



Industry Trends in the Retina Sector: M&A Activity Powered by Private Equity

QUADRIGA
PARTNERS

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Executive Summary

- The retina industry continues to be a target for consolidation by private equity backed management services organizations (MSOs) driven by historical fragmentation and strong industry trends, including an aging population and the rising prevalence of retina conditions
- Physicians face the choice of partnering with private equity (PE) backed platforms or remaining independent, with each option presenting compelling advantages and awkward challenges
- The industry has experienced tectonic changes since Avastin, an oncology drug, was discovered to be effective against wet age-related macular degeneration (wet-AMD), and Lucentis gained FDA approval. Since then, pharmaceutical companies have introduced new, innovative, and more efficacious drugs, helping retina specialists improve patient outcomes
- Retina physicians continuously debate treatment protocols, each experiencing wide cost and outcome variances. The industry has traditionally relied on three main injectables, but recent drug innovations have created attractive alternatives to displace the conventional treatment approaches



About Quadriga Partners

Quadriga Partners is a premier healthcare investment bank, providing merger and acquisition advisory as well as capital raising services exclusively to healthcare companies. Quadriga has a particular emphasis on several key sectors, including provider services, and is among the most active advisors for ophthalmology and retina transactions. Quadriga focuses on obtaining an intimate understanding of client’s short and long-term objectives, overlaying a unique solutions orientation to each engagement.



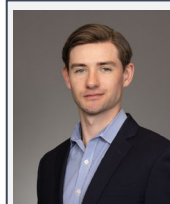
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Preface

Amidst the ever-evolving eyecare landscape, retina practice owners have been confronted with an array of persistent challenges, such as the evolving drug landscape and the emergence of new competitive forces. Robust industry trends, including an aging population, increasing prevalence of diabetes-related retina cases, and attractive reimbursement rates, continue to drive interest in further consolidation from private equity backed eyecare groups.

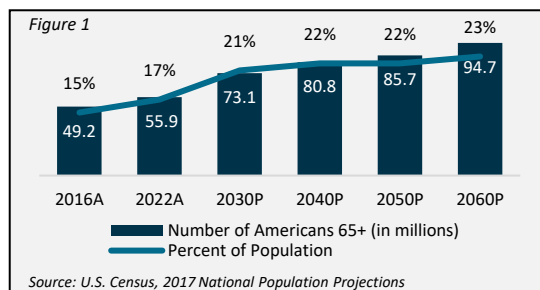
Traditionally, healthcare has been less cyclical than other sectors, resulting in resilient M&A activity. The healthcare sector’s historical strength has driven continued investment from private equity groups, with an estimated 628 consummated deals in 2022, second only to 2021 in total number of PE healthcare deals. Of those transactions, 125 included buyouts and 503 included add-on acquisitions by 364 distinct platforms. Private equity backed platforms have historically targeted fragmented industries where they can add regional density, such as with independent ophthalmology or retina practices. By consolidating back-office operations and liberating physicians to focus on quality clinical care, PE groups have found a winning formula for value creation. These consolidation efforts have culminated in establishing sizable platforms capable of delivering expanded patient care with greater operational efficiency.

The advantages of partnering with a private equity sponsor include:

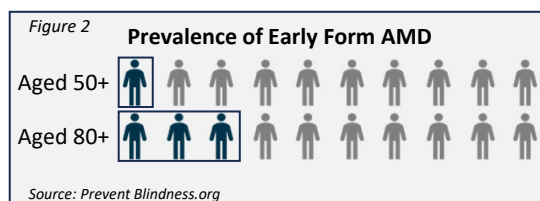
1. Ability to focus on clinical quality and patient-focused care, retaining healthcare decision-making autonomy
2. Relinquishment of operational and back-office responsibilities to business experts
3. Expanded resources to recruit highly talented physicians in an expeditious manner
4. Immediate liquidity from upfront transaction proceeds
5. Partnership with a larger group of like-minded physicians, offering access to a collaborative clinical environment, while still maintaining the culture and identity unique to each practice
6. Opportunity for equity value appreciation with increased practice growth potential

Strong Industry Trends Will Continue to Drive Demand

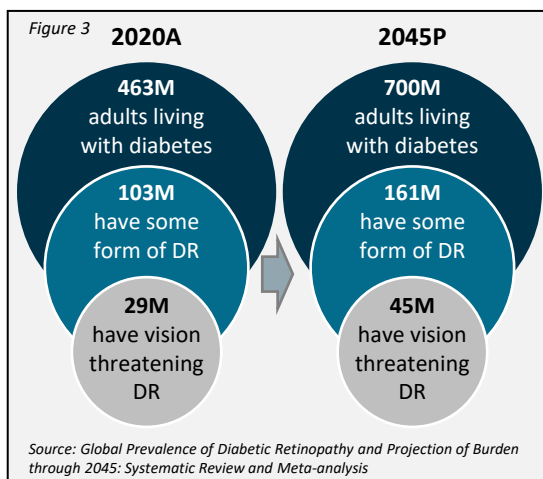
Aging Population: America’s longer life expectancy and lower birth rates result in an aging population that is more prone to needing retina care. By 2060, almost 95 million Americans are expected to be age 65 or older, leading to an increase in demand for services, as this demographic cohort consumes roughly ten times the amount of eyecare services.



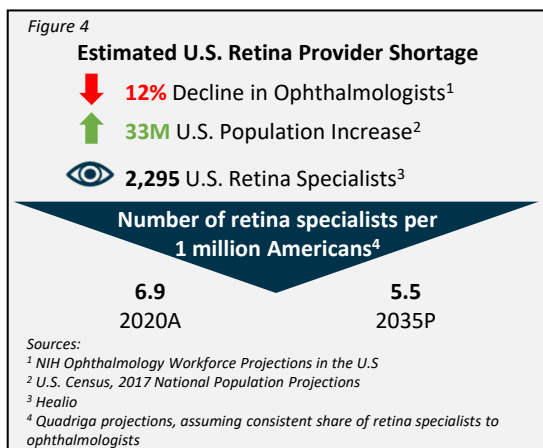
AMD, for example, is naturally most prevalent among the oldest population, with three in ten Americans aged 80 or older suffering from early form AMD and one in ten Americans aged 80 or older experiencing vision threatening late form AMD.



Complex Conditions and the Rising Prevalence of Retina Disorders: The increasing prevalence of diabetes in the United States is leading to a rise in retina-related conditions, such as diabetic retinopathy (DR) and diabetic macular edema. Shockingly, one in four individuals with type two diabetes in the U.S. will develop diabetic-related retina conditions like DR. Unfortunately, because people with these diseases tend to develop symptoms at an earlier stage, they require treatment for longer periods. Diabetes rates, deterioration in diet as well as lifestyles, and an aging population have led to projections that vision loss will increase by 55% globally from 2020 to 2050, according to The International Agency for the Prevention of Blindness.



Shortage of Retina Specialists: The deficit of both ophthalmologists and retina specialists has become increasingly problematic as timely access to these experts is crucial in preserving vision for individuals with complex eye conditions. Compared to other specialties, the paucity of providers, when compared to the demand for both ophthalmology and retina is expected to be amongst the highest, with an estimated decrease in providers per American of 20% from 2020A to 2035P. This imbalance is exacerbated by an increasing population and a decreasing number of active providers. According to OSN Chief Medical Editor Richard Lindstrom, MD, between 500 to 550 ophthalmologists retire each year, compared to residency programs only producing approximately 450 new ophthalmologists annually. Industry experts believe this shortage is best addressed at medical school by promoting ophthalmology and then expanding the number of available specialty training positions in retina. Given the demand profile of eye disease, this scarcity is unsustainable, and the industry must find a way to bridge the gap.



Where Smart Money Meets Independent Practices

Retina Consultants of America (RCA) is currently the only sizable strategic platform focused solely on retina acquisitions. However, of the more than 40 eyecare platforms, many continue to express interest in acquiring complementary retina-focused practices in geographies within their existing footprint. Many of the most acquisitive platforms within retina are highlighted at the end of this white paper. These platforms or MSOs derive meaningful benefits from their scale, operational expertise, and capital partners, facilitating a clear competitive advantage.

Those characteristics enable MSOs to:

1. Improve back-office operations by integrating systems, consolidating roles, and sharing resources, resulting in increased efficiency
2. Cultivate an expert network of in-house physicians who can collaborate to tackle complex cases and research innovative medical solutions
3. Wield considerable purchasing power during negotiations with pharmaceutical companies, effectively driving down the costs associated with drug procurement. This strategic advantage ensures a robust net cost recovery ratio, allowing providers to reduce the cost of injectable drugs and thus increase overall profit margins
4. Identify, attract, and aggressively pursue superior physicians, clinical support staff, and management teams by offering competitive compensation packages and, in some cases, equity participation. As an experienced physician-owner in the field notes, “platforms that can do a better job of hiring clinicians and allowing them to focus on patient care instead of running their practices will create tremendous advantages”
5. Leverage financial backing with the ability to acquire other practices and invest in capital expenditures, such as facility development and equipment acquisition, expediting organic and inorganic growth trajectories
6. Establish and/or expand clinical trial operations and conduct potentially life-altering studies, helping to further retina research

The Significance of Injectables and the Delicate Economic Balance

Since the revolutionary introduction of anti-VEGF drugs, the retina industry has long been dominated by three key drugs: Lucentis, Eylea, and Avastin, with the

first two formularies approved by the FDA for retina treatment. The American Society of Retina Specialist's 2022 survey revealed that 58.2% of responding members preferred Eylea as a first-line anti-VEGF agent if payor access was not a concern, followed by Avastin at 35.0%. The utilization decision is often complex and involves several stakeholders (physician, payor, patient, etc.). The ongoing discourse surrounding each drug's effectiveness, cost, and patient benefits remains polarizing for physicians. The evolving discussion around profitability and treatment plans remains a pervasive subject of debate among industry participants in both independent practices and MSOs.

An additional consideration underlies the emergence of biosimilars like Cimerli, poised to replace the reliance on more costly FDA-approved drugs such as Lucentis. As physicians diligently monitor and evaluate the viability of biosimilars compared to their branded counterparts, it becomes increasingly challenging to overlook the often-favorable net cost recovery that these substitutes have. Many practices view using biosimilars as an ethical way to meet industry stakeholders' goals, with drugs offering medically comparable results and often higher practice margins.

A related cost strategy gaining popularity, primarily championed by private insurers and Medicare Advantage plans, is the implementation of "step-down" therapy. Under this regimen, physicians are mandated to initiate treatment with biosimilars for the initial three months or so as an integral component of the treatment protocol, subsequently transitioning to the branded version if recommended by the physician based on specific patient results.

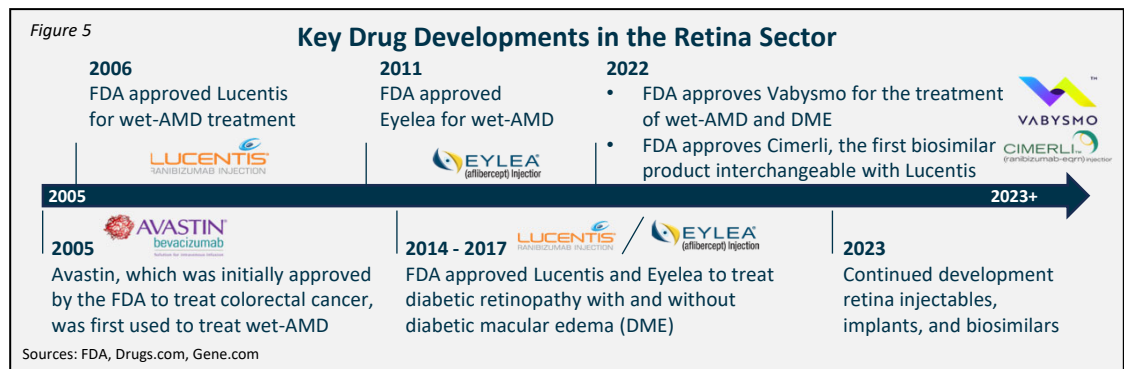
Pharmaceutical companies have been at the forefront of retina disease treatment evolution, pushing the boundaries of drug delivery methods, injectable drug

efficacy, and treatment interval lengths. Notably, drugs like Vabysmo have succeeded in substantially extending treatment intervals, reducing the frequency of injections from a monthly regimen to intervals spanning three to six months. Furthermore, the industry has witnessed innovative treatments involving surgical implants inserted on top of the eye that treat conditions such as AMD and diabetic retinopathy. These implants dispense controlled doses of the drug, eliminating the need for monthly injections.

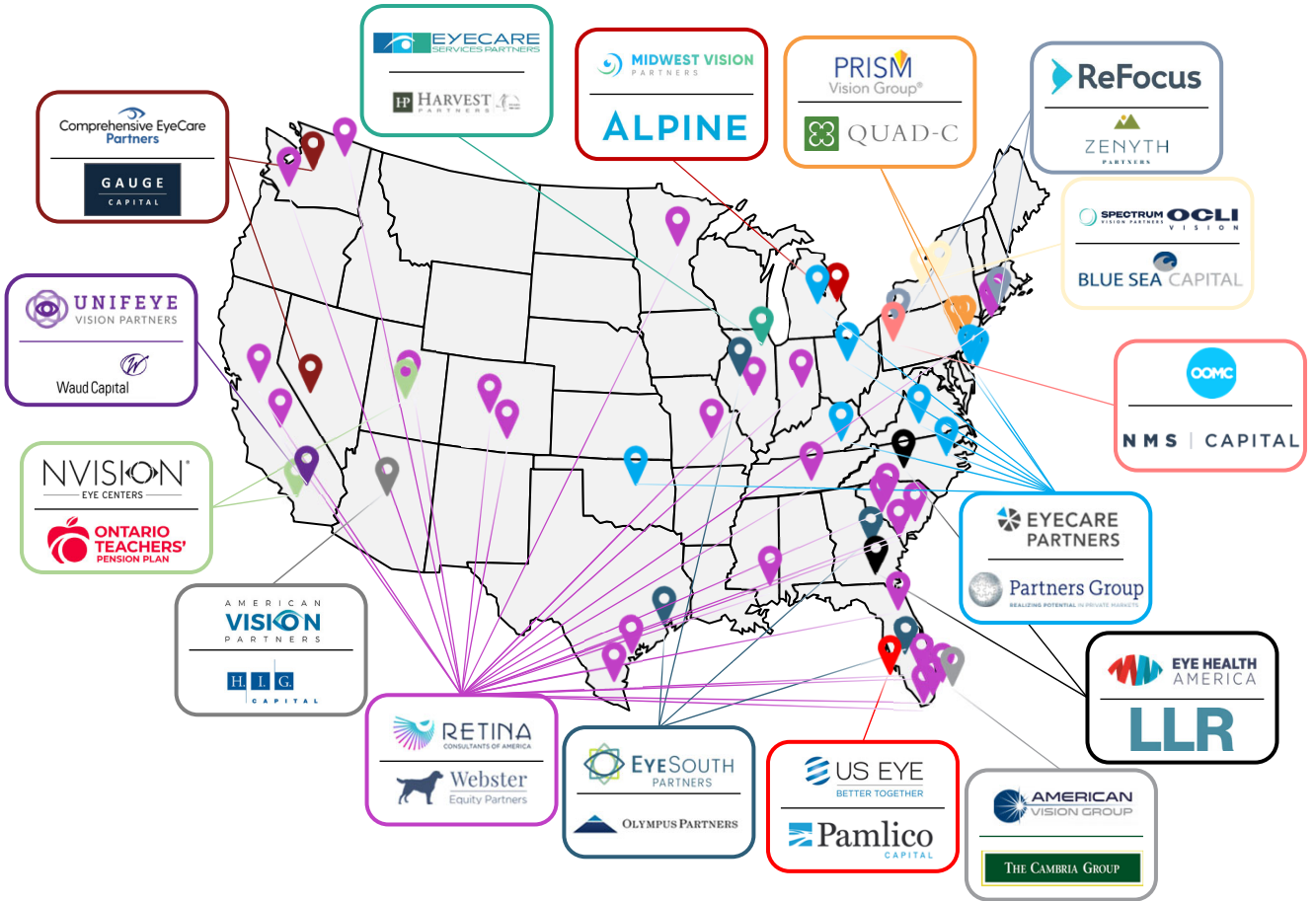
While these innovations undoubtedly bring tangible benefits to patients, they also introduce a new set of challenges for industry participants. Conventional physician compensation models often hinge on the number of injections administered. Thus, a reduction in injection volume could directly impact the overall profitability of practices. In response, diverse approaches are being taken, with some physicians embracing these novel treatment modalities and offsetting the reduced injection revenue by increasing patient volume. Conversely, other groups have taken different approaches in response to new drug developments. Regardless of the strategy, retina practices' business models are intimately connected with the changing drug landscape as well as the associated timelines and reimbursement dynamics.


Concluding Remarks

The field of retina presents distinct benefits and challenges, which are notably influenced by major trends including improved patient outcomes, ongoing advancements in pharmaceutical innovation, and industry consolidation. As the retina industry continues to exhibit favorable attributes, steady interest from private equity backed MSOs is expected. Quadriga remains committed to supporting retina specialists in evaluating strategic alternatives and finding the best path for their practice.



Select Retina Focused Practice M&A Activity



 Represents one practice's acquisition, may include multiple locations

Select Recent Retina Focused M&A			
Acquirer	Ownership	Target	Date
EyeSouth Partners	Olympus Partners	Retina and Vitreous of Texas	Sep-23
Retina Consultants of America	Webster Equity Partners	Retina Consultants of Southern Colorado	Sep-23
Retina Consultants of America	Webster Equity Partners	East Coast Retina	Jun-23
Spectrum Vision Partners / OCLI Vision	Blue Sea Capital	Buffalo Niagara Retina Associates	May-23
Spectrum Vision Partners / OCLI Vision	Blue Sea Capital	Retina Consultants of Western New York	May-23
Retina Consultants of America	Webster Equity Partners	Retina Consultations	Mar-23
ReFocus	Zenyth Partners	Retina Associates of Greater Philadelphia	Mar-23
Eyecare Partners	Partners Group	Retinal Associates of Oklahoma	Jan-23
Retina Consultants of America	Webster Equity Partners	Retina Group of New England	Dec-22
Retina Consultants of America	Webster Equity Partners	Florida Retina Institute	Nov-22
EyeSouth Partners	Olympus Partners	University Retina	Nov-22
Retina Consultants of America	Webster Equity Partners	Illinois Retina Associates	Nov-22
Eyecare Partners	Partners Group	Retina Specialists of Ohio	Oct-22
Retina Consultants of America	Webster Equity Partners	Austin Retina Associates	Aug-22
Retina Consultants of America	Webster Equity Partners	The Retina Eye Center	Aug-22

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Acquirer	Ownership	Target	Date
Eyecare Partners	Partners Group	Retina Institute of Virginia	Jul-22
Nvision	Ontario Teacher's Pension Plan	Retina Associates of Southern California	Jul-22
Nvision	Ontario Teacher's Pension Plan	Salt Lake Retina	Jul-22
ReFocus	Zenyth Partners	New England Retina Associates	Jun-22
Retina Consultants of America	Webster Equity Partners	Associated Vitreoretinal and Uveitis Consultants	Mar-22
Retina Consultants of America	Webster Equity Partners	Retina Center Northwest	Mar-22
Midwest Vision Partners	Alpine Investors	Retina Consultants of Michigan	Jan-22
Comprehensive EyeCare Partners	Gauge Capital & GMB Capital Partners	Retina Institute of Washington	Jan-22
Eyecare Partners	Partners Group	Retina Associates of Kentucky	Dec-21
Retina Consultants of America	Webster Equity Partners	Retina Consultants of Charleston	Dec-21
Eye Health America	LLR Partners	Southeast Retina Center	Dec-21
Retina Consultants of America	Webster Equity Partners	Brown Retina Institute	Dec-21
Retina Consultants of America	Webster Equity Partners	Mississippi Retina Associates	Dec-21
Retina Consultants of America	Webster Equity Partners	Pacific Northwest Retina	Nov-21
Retina Consultants of America	Webster Equity Partners	Retina Associates of Utah	Nov-21
Retina Consultants of America	Webster Equity Partners	Colorado Retina Associates	Oct-21
Unifeye Vision Partners	Waud Capital	Southern California Desert Retina Consultants	Oct-21
Retina Consultants of America	Webster Equity Partners	Tennessee Retina	Sep-21
Retina Consultants of America	Webster Equity Partners	NC Retina Associates	Aug-21
Retina Consultants of America	Webster Equity Partners	Retina Consultants of San Antonio	Jun-21
EyeSouth Partners	Olympus Partners	Retina Care Specialists	May-21
Eye Health America	LLR Partners	Piedmont Retina Associates	May-21
OOMC	NewMainstream Capital	Erie Retinal Surgery	Apr-21
Retina Consultants of America	Webster Equity Partners	Carolina Retina Center	Mar-21
Retina Consultants of America	Webster Equity Partners	Retina Associates (Kansas)	Mar-21
Retina Consultants of America	Webster Equity Partners	Vitreoretinal Surgery, PA	Sep-20
US Eye	Pamlico Capital	Retina Health Center	Aug-20
EyeSouth Partners	Olympus Partners	Retina Associates of Middle Georgia	Aug-20
Prism Vision Group	Quad-C Management	Retina Group of Washington	Jun-20
Eyecare Partners	Partners Group	The Retina Clinic	Jun-20
Eyecare Partners	Partners Group	Vitreous Retina Macular Specialists of New Jersey	May-20
Retina Consultants of America	Webster Equity Partners	California Retina Consultants	Mar-20
Retina Consultants of America	Webster Equity Partners	Retina Group of Florida	Mar-20
Retina Consultants of America	Webster Equity Partners	Retinal Consultants Medical Group	Mar-20
Eyecare Partners	Partners Group	Monmouth Retina Consultants	Feb-20
Prism Vision Group	Quad-C Management	The Retina Care Center	Jan-20
Retina Consultants of America	Webster Equity Partners	Long Island Vitreoretinal Consultants	Jan-20
Retina Consultants of America	Webster Equity Partners	Retina Consultants of Houston	Jan-20