



VISION INDUSTRY UPDATE

March 2017

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middle market®

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VISION INDUSTRY OVERVIEW

Vision represents a ~\$40 billion industry comprised of services and sale of corrective eye glasses and lenses with steady expected growth of ~3-4%.

- Industry participants include independent opticians, optometrists, ophthalmologists, national vision retailers, mass merchandisers, and glasses / contact lens manufacturers and distributors
 - 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
- Several vertically integrated providers, most notably Luxottica / Essilor, participate throughout the value chain

VISION SERVICE AND PRODUCT SUPPLY CHAIN¹

	Manufacturers		Service Providers			Market Structure
	Contact Lenses	Glasses / Ophthalmic Lenses	National / Mass Retail	Independent Optometrist	Independent Ophthalmologist	
Corrective Device Manufacturing	✓	✓				- Highly concentrated
Eye Exams			✓	✓		- Mass retail ~32% patient share - Independent ~68% patient share
Medical Eye Care			✓	✓	✓	
Surgical Eye Care					✓	- Highly fragmented
Retail Sale Corrective Device		✓	✓	✓	✓	- Mass retail ~54% share - Independent ~46% share
Notable Participants		Frames: Lenses: 		~23K independent providers	~18K independent providers	

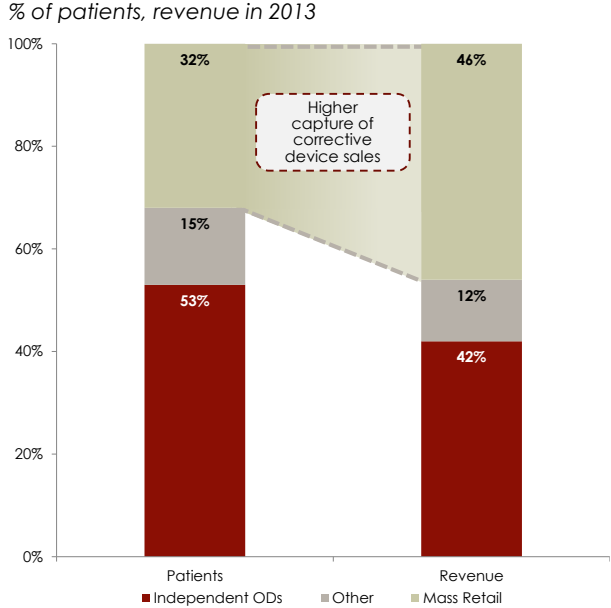
Sources: IBISWorld and Jobson Optical Research
 1. Dark green denotes higher level of focus

VISION CARE OVERVIEW: PRIMARY EYE CARE

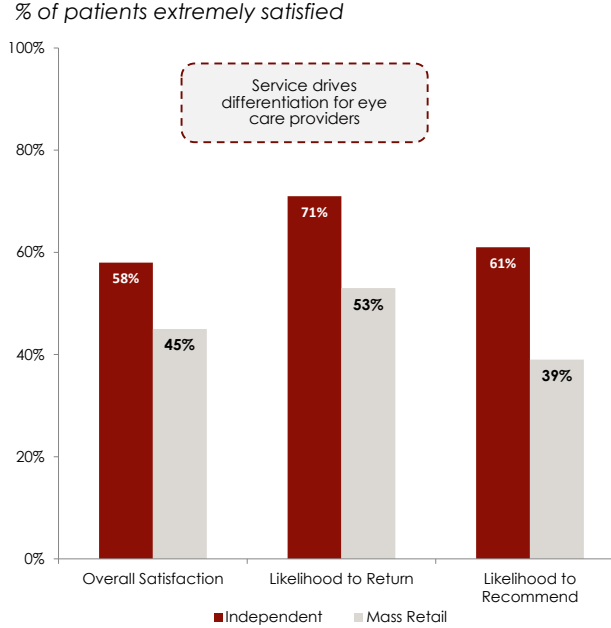
Independent eye care providers control a significant portion of the patient population.

- Eye care services include exams, treatment for dry eye, glaucoma, cataracts, diabetes, and macular degeneration
- A prescription issued within the last one to two calendar years, depending on state, is required for the purchase of prescription eyewear and contact lenses; as a result, the patient / eye care professional relationship heavily influences buying decisions
- 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; ophthalmologists expected to remain stable

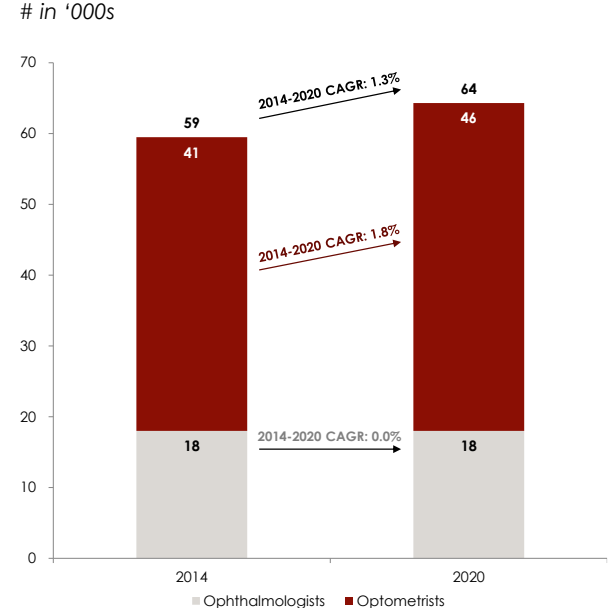
PRIMARY EYE CARE PROVIDER SHARE¹



PATIENT ASSESSMENT OF EYE CARE²



EYE CARE PROFESSIONALS BREAKDOWN³



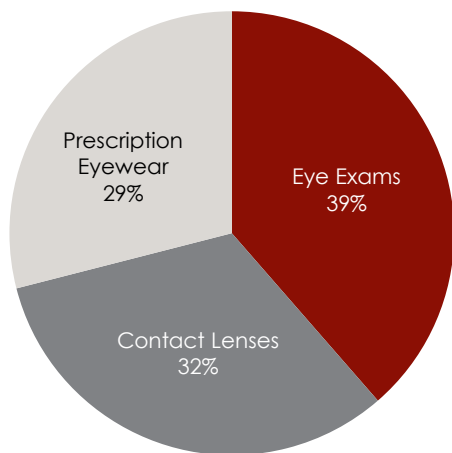
1. Practice Advancement Associates (Jobson) estimates. Note: primary eye care market includes revenue from prescription eyewear, contact lenses, eye exams offered by eye care professionals
 2. Jobson Optical Research (2013, 2012, 2009)
 3. Jobson Medical Information estimates

VISION CARE OVERVIEW: OPTOMETRISTS

Optometrists capture ~\$16 billion of annual vision service and product spending.

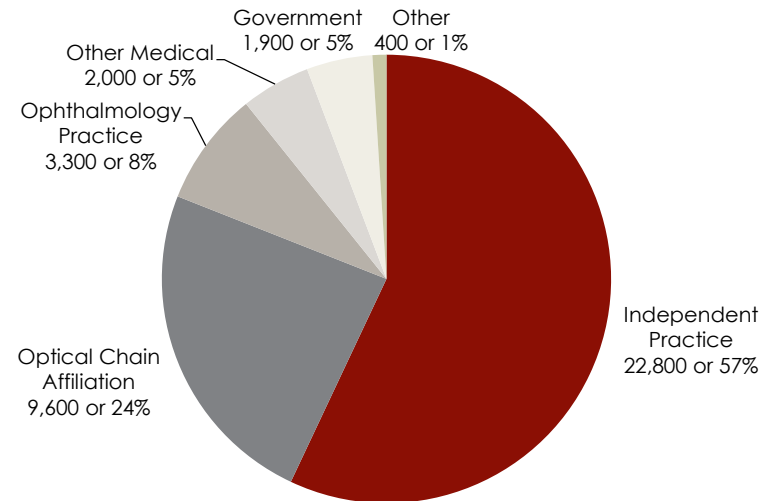
- Optometrists offer services through private practices, chain / mass merchandisers, and government organizations
 - ODs are licensed practitioners who have obtained Doctor of Optometry degree (DO) from an accredited optometry school (four year program post undergraduate degree) and passed both a written 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 exams¹
 - 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 SEGMENTATION²



Licensed services, **39% 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



VISION CARE OVERVIEW: OPHTHALMOLOGISTS

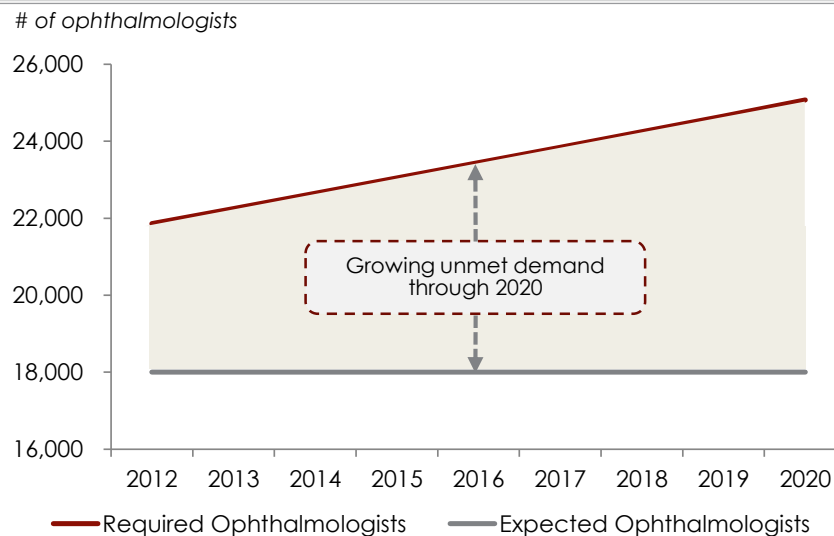
Ophthalmologists capture ~\$12 billion of vision service and product spending annually.

- 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 SERVICES¹



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

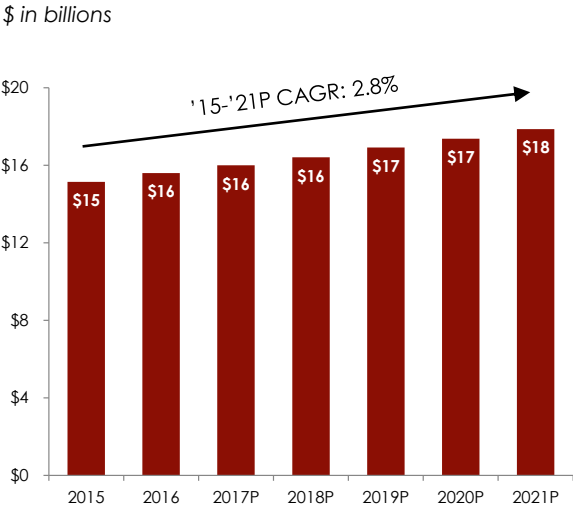
VISION CARE INDUSTRY GROWTH DYNAMICS

The independent optometrist, mass retailer, and ophthalmologist segments of the vision care industry represent a combined ~\$40 billion market, growing ~3-4% annually.^{1,2}

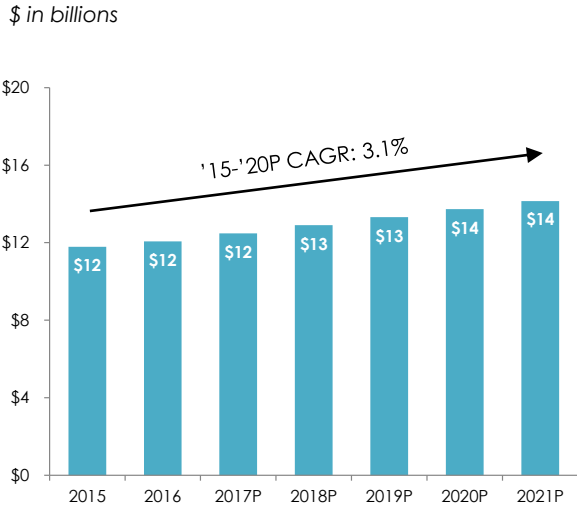
- Steady growth of vision care services driven by the following key market trends:
 - ✓ Aging Population
 - ✓ Increase in Digital Screen Usage and Asthenopia (Eye Strain)
 - ✓ Increasing Prevalence of Chronic Disease
 - ✓ Growing Coverage for Vision Care
 - ✓ Technological Innovation Resulting in New Products
 - ✗ 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



Mass Retailers



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
- ~30% of the broader US vision care category spend

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1. Optometrists in the US (IBISWorld, Oct. 2016)
 2. Eye Glasses & Contact Lens Stores in the US (IBISWorld, Jun. 2015)

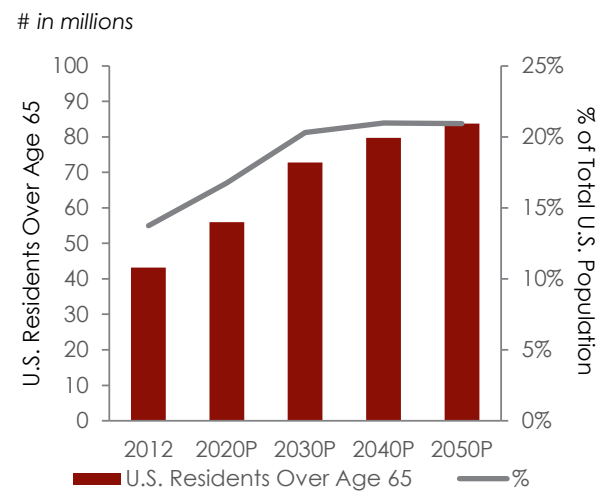
KEY MARKET TRENDS: AGING POPULATION & INCREASING PREVALENCE OF CHRONIC DISEASE

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.

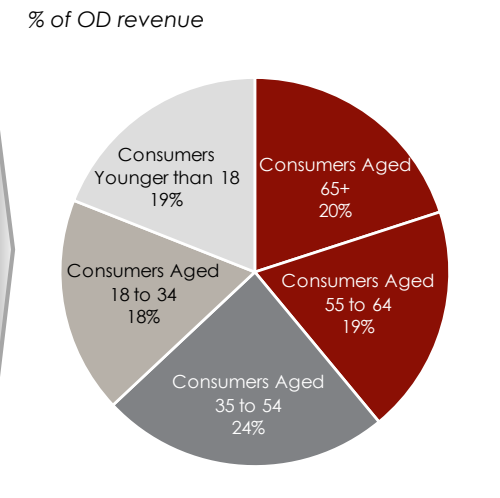
- >86% of the 45+ population uses some form of vision correction
- The aging of the baby boomers generation will result in accelerating demand for medical eye care services
 - Over 65 age group will grow 36.2% from 40.2 million in 2010 to 54.8 million in 2020¹
 - People over the age of 55 will be the fastest growing population segment through 2020²
- 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

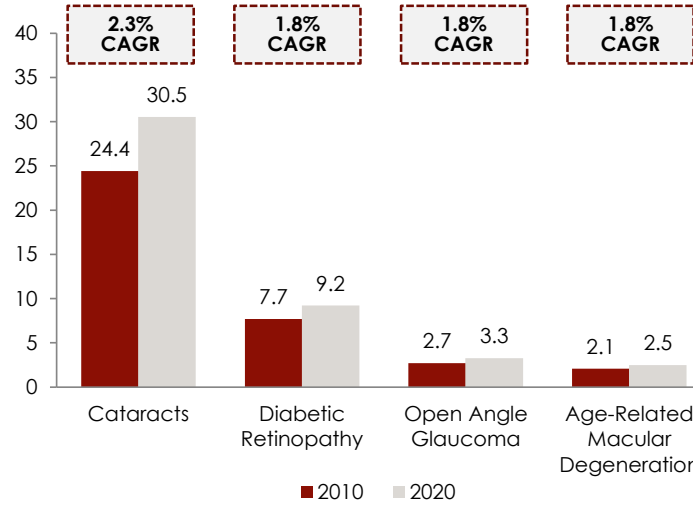


OD End Market Segmentation³



U.S. POPULATION WITH OCULAR CONDITIONS⁴

For the years 2000-2020
in millions

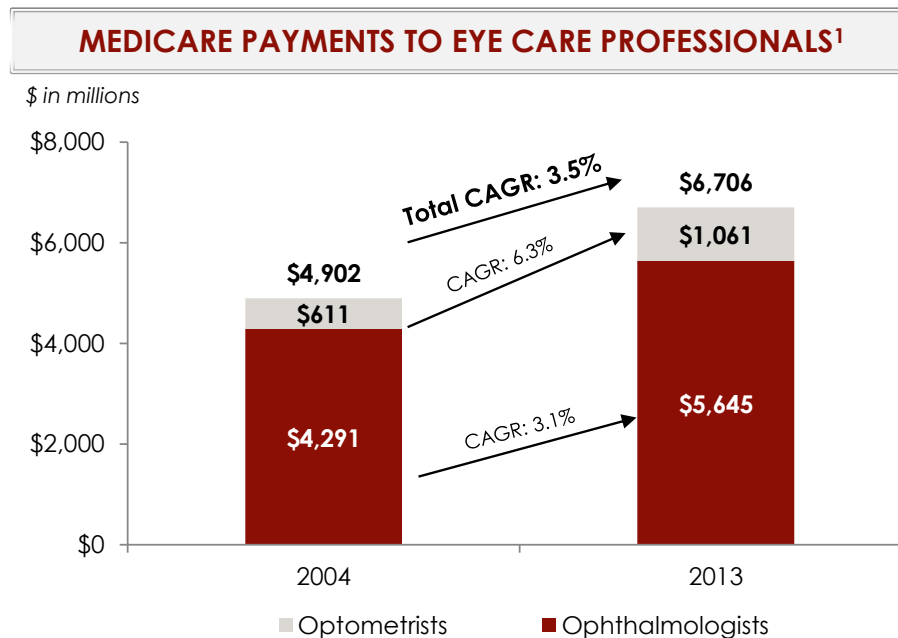


1. Department of Health and Human Services, Administration on Aging
 2. U.S. Census Bureau projections
 3. Challenges and Opportunities in the Future of Independence Optometry (Review of Optometric Business, Apr./May 2013)
 4. 2000-2010 estimates from Prevent Blindness America, PAA projection to 2020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

- Federal healthcare programs have expanded the number of people eligible for 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



1. Centers for Medicare and Medicaid

KEY MARKET TRENDS: STABLE REFRACTIVE SURGERY VOLUMES

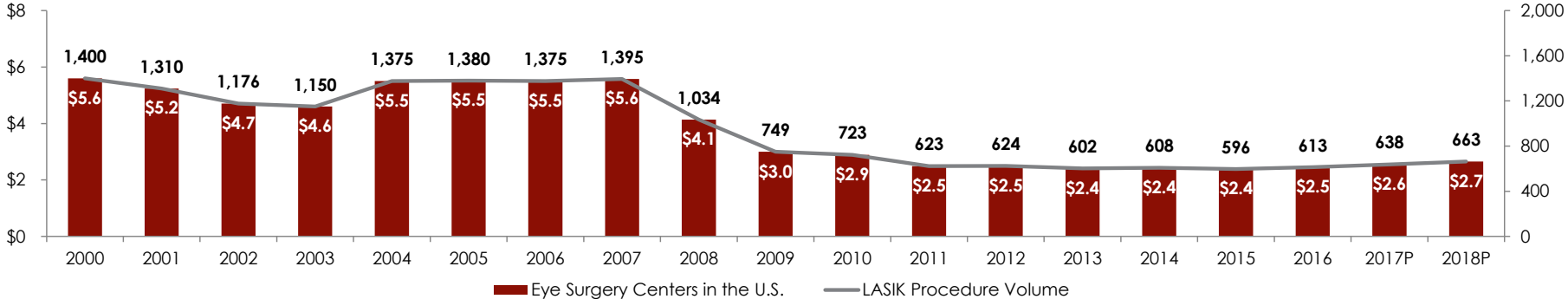
LASIK vision correction surgery volumes have declined from peak levels of ~1.2 – 1.4 million p.a. between 2000 and 2007 to ~600k and are expected to grow ~2% going forward.

U.S. VISION CORRECTION SURGERY OVERVIEW

- The maturation of refractive surgery has not dramatically impacted demand for eye exams or corrective devices
 - Corrective eye surgery (i.e. LASIK) is removing 500K patients annually from the 150 million vision correction population
- Potential refractive surgery market size of 10+ million individuals;¹ expected to grow ~2% annually to \$2.7 billion by 2018
- 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 billions; procedure volume in '000s



1. AAO
 2. Statista
 3. Procedure volume assumes average LASIK procedure cost of \$2,000 per eye (according to LASIK)

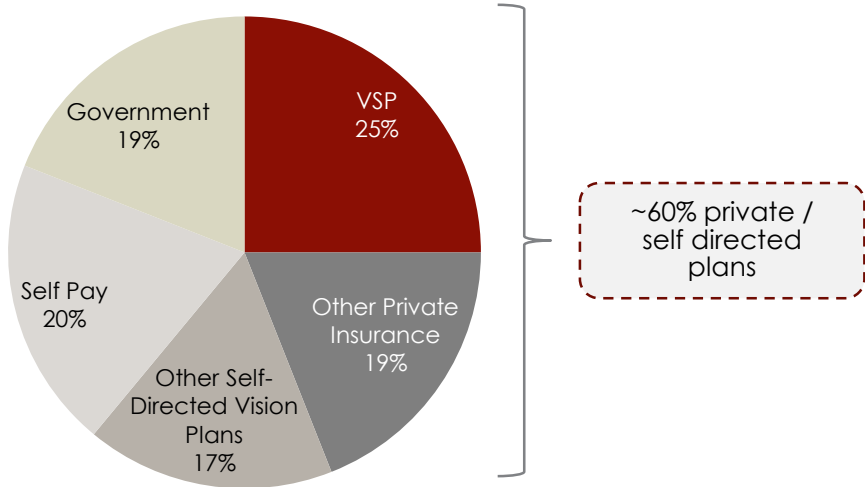
REIMBURSEMENT ENVIRONMENT

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

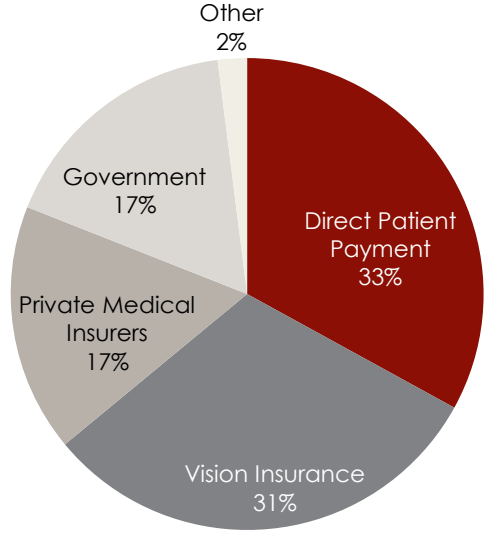
- Vision insurance plan reimbursements totaled 67% of OD revenue in 2011, with 80% of patients covered by a managed vision care plan¹
 - Continues to increase as more individuals gain access to health plan coverage
 - Private and self-directed plans represent ~60% of plan coverage
 - Self pay currently 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 plan¹
- Notable managed vision care plan providers include VSP, EyeMed (Luxottica), Davis Vision, and Superior Vision

MANAGED CARE PLAN COVERAGE²

% OD patients



OD SOURCES OF REVENUE³



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

INDUSTRY PARTICIPANTS OVERVIEW

The vision care services 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 practices¹
- Currently minimal consolidation within ophthalmology on regional or national basis
- ~34,333 companies in the industry today; over half have fewer than five employees²

OVERVIEW OF VISION SERVICES MARKET PARTICIPANTS

	National Chain / Mass Retailer						Multi-Site Independent												Member Network			
Sites	475	116	7,000	860	700	3,582	18	14	180	170	25	16	300	780	43	59	67	2,000	3,262			
Revenue (\$mm)	\$915	\$105	\$10,051	\$945	\$900	\$1,746	NA	NA	NA	NA	NA	NA	NA	\$275	\$21	\$24	\$222	NA	\$2,512			
Services																						
Retail	✓	✓	✓	✓	✓	✓		✓	✓	✓		✓	✓	✓	✓	✓	✓		✓	✓		
Optometry	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓		
Ophthalmology							✓	✓	✓		✓	✓		✓					✓			
Refractive Surgery							✓	✓	✓		✓	✓		✓					✓			
eCommerce	✓		✓		✓	✓		✓	✓	✓							✓			✓		
Geography																						
Northeast	✓	✓	✓	✓	✓	✓			✓									✓	✓	✓	✓	
Southeast	✓	✓	✓	✓	✓	✓							✓	✓				✓	✓	✓	✓	
Midwest	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓				✓	✓		✓	✓	✓	✓	
West	✓	✓	✓	✓	✓	✓					✓	✓	✓		✓				✓	✓	✓	
Ownership	Public	GrandVision	Public	KKR	MARKET VANTAGE	Public	Private	CHARLESBANK PARTNERS	F.I.L.	F.I.L.	VARSITY	CORTEC Group	ALTA FARINUS	ACON	Private	Private	Charlesbank	IMC	ESSILOR			

1. American Optometric Association
 2. Optometrists in the US (IBISWorld, Oct. 2016)
 3. Luxottica manages Target Optical and Sears
 4. National Vision manages portion of Walmart optical stores
 5. Represents independent optometry member sites and services offered

VISION INDUSTRY M&A ACTIVITY

Investors are highly interested in the vision industry due to its large addressable market, fragmentation, combination of retail/healthcare characteristics, and growth opportunities.

- \$40+ billion market forecasted to grow at ~3-4%
- Highly fragmented market comprised of a select set of national / regional chains and over 10,000 independent providers
 - 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
- Unique intersection between retail and healthcare
 - Attractive unit economics / de novo model
 - Recession-resistant / non-discretionary services
 - Stable reimbursement from limited instance of excess utilization
 - Ability to grow rapidly via acquisition and de novo strategies
- As a result, there has been increasing M&A activity in vision services, particularly in last 12 months
 - Initial consolidation in the industry is underway and accelerating with financial buyers leading the charge
 - Well-capitalized strategics are entering the U.S. and intensifying the competition within the industry
 - Platform providers with scale are seeking add-on acquisitions to expand geographic presence and achieve operating efficiencies

NOTABLE RECENT VISION SERVICES TRANSACTIONS

	March 2014	May 2014	December 2014	April 2015	August 2015	December 2015	December 2016	February 2017	February 2017	Pending
Target										
Acquirer										

1. Varsity acquires Katzen Eye Group to form EyeCare Services Partners

VISION INDUSTRY M&A ACTIVITY (CONTINUED)

M&A ACTIVITY 2012-2017YTD

Date	Target Company	Acquirer	Date	Target Company	Acquirer
Pending	Luxottica Group SpA	Essilor International SA	Aug-14	Vision Group Holdings	Audax Group
Pending	Southwestern Eye Center / BDP Eye Center	H.I.G. Capital	May-14	EyeCare Services Partners	Varsity Healthcare Partners
Mar-17	EyeSouth Partners	Shore Capital Partners	May-14	C & C Optical Shop Inc.	Eye Care One, Inc.
Feb-17	SouthEast Eye Specialists	Flexpoint Ford	Mar-14	National Vision, Inc.	KKR & Co. L.P.
Feb-17	Grand Rapids Ophthalmology	Sterling Partners	Feb-14	Heartland Eye Care	Wolfe Eye Clinic, P.C.
Feb-17	Minnesota Eye Consultants	Waud Capital	Feb-14	Tristate Eye Care, P.C.	International Eyecare Center, Inc.
Dec-16	ICON EyeCare	Cortec Group	Feb-14	Nevada Eye Care	NVISION Laser Eye Centers Inc.
Nov-16	IDOC, LLC	Investors Management Corporation	Jan-14	1-800 CONTACTS, Inc.	Thomas H. Lee Partners, L.P.
Apr-16	Superior Vision Services, Inc.	Centerbridge Partners, L.P.	Jan-14	Doctors Vision Center, Inc.	MyEyeDr., Inc.
Jan-16	PRIMA, LLC	IDOC, LLC	Dec-13	Block Vision Inc.	Superior Vision Services, Inc.
Jan-16	MARCH Vision Care	Specialty Benefits, LLC	Nov-13	Capital Eye Medical Group	NVISION Laser Eye Centers Inc.
Dec-15	1-800 CONTACTS, Inc.	AEA Investors	Oct-13	Southcoast Eye Care Inc.	Claris Vision
Dec-15	For Eyes Optical Co.	GrandVision NV	Oct-13	Yonge Eglinton Laser Eye	TLC Vision Corporation
Nov-15	Professional Eyecare Resource Co-Operative (PERC) / Infinity Vision Alliance	Essilor of America, Inc.	Sep-13	Nationwide Optical Group	U.S. Vision, Inc.
Sep-15	Vision Source, L.P.	Essilor International SA	Feb-13	Eye Institute of Southern Arizona, LLC	Southwestern Eye Center, Ltd.
Aug-15	MyEyeDr., Inc.	Caisse de dépôt et placement du Québec Altas Partners LP	Jan-13	Seacoast Eye Associates Inc.	Koch Eye Associates, Inc.
Apr-15	Clarkson Eyecare, Inc.	Friedman, Fleischer & Lowe, LLC	Dec-12	Eye Health Vision Centers, LLC	Koch Eye Associates, Inc.
Dec-14	Eyemart Express, LLC	Friedman, Fleischer & Lowe, LLC	Jan-12	Koch Eye Associates, Inc.	Candescent Partners

Source: FactSet

■ Indicates financial buyer

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