinnati, OH
- Flint, MI
- New York, NY
- Hyde Park, NY
- East Hanover, NJ
- Deland, FL
- Lake Havasu, AZ

For the first time since the 3rd quarter of 2016, no New Geographic Area (NGA) was entered. The Lake Havasu, AZ purchase is not considered an NGA as it is a resort area and previously acquired ophthalmology practices in Phoenix have a practice location there.

Activity has been heaviest in the Eastern United States, with the Southeast, Mid-Atlantic, Northeast, and much of the Midwest seeing very competitive acquisition markets - even for small and medium practices. Southern California has also become more active, but the Central US appears more in its initial stages - with several major acquisitions in different geographies without a lot of "fill-in" activity.

Ophthalmology Practice & ASC Acquisitions 2012 - 2019



This map provides a visual summary of private equity/ophthalmology consolidation activity beginning in 2012. Each dot represents a practice acquisition. Multi-location practices are shown with only one dot.

Geographic Opportunity Areas

Several key geographies have experienced little or no private equity investment yet offer compelling opportunities.

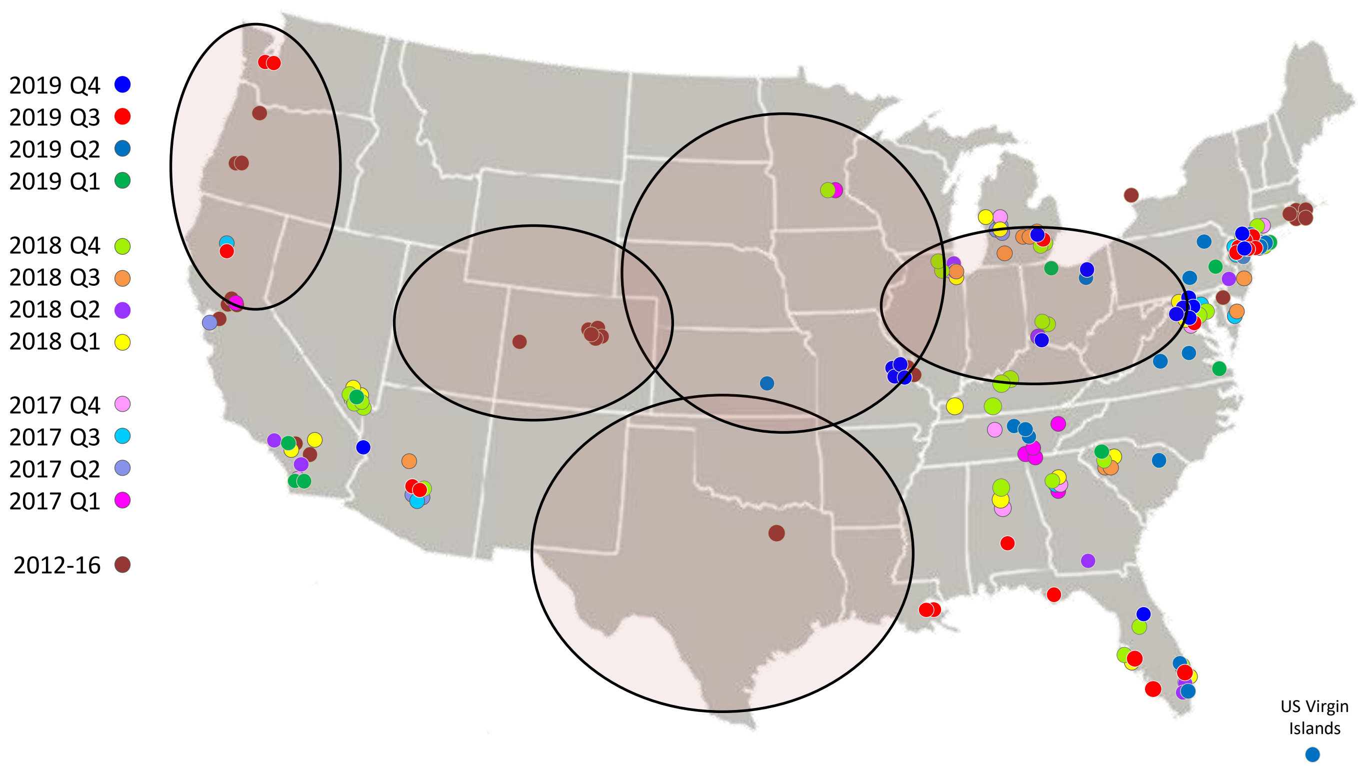
Eastern Midwest – West Pennsylvania through most of Illinois is relatively open. Yet, many opportunities exist here including ASC acquisitions in non-CON states. Hospital dominance can make some of these markets more challenging.

Texas – Large, highly populated, and fast-growing, Texas presents an excellent opportunity market. We expect several large acquisitions going forward as investors find the right physician partners.

Northern California and the Pacific Northwest – An investor could be very successful in Northern California through effective partnership with the many small practices there. The Pacific Northwest is home to some large players that could be initial platform investments.

Central Midwest and Mountain Regions – Though less concentrated, these areas are generally stable and offer strong opportunities for investors willing to work over a greater footprint. Building scale through add-ons here may prove challenging.

Ophthalmology Practice & ASC Acquisitions 2012 - 2019



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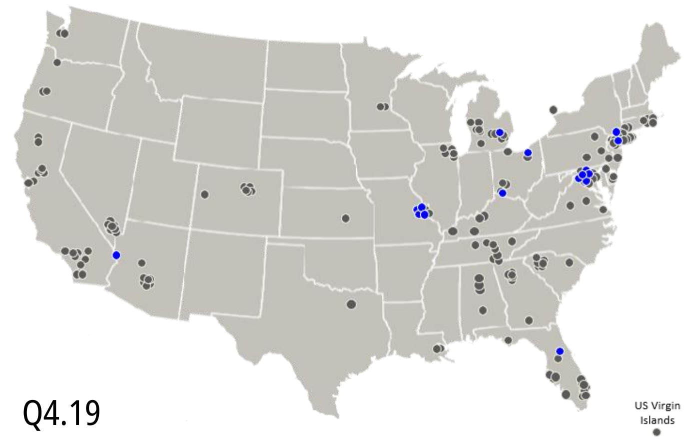
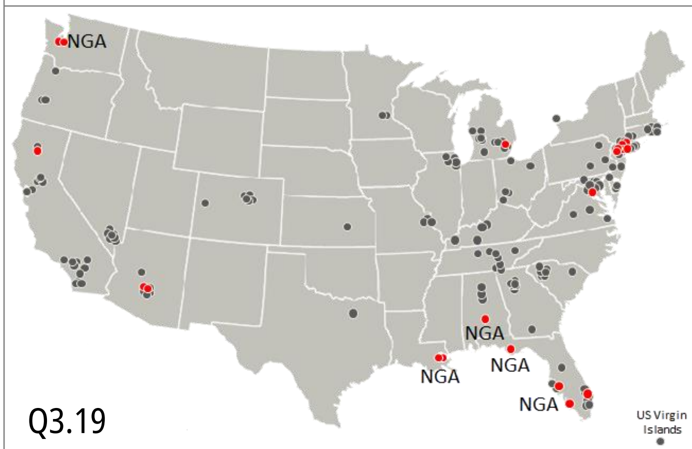
Geographic Investment Highlights by Quarter



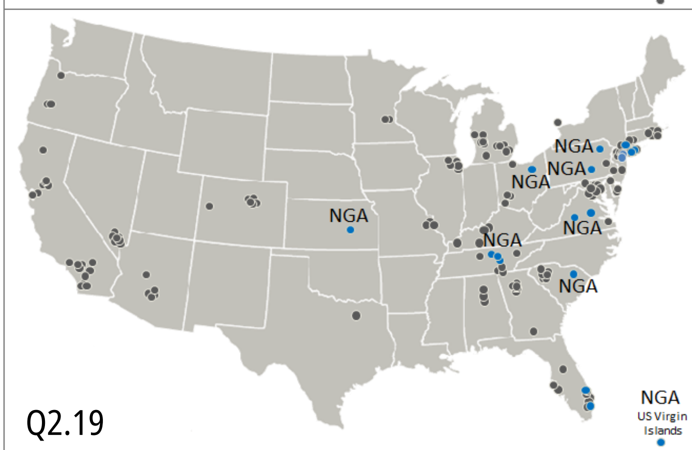
- Partners Group acquires EyeCare Partners from FFL Partners for a reported $2.2 Billion
- No New Geographic Areas entered this quarter
- Vision Innovation Partners strengthens Maryland network with four new acquisitions
- Midwest Vision Partners acquires platform practices in Flint MI and Cleveland, strengthens Midwest presence
- CEI Vision Partners acquires 2nd Cincinnati platform (11 physicians)
- Vision Integrated Partners acquires four in St Louis

Partners Group
REALIZING POTENTIAL IN PRIVATE MARKETS



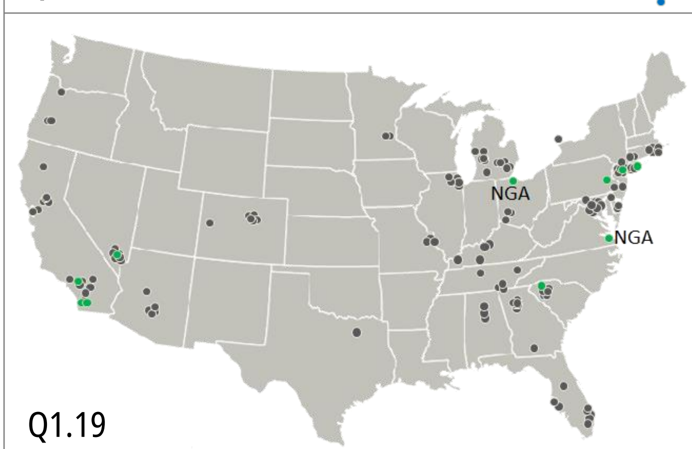
- Five New Geographic Areas (NGA) Entered
- Pamlico Capital enters ophthalmology with platform investment in Sarasota, Florida
- EyeSouth enters Louisiana
- NVision enters Washington State
- EyeCare Partners makes a major Michigan acquisition – Associated Retinal Consultants (21 physicians)
- ESP acquires Eye Surgery Associates in Hollywood, FL (11 physicians), strengthening Southeast Florida
- EyeSouth Partners enters Florida panhandle NGA

PAMLICO CAPITAL



- Eight New Geographic Areas (NGA) Entered
- Alpine Investors enters ophthalmology with platform investment in Akron, Ohio
- Sheridan Capital Partners enters ophthalmology with investments in NGA with two Virginia practices
- Vision Innovation Partners (formally Chesapeake Eye) enters Pennsylvania via partnership with EyeCare Specialists (Scranton, 9 physicians)
- EyeCare Partners invests in Wichita Kansas platform Greene Vision Group (12 physicians)

ALPINE | SHERIDAN CAPITAL PARTNERS



- Two New Geographic Areas (NGA) Entered
- Shoreview Industries enters ophthalmology with platform investment in California Retina Associates (San Diego, 13 physicians)
- CEI Vision Partners enters Virginia via partnership with Virginia Eye Consultants (Norfolk, 11 physicians)

SHOREVIEW

Key Takeaways / 2020 Outlook

1. The end goal objectives of early investors in ophthalmology are being achieved through successful recapitalization at high EBITDA multiples, bolstering continued development by participating investors.

2. The U.S. ophthalmology consolidation market is signaling a transition to a more stable and predictable Network Growth phase.

3. Some early private equity entrants are evaluating their position and long-term strategy, concerned that they may not be able to grow as expected. This will likely result in sponsor-to-sponsor mergers.

4. Strategic small and medium add-on acquisitions will dominate consolidation activity in 2020.

5. There are still geographic areas with great opportunity but little activity to date, such as Texas and multiple areas on the West Coast. Expect to see a lot of activity in these areas in 2020 including large platform acquisitions.

6. There is a growing consensus that EBITDA multiples are at their peak. Most investors are proceeding cautiously with multiples at that level.

7. Potential investors that have been considering an entry into ophthalmology are now considering an alternative investment in gastroenterology, orthopedics, and urology platforms where minimal activity has occurred.

Contact

To learn more about our healthcare investment banking services or to discuss your specific situation with no obligation please feel free to call:

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FOCUS Managing Director and Healthcare Team Leader
Direct: 615-477-4741

We are happy to share our knowledge and help you understand your options. All conversations are strictly confidential.

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