SPECIAL FEATURE

PRIVATE EQUITY'S OPTICAL 'OPTI-MISM'

What Do Leading ECPs and Optical Retailers Need to Consider?

BY MARGE AXELRAD AND JOHN SAILER

NEW YORK—It's clear that private equity's interest in the optical and vision care sector is heating up.

As innumerable *Vision Monday's VMail* Breaking News headlines can attest, the pace of deals has picked up dramatically over the past two years.

The implications of the new investments, happening throughout the optical and vision care industry, but particularly, among prominent national and regional retailers and larger ECP practice groups, raise questions about how executives, financial partners and former entrepreneurs will be working together to bring these companies into their future.

Against the backdrop of tremendous change in the retail, health care and digital arenas, many conditions are contributing to the changes that optical and vision care are seeing today, they say.

There have been consistent investments in optical from commercial and financial players in the past. But, larger and more prominent private equity groups are exploring optical and vision care today.

For many leading ECPs and managers of successful regional retail companies, optometric practices and others, the financial experts agree that the opportunities for viable and valuable deals are prevalent right now. The timing is right, they tell *VM*, for substantial valuations for those businesses that offer a good bottom line, a solid market position, and platforms for growth.

At the same time, those who run these regional and prominent local vision care and optical retail businesses, as well as leaders of smaller, local optometric practices and optician groups, are wondering what they can expect and what they should consider.

Their concerns are many. There are many older, close-to-retirement practitioners who are considering their own potential exits from groups they've built over time. Can they transition these to other, younger partners? Is it wise to set their offices' future with larger groups who have the resources to help smaller practices manage growth in a highly competitive future? Would it be best to spend more of their time turning over operational details to others? Is there a way for them to devote more time to direct patient care and vision solutions? Are their employees' futures going to be secure after the deals are made?

Many of the questions can't be definitively answered in all instances, but most private equity experts, business advisors and optical executives and owners who have gone through the process do have many observations and advice to share.

WHY 'OPTI-MISTIC' ABOUT OPTICAL?

Recent optical/vision care deals, many of which incorporate substantial equity positions by large financial private equity and debt equity firms, are leading many throughout the U.S. industry to

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Private Equity Dollars Are Focused on Optical

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speculate how the new landscape will change from an operations, branding, purchasing and management point of view.

Several deals are proposing "rollups" of multiple operations into others. Some are reflecting expansion and new operating efficiencies.

As *VM* reported in the first part of this special series, the pace of activity now is being fueled for a number of reasons. From within the financial community, in all business sectors, there are record billions of dollars in amounts of available capital equity and debt financing, a keen interest in vision care as a relatively stable business, with a sustainable and encouraging future outlook, serving patients old, young and in between, and a sector that is poised well in the face of changing health care reform.

"The next big wave of consolidation is optometry. Over the next five years, the vast majority of optometry chains will sell or partner."

Hunter Puckett
Managing Director
HPC Puckett & Company

Optical, they say, is also a business sector that has been highly fragmented and one which could benefit from increased consolidation and efficiency. The private equity companies examining the market are also doing more homework, they say, about the business and its particulars.

FFL Partners' Chris Harris, which recently invested in both Clarkson Eyecare and Eyemart Express, told *VM* at the time, "We have spent a lot of time exploring the vision care market over the last two years. We have met with more than 25 companies, representing some 3,600 locations, so we got to know the industry a bit."

Harris noted, "We take a proactive approach as a firm. We look at vision and say this is a good place to be—there is some government reimbursement but not a lot, the industry is quite stable, but it is going through much change and there are many independents out there looking for real options and a path to liquidity."

Noted Hunter Puckett, managing director of HPC Puckett & Company, which represents many "sell-side" clients in the vision care sector, "We're seeing higher valuations than I've ever seen, certainly higher than they've ever been, and I've been in the business for nine years. With so much attention on optical retail, the attention alone has driven up the value."

"We have spent a lot of time exploring the vision care market and say this is a good place to be."

Chris Harris
Managing Director
FFL Partners

Added Drew Scielzo, an operating partner of ACON Investments, the private equity firm that acquired Refac in March 2011 and subsequently acquired Nationwide Vision, "The fundamentals that we saw four years ago are the same as they are today—the industry has strong fundamentals and demographics, and the aging population creates good demand, but it is still a very fragmented

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VM Series on Private Equity's Optical 'Opti-Mism' Continues With ECPs' Perspective

The *VM* Special Series about the recent influx of private equity capital into the optical business continues with the second part in this issue focusing on the ECPs' perspective. After the first installment explored private investors' involvement in multimillion dollar deals in the optical sector, this second article in the series takes an in-depth look into the optical retailers'/ECPs' point of view and also explains what they need to know about the current climate and factors to consider.

With access to record amounts of available money and health care reform encouraging consolidation, this "perfect storm" shows no signs of stopping as mergers and acquisitions continue their pace. *VM* is anticipating that future stories might explore specific new platforms, analyze the brands and businesses they are building to reach modern consumers and patients and also look into the impact these new investors are having on the optical market landscape.

VM welcomes your comments and ideas, please let us know at maxelrad@jobson.com and jsailer@jobson.com. ■

What Should Sellers Consider From Private Equity Deals

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industry, private equity firms are investing to consolidate and fold them up.

"While much of general merchandise retail, is struggling, being displaced by the internet," he continued, "what tends to work in brick and mortar is specialty, and optical fits that profile. It's a medical device with consultative selling, which is the reason people come into the store and buy."

Jeff Nahley, managing director of health care services for Signal Hill, a prominent investment banking group which has been studying the vision care arena for several years and was involved in representing the owners of Nationwide Vision in their sale a few years ago, noted, "There's an interesting foundation in the economy now, in general, with record amounts of billions of dollars, including private equity and debt financing that is driving overall interest. And there are many factors contributing to optical's stability, from the aging of the population, to its recession resistance, with Medicare and Medicaid as drivers."

Said Nahley, whose firm is just releasing this month an extensive and detailed report about the vision care market, "If I'm a seller, I'd strongly consider taking advantage of this cycle that we're in. Valuations are approaching highs. Today is a good time and there are many opportunities due to the long-term conditions in the field."

"You want to be sure that your partner is relating to you and understanding a common vision and commitment."

Doug Barnes, Jr.
CEO
Eyemart Express

WHAT SELLERS CONSIDER

Puckett pointed out, "Each potential seller has their own questions as this process begins, and it takes a long time. It's not and shouldn't be a quick or hasty decision. Some sellers simply want to sell their business at the highest price. For others, their number one concern is their people. Some folks have had several generations of people working for them and want to be assured that their people will have a long, secure future. Some people are, themselves, a third generation of a business' founding family and want to preserve that name and that brand.

"Others," Puckett continued, "are high-end medical model practices and don't want to see those businesses transformed into another formula. These are just some of the variables."

Commented Doug Barnes, Jr., now CEO of Eyemart Express, the 170-store retailer, "Two things have to line up: the timing and the partner. As a family, my father, Doug and I talked so much about this. He had so much experience building up other (optical) businesses, but we needed to be in synch about what we envisioned.

"Over the past many years, we probably had met over a dozen or so potential suitors. Sometimes you just discuss things with different firms and there's a connection or there's not. You want to be sure that your partner is relating to you and understanding a common vision and commitment. I am not as interested in my lifestyle changing as I am in the results of a deal. For me, it's about the future, what are we going to build? I want to stay active. That's what FFL understood for us; they want to invest in management teams. Their ideas were a fit for what we wanted to happen, too. "

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Jeff Nahley
Managing Director, Health Care Services
Signal Hill

Added Anthony Nunn, president of Clarkson Eyecare, "One of the reasons FFL was interested in Clarkson Eyecare, is that we represented a particular approach in optical, and we do all those things exceptionally well. We participate in medical, we offer the latest fashions, give our doctors all the tools they need and offer the highest quality of digital lens produced. This partnership will enable Clarkson Eyecare to expand, serve more patients and partner with leading regional brands throughout the country.

"FFL shares our vision for the company's future and has the resources, industry knowledge and operational experience to help us realize our tremendous potential."

"Working closely with FFL, we will accelerate our growth both organically and through strategic acquisitions of high-quality practices that can benefit from our strong infrastructure, platform and network," added James Wachter, OD, chief medical officer and co-chairman of the board of Clarkson Eyecare.

Said Tommy Crooks, OD, of EyeCare Associates in Alabama, when the business was acquired by Clarkson Eyecare this past July, "We believe that the consolidation occurring in our profession and in the industry is long overdue, and we are looking forward to working with Clarkson Eyecare to lead the way into the future and we believe that the future is indeed very bright."

Capital Vision Services, LP (CVS), which provides management services to MyEyeDr. optometry practices, just last month announced a second equity deal, as the company received an equity investment from a group led by Altas Partners and Caisse de dépôt et placement du Québec (CDPQ), two large investment firms who are doing so in partnership with CVS' co-founder and CEO Sue Downes and other members of management, who will continue leading the company in their current roles.

"This partnership will enable Clarkson Eyecare to expand, serve more patients and partner with leading regional brands throughout the country."

Anthony Nunn
President
Clarkson Eyecare

Boston-based Monitor Clipper originally invested in MyEyeDr. in December 2012, and with the closing of the new partnership, Monitor Clipper and Charlesbank, which helped drive the initial expansion of the business, exited. CVS has grown from managing a single practice in the Washington, D.C., metro area to managing a current total of 165 optometry practice locations in Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia and Washington D.C. MyEyeDr.-affiliated practices have grown steadily through new location

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Recent Optical Retailer Acquisitions and Private Equity Investments

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

Date	Investor	Transaction
March 2011	ACON Investments	acquires Refac Optical Group (including U.S. Vision subsidiary) from Palisade Capital Management affiliate
April 2011	Brazos Private Equity Partners, LLC	makes significant investment in Vision Source L.P.
December 2012	Monitor Clipper Partners	acquires minority share in MyEyeDr.
September 2013	FYidoctors	acquires Vision Source's Canadian assets and operations
October 2013	Refac Holdings and main subsidiary U.S. Vision	acquires Nationwide Vision
December 2013	New Look Eyewear Inc.	acquires Vogue Optical Inc.
January 2014	MyEyeDr.	acquires Doctors Vision Center brand and corporate locations
February 2014	MyEyeDr.	acquires Lord Eye Center
February 2014	Thomas H. Lee Partners, L.P.	acquires 1-800 CONTACTS from WellPoint, Inc.
March 2014	KKR	acquires National Vision Inc. from Berkshire Partners
May 2014	Varsity Healthcare Partners	acquires Katzen Eye Group
August 2014	New Look Eyewear Inc.	acquires certain optical assets of Optic Direct Inc. doing business under the Greiche & Scaff banner
September 2014	Clarkson Eyecare	acquires Thoma & Sutton
September 2014	Luxury Optical Holdings (owned by investment firms aPriori Capital Partners and Goode Partners, LLC)	acquires Robert Marc Eyewear
November 2014	FFL Partners	makes growth investment in Eyemart Express
November 2014	FYidoctors	acquires Marchand Giguère Group
December 2014	MyEyeDr.	acquires Eye Care Associates in North Carolina
April 2015	FFL Partners	completes growth investment in Clarkson Eyecare, Inc.
May 2015	MyEyeDr.	acquires The Hour Glass and South East Eye Specialists
July 2015	Clarkson Eyecare	acquires EyeCare Associates and Pinnacle Optical LLC of Alabama
July 2015	Essilor of America	acquires Vision Source from Brazos Private Equity Partners, LLC
August 2015	Altas Partners and Caisse de dépôt et placement du Québec	invests with management to acquire MyEyeDr./Capital Vision Services
August 2015	Clarkson Eyecare	acquires Eyecarecenter of North and South Carolina

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

Numerous Investments in Optical Led By Private Equity

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openings and collaborative acquisitions and today have nearly 2,000 employees serving approximately 1.8 million active patients throughout the U.S.

Said Downes, "Altas and CDPQ are long-term investors who share our ownership philosophy and value our passion for helping patients. Our model has proven with our growth, and our involvement with Monitor Clipper has enabled us to reach this level. Going forward, Altas and La Caisse are the right partnership for our next phase of growth to build our strong alignment with independent optometrists and expand our doctor-driven model. Our team will grow. With the resources of Altas and CDPQ/La Caisee, we have the capabilities to consider acquisitions of any size and magnitude." She projects reaching a total of at least 200 locations by the end of the year, including, she emphasized, a continued alignment with independent optometrists, to expand a doctor-driven model.

"We believe that the consolidation occurring in our profession and in the industry is long overdue, and we believe that the future is indeed very bright."

Tommy Crooks, OD
EyeCare Associates

MyEyeDr's executive vice president of corporate development, David Sheffer said, "We appreciate Altas and CDPQ's confidence in CVS and our affiliated MyEyeDr. optometry practices. This new investment underscores the strength of CVS' financial position and market leadership, providing further capital as we pursue acquisitions and bring more outstanding optometrists into the MyEyeDr. family of affiliated practices around the country."

Other recent prominent acquisitions include Luxury Optical Holdings' acquisition of Robert Marc Eyewear in September of 2014. "The acquisition of Robert Marc Eyewear is very strategic and actually transformational for LOH," said Ron Beegle, a director of LOH and a co-founder and operating partner at Goode Partners, one of the

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Questions Potential Sellers Should Ask Themselves Before Making a Private Equity Deal

With private equity's increasing interest in the eyecare and eyewear sector, it may be time for practice owners, both large and small, to consider the questions they should ask themselves before entering into any deal. Based on conversations with both buyers and sellers in this market, *VM* developed the following list of questions sellers should ask themselves about potential deals:

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- **Does my company have solid bottom line performance, consistent over the years, demonstrated with supporting financial statements?**
- **Are my fundamental operations effective and efficient yet still have the potential to benefit from the additional resources that would result from consolidation?**
- **How would I feel if the new systems instituted by the new owner are not the ones that I, my leadership or my staff developed?**
- **What can my staff expect in the future after the deal is made?**
- **Do I want to stay involved at all in a transition of my company? If so, for how long, what would be my role in the new company, and what would be the plan for my eventual exit?**
- **Should I take a lump sum payment or payments over time and how will my choice affect my taxes? Will I pay more taxes for a capital gains transaction or for an ordinary income transaction?**
- **Will my practice's model and culture fit with any others it is joining in a consolidation and will they continue after that transaction?**
- **Will my brand continue or be replaced by that of the acquiring company?**
- **How do I determine the value of my company?**
- **When approached by a potential buyer, how can I determine how they have handled investments that have gone well and those that have not gone so well?**
- **How do I determine if the timing is right for me to sell?**

Unexpected Circumstances Can Sometimes Impact a Deal

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investment firms that owns LOH along with aPriori Capital Partners.

"The addition of Robert Marc's eight stores in New York City give LOH a dominant presence there alongside our existing Morgenthal Frederics and Leonard Opticians stores." When asked about future acquisitions by LOH, Beegle said at the time of the Robert Marc acquisition,"We've had a busy two years on the acquisition front. We've added some wonderful stores and tremendous talent to our company. It will take some time to fully integrate the Robert Marc business into LOH. That said, we will continue to acquire small chains of stores as well as single store companies. We have a very strong operational platform and now, an even stronger management team. The key is we will remain very disciplined in our approach to new acquisitions."

"Our team will grow. With the resources of Altas and CDPQ/La Caisee, we have the capabilities to consider acquisitions of any size and magnitude."

Sue Downes
CEO
MyEyeDr.

OUTSIDE INFLUENCES

Sometimes it's a broader concern about remaining competitive in today's business and health care climate that lead owners to make a sale. In January 2014, just after MyEyeDr. acquired Doctors Vision Center, former chairman Peter Hollis cited some of these issues. "We were concerned about the long-term viability of optometry, as we have practiced it for the past 30 to 40 years, and about the external forces beyond our control. As we looked at the market and the pressures on optometry, as we lose control of our fee structure to third party payers, the government, and health care reform, we asked what can we do to make certain we're doing the right thing," he said. "Partnering with an organization like MyEyeDr. looked better, a good next step for the organization as a whole."

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Financial Considerations Are Integral to the Deal

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In contrast, unexpected circumstances can lead to other types of decisions. When she and her husband, Whit Lord, began discussions with MyEyeDr., Lurue Lord, told *VM*, "When we'd gotten the news about Whit's diagnosis [a brain tumor], it was devastating, of course, and we decided to look to the future because we wanted to be sure that what we'd worked so hard to build would be able to continue. We found that our two organizations were very like-minded. We felt it was the right choice for us, to enable us to help with our operations and carry on the culture and success we'd experienced at our organization." Lurue Lord will continue on with the business and has joined MyEyeDr full-time. The two companies signed a purchase agreement in December of 2013 and ultimately partnered in January of 2014, shortly after Whit's passing.

"We will continue to acquire small chains of stores as well as single store companies. The key is we will remain very disciplined in our approach to new acquisitions."

Ron Beegle
Director, Luxury Optical Holdings
Partner, Goode Partners

TAXES, BANKS AND FINANCES

How a sale will impact a seller's taxes is another reason cited for not only deciding whether or not to sell but also the terms under which the sale is made. "One of the compelling things about selling is the ability to take advantage of a capital gains transaction versus an ordinary income transaction," said Allan Barker, OD, whose 61-office Eyecarecenter practice in North and South Carolina recently accepted a strategic investment from Clarkson Eyecare. He explained that for some owners the compelling reason to sell is the difference between capital gains tax treatment and ordinary income tax treatment.

Other financial considerations for sellers is whether to finance expansion through bank loans or private equity investments. According to Nunn, "thebanking community is a little more challenging today.Banks are much more risk averse. They want significant amount of investment, 20 percent to 25 percent, and they reduce amortization schedules, making payback shorter, which makes it difficult for people to interact with banks. That's one of the biggest challenges. Capital is probably the number one limiter of being able to grow. Dealing with banks comes with a whole lot of strings attached. We know this first hand because prior to private equity this was the world we lived in."

"This new investment underscores the strength of CVS' financial position and market leadership, providing further capital as we pursue acquisitions."

David Sheffer
Executive Vice President, Corporate Development
Capital Vision Services/MyEyeDr.

WILL OPTICAL REMAIN 'OPTI-MISTIC'?

All of the private equity and leading optical professionals *VM* spoke with remain bullish on the continuing prospects for investment, acquisition and consolidation in the eyecare and eyewear field.

Mark Goodman, head of consumer investment banking at Raymond James & Associates, said, "Will deals escalate? It's hard to say. There will be some this year, and there's no reason to believe the pace will slow down."

Puckett, whose family represented numerous optical labs when their acquisitions were trending years ago, said, "History repeats itself. The writing is on the wall," about the fact that the landscape remains favorable for both sellers and buyers. "The next big wave of consolidation is optometry. Over the next five years, the vast majority of optometry chains will sell or partner." After that, he predicts, "the next wave will be independent practices." ■