STEERING ADVISORS, LLC
Healthcare M&A Advisors

Our View on Ophthalmology and Eyecare in the Early 2020s

Steering *is* Right-Fit M&A™

Welcome

As an ophthalmologist or other eyecare specialist in today's rapidly changing healthcare environment, you're likely giving thought to, and perhaps worrying about, the future.

If large regional and national eyecare groups are already in your community, you know that they change the nature of competition with their scale, purchasing power, and contracting power. And, if they're not yet in your area, they soon will be.

How will you compete? How will you grow your practice? How can you get costs down? How can you make more profit?

Which leads to the quandary perhaps best stated by the punk rock band ,The Clash:

Should I stay or should I go now?
Should I stay or should I go now?
If I go, there will be trouble
And if I stay it will be double
So come on and let me know
This indecision's bugging me

Stay, as in should your practice remain independent?

Go, as in should you partner with a regional or national group, or, if your practice is large enough, directly with a private equity firm or another outside investor to create your own regional or national group?

Once we begin talking (contact us now at 214-775-1765 or hello@steeringadvisors.com), we'll help you see through the fog of uncertainty.

In advance of our relationship, we can tell you now how we see the overall market for ophthalmology and other eyecare practices as we head into the 2020s.

In a snapshot fully developed on the following pages:

1. We see rapidly increasing acquisition activity on the part of existing private equity-backed practice platforms, creating opportunities for the right practices to see both immediate and longer term payoffs.

2. We see significant potential for new partnerships between large eyecare practices and outside investors, including PE funds, to create new regional and national eyecare entities.

3. And, looking farther out, we see the systems and management put in place by well-funded ventures, with their greater purchasing and managed care contracting power, creating potential quadruple wins for patients, payors, providers, and profits.

The bottom line: There is tremendous opportunity for well-positioned practices.

MARKET FORCES

We project that a near perfect storm of factors will lead to increasing consolidation in ophthalmology and other eyecare professions.

Factor 1: A Heavily Fragmented Market

Although, due to the private nature of consolidation, exact figures are impossible to obtain, it's currently estimated that approximately 6% of ophthalmologists and 8% of optometrists practice through consolidated, private equity backed ventures, called "platforms" in private equity-speak.[1]

[1] https://www.visionmonday.com/business/article/demystifying-private-equity-seminars-launched-by-review-of-optometric-business.

Overall, it's likely that the huge majority of the remaining 90-plus percent of eyecare providers practice completely independently as opposed to in local group settings.

Fragmentation of this sort is one of the key drivers for private equity consolidation because it creates the opportunity to build economies of scale.

Private equity investment brings significant capital to improve and expand practices, investments that physicians themselves are either unable or unwilling to make themselves.

By consolidating independent practices, platform companies can use group purchasing power to reduce the cost of equipment and supplies as well as marketing and administrative functions including the cost of billing and collection. At the same time, with enough clout in the market, large platforms can wield far greater negotiating power in terms of managed care reimbursement than can small practices.

Factor 2: The Shift of Procedures to ASCs

We foresee an exploding growth of ophthalmology procedures performed in ASCs, fueled by technology, price, and value.

- Technology is allowing more procedures to be performed on an outpatient basis.
- Procedures can be performed in an ASC for far lower prices.
- And, due both to their lower cost structure and the ability to provide a more patient-focused experience, ASCs provide greater value for patients (better experience plus lower co-pays), payors (lower prices plus better outcomes), and physician-owners (capturing the facility fee plus greater control over scheduling plus increased professional freedom).

Ophthalmologist-owners of ASCs have the ability to leverage that equity, and the related cashflow, into partnerships with private equity and other lay investors. And, private equity firms and other investors are motivated by the

opportunity to create and expand vertically, as well as horizontally, integrated eyecare health ventures.

Factor 3: An Aging Population

The U.S. Census Bureau projects that by 2030, 1 in every 5 residents will be 65 or older. In fact, they estimate that by 2035, there will be 78.0 million people 65 years and older compared to 76.7 million under the age of 18.[2]

This aging population has already driven mid-single digit annual growth in the eyecare industry, and we believe that the trend will dramatically increase.

Although the population is aging, many over 65 remain active both physically and financially, driving an increasing demand for eye care, including treatment related to cataracts, glaucoma, and macular degeneration.

ACTIVE AND GROWING PRIVATE EQUITY INTERTEST IN EYECARE

Currently, there are more than twenty private equity backed platform practices in the market to acquire additional ophthalmology and other eyecare practices and their related ventures, such as ambulatory surgery centers.

That number is up dramatically from as few as three years ago.

In additional, other private equity firms are partnering with large eyecare practices to create new platforms.

We expect this trend to continue with rapid growth as we enter the early 2020s.

Accordingly, we see consolidation in eyecare as being in its early phases but far enough developed to give credence to the private equity partnership model.

[2] https://www.census.gov/newsroom/press-releases/2018/cb18-41-population-projections.html.

At the same time, the fact that we see the consolidation as being at any early stage does not necessarily mean that you should wait before exploring your partnership options. Although early means that independent groups can take some time to groom themselves for private equity and other outside investor deals, there are specific advantages to acting now.

Those advantages include:

1. **Higher Valuations.** The fact that the current "frothy" market will likely result in higher valuations for your current practice than it will in later stages of consolidation at which, historically in other medical specialties and across many industries, valuations fall.

2. **Plentiful Money.** The fact that interest rates are near historic lows, thus enabling private equity firms to do leveraged deals at what amount to very small borrowing costs. Translation: There's a significant amount of money available to chase deals.

3. **Conditions Won't Last Forever.** The fact that at some point in time the practice platform entities will seek to grow organically, opening new practice locations, instead of by way of any, or only very few, acquisition deals. In other words, large investor-backed entities may simply seek to "take" your business as opposed to paying you for it.

PRIVATE EQUITY AND HOW YOU FIT IN

First, A Refresher Course

Private equity firms are in the business of raising money for their investment funds from both institutions and wealthy individuals. The private equity firm then invests the money within the fund, usually leveraged up with additional, borrowed funds, to invest in businesses. After a specified time frame, usually somewhere in the range of 7 to 12 years from the commencement of the fund's operations, the remaining businesses held by the fund are sold and the fund is liquidated, with the fund's investors, and the private equity firm, reaping what they hope will be the profit.

In many industries, especially those that are as fragmented as eyecare, private equity firms acquire an initial, significant size practice, referred to as the "platform," onto which to add additional eyecare practices.

Note that we used the word "practice," but the actual form of the acquisition and of the business structure varies due to various reasons such as the private equity firm's business strategy, the strategy adopted for the specific platform, and the particular legal requirements of the specific jurisdiction.

For example, some private equity firms acquire the assets of a practice entity, pulling them into a form of management services organization, and leave the professional entity (e.g., the professional association or professional corporation) completely owned by the physicians. In that sort of structure, the relationship moving forward between the lay, management entity and the professional practice is governed by a long term management agreement in addition to other documents. Of course, there are other variants.

Although specifics vary, many private equity platforms seek to partner with practices in which a significant part of the sales proceeds to the physicians is in the form of equity in the platform entity itself, for example, in the MSO described above. That's done to keep the physicians' interests aligned with that of the platform entity and with that of the private equity firm. In that scenario, when the private equity firm exits the investment, the physician investors would see a second payday when some or all of their MSO interests, too, are divested.

Second, The Opportunities

As mentioned above, there are two major routes for you to partnering with private equity firms.

For the majority of practices, deals will be structured as partnerships with the private equity firm's eyecare platform.

As of this writing, there are dozens of those platforms and the number is growing rapidly. Here's a list of some of the current platform entities:

Acuity Eye Group
American Vision Partners
Blue Sky Vision
Century Vision Global
Eyecare Services Partners
Eye Health America
EyeSouth Partners
One Vision Eye Partners
SouthEast Eye Specialists
Unifeye Vision Partners
Vision Group Holdings

Platform entities vary as to culture and strategy. Some are regional and seek to grow "hub and spoke" from their platform center. Others are geographically agnostic, seeking to grow by acquiring premier practices across large regions or even across the country.

Large independent practices have the potential to explore a second private equity route. That's to structure a partnership with a private equity firm not currently invested in eyecare to create a new platform entity. In that type of structure, your current practice would become the platform onto which additional practices would be joined as the business expands.

OTHER POTENTIAL DEAL PARTNERS

Although most of the activity and, therefore, the publicity, in connection with the consolidation of eyecare practices involves partnering with private equity firms, we see opportunities to partner with a variety of other financial and strategic partners.

Depending on your particular circumstances, we'll work with you to explore the larger universe of potential deal partners.

WHY YOU SHOULD WORK WITH STEERING ADVISORS

We Bring You *Unmatched* Healthcare Expertise

We are 100% focused on healthcare.

Combined, our three founders have deep healthcare industry and investment banking expertise:

- Done deals in a variety of healthcare areas, including multiple physician practice specialties, over the past four decades.
- Served as the interim chief executive of a large physician group.
- Served as a board member and majority owner of a healthcare finance business.
- Held medical school faculty appointment in connection with instructing medical residents and medical school faculty on the business of healthcare.
- Advised medical group clients on the successful rollup of practices.
- Advised medical group clients in connection with the disposition of their assets.
- Advised healthcare finance companies in connection with recapitalization.
- Worked for large investment banks including Goldman Sachs, Jefferies Broadview, and Piper Jaffray.

Steering is Right-Fit M&A™

For many clients (and especially their advisors) M&A is just about dollars. But the best price for the wrong deal might just cost you more that you ever imagined. That's why many mergers fail.

This is especially true for healthcare clients in which the closing of the transaction isn't the end, it's the beginning of an ongoing relationship.

Yes, price matters. We strive to maximize value, the best price in the context of your other concerns. Depending on your goals, aspirations, and desired future, that includes valuable factors such as culture, leadership, personal chemistry, degree of certainty, and degree of retained risk. It's Right-Fit M&A™ .

Our Process is Tailored to Your Needs and Goals

We understand that the decision to sell or merge your practice is one of the most important professional decisions you will make. The transaction will be transformative for your organization; therefore, flawless execution is critical.

Steering Advisors operates on the premise that we deliver the execution capabilities of larger, "bulge-bracket" firms to *your* deal.

From start to finish we will guide you through each step of the process including establishing an accurate valuation of the practice, marketing the practice to prospective buyers and helping you select the buyer that is the best fit.

Most importantly, we will do all of the heavy lifting so that you are able to continue to provide the best level of care to your patients without distraction.

By offering comprehensive independent advisory services, we help our clients create value through M&A and strategic advisory. Steering Advisors has considerable transaction experience and an extensive network of relationships in the healthcare sector.

When you work with Steering Advisors you benefit not only from our talent and experience, but also from the perspective of experts in order to achieve your strategic goals.

You Will Deal Directly With A Firm Founder

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Prior to Steering Advisors, Mr. Carty was a Senior Portfolio Analyst at Highland Capital Management LP, a $45 billion fixed income hedge fund manager. Prior to joining Highland, Mr. Carty was a Senior Associate with Financial Technology Partners where he worked on M&A and private financings within securities technology. Prior to that, he worked for Jefferies Broadview and Goldman Sachs where he advised software, telecom and digital and mobile media companies on M&A. He received his MBA from Harvard Business School and a Bachelor's degree in Economics from Princeton University.

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For over 30 years, Mr. Weiss served as a healthcare attorney with a national practice representing large physician groups, entrepreneurial physicians, healthcare facilities, other healthcare businesses in a wide range of medical specialties and industry areas, in connection with which he advises on mergers, acquisitions and other business combinations. Previously, Mr. Weiss held an appointment as a Clinical Assistant Professor of Anesthesiology at the University of Southern California's Keck School of Medicine at which he taught a lectures series on the business issues impacting medical practice. He is a frequent speaker and writer on healthcare business topics. Mr. Weiss received an A.B. degree in History from the University of California, Irvine and a J.D. degree from the University of Southern California.

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Prior to Steering Advisors, Mr. Zang was a Director in the Investment Banking Group of Ladenburg Thalmann & Co. Prior to that Mr. Zang was a Senior Portfolio Analyst at Highland Capital Management LP, a $45 billion fixed income hedge fund manager. Prior to Highland Capital, Mr. Zang worked for the Technology Investment Banking Group of Piper Jaffray in its Palo Alto office where he worked on various public / private financings and M&A transactions for domestic and foreign companies. Prior to that, Mr. Zang spent five years working in the technology strategy and engineering divisions at Nuxone Inc., a software startup, and S3 Inc., a leading graphic chip designer in Santa Clara, California. He has an MBA from the Wharton School of the University of Pennsylvania, an MS from Cornell University, and a BS from Chongqing University of China.

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