

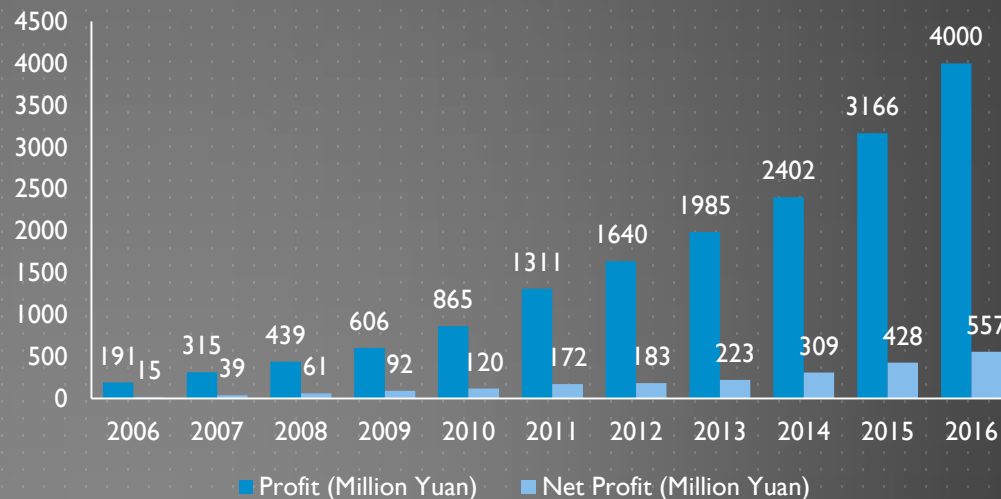
Aier Ophthalmology (300015)

► Rising Empire of Bright Ophthalmology

Truth group

1. Company Introduction — Sustained Rapid Growth of the Bright Empire

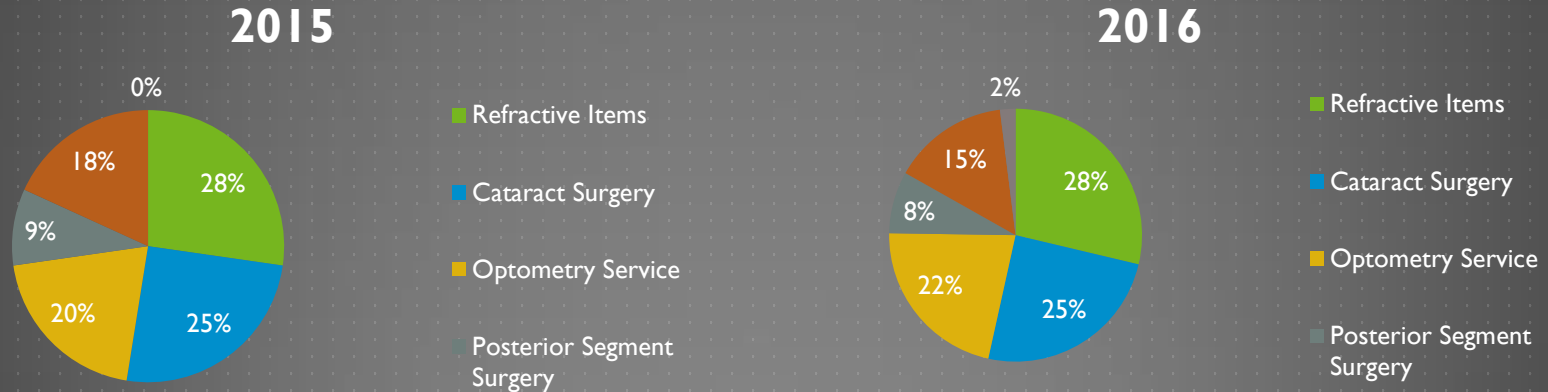
- Aier Ophthalmology is a A-share medical service leader, and is also considered a leading specialist in ophthalmology
- From 2006-2016, company revenue reached CAGR of 36%
- From 2006-2016, net profit of the company reached CAGR of 44%
- In a favorable market environment, A-share medical service is the leading provider of medical services



Source: Company's Annual Report

1. Company Introduction — Continuous Optimization of Business Structure

- ▶ Increasing proportion of higher gross margin refractive and optic services
- ▶ Decreasing proportion of lower gross margin immediate anterior& posterior segment surgery
- ▶ Overall, allocating higher gross margins to higher percentages of business helps to improve operating results of the company

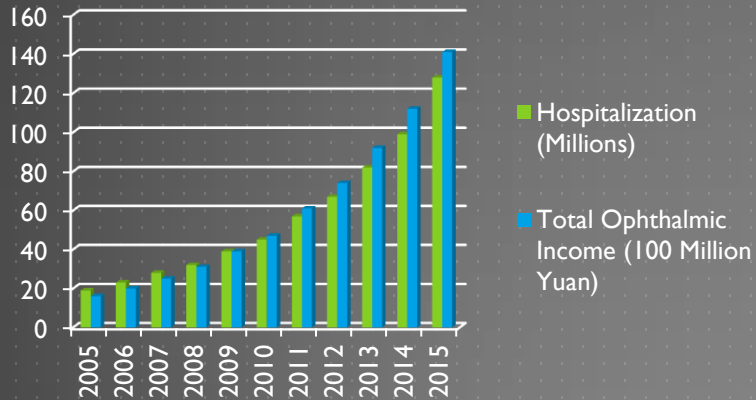


Source: Company's Annual Report

2. Industry Analysis

Growing customer demand

- ▶ Public's increasing awareness of eye health results in the escalation of potential consumer demand
- ▶ From 2005 - 2015, hospital admissions for ophthalmology reached 20.96% of CAGR
- ▶ From 2005-2015, the total revenue of ophthalmology reached 24.03% of CAGR.



Various policies to encourage and guide

In October 2016, the National Health and Family Planning Commission released the «Thirteenth Five-Year Plan for the National Eye Health Plan (2016-2020)» to improve the coverage, accessibility, fairness and effectiveness of ophthalmology services and set forth the following objectives:

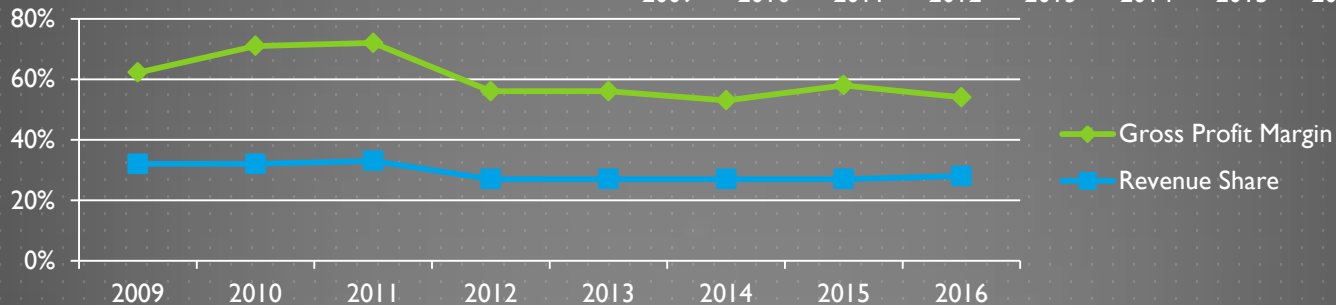
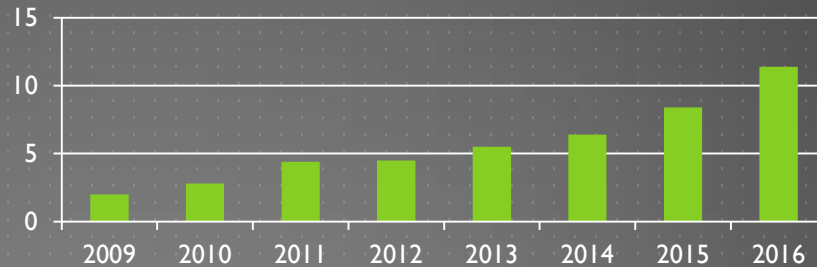
1. Further improve CSR (annual cataract surgery rate of millions of population), targeting national CSR to reach over 2,000 by the end of 2020 (currently about 1400)
2. Further strengthen early diagnosis and treatment of eye diseases such as diabetic retinopathy
3. Focus on screening and correction of refractive errors in children and adolescents

In August 2017, the National Health and Family Planning Commission approved small and medium-sized ophthalmology hospitals to independently establish medical institutions, allowing social forces to invest and cooperate for group operations

3. Business Introduction — Refractive surgery: Proportion of High-end Surgery to simultaneously achieve Volume and Price Increase

- ▶ In 2012, operating income of refractive surgery were lower, but began to rapidly grow due to technological advancements. Gross margin of refractive surgery increased, with post-2012 revenue kept steadily above 27%

Refractive Surgery Revenue (100 Million Yuan)

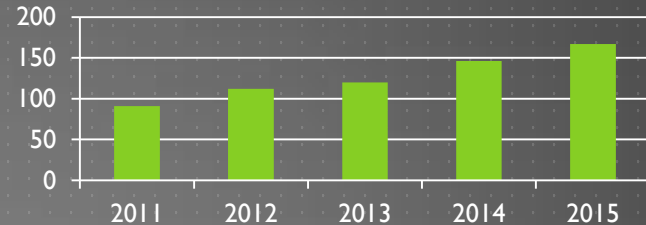


Source: Company's Annual Report

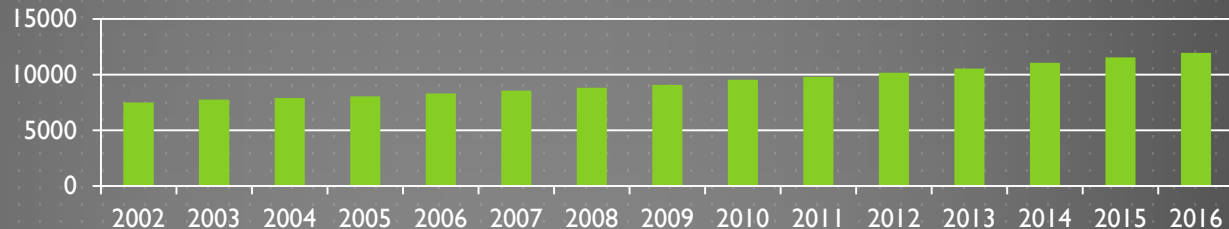
3. Business Introduction—Cataract business: High Incidence, Low Operation Rate, Vast Potential

- ▶ A large population with cataract issues exists in China, but the operation rate is low. This implies a large untapped market for cataract surgery
- ▶ At present, the compound annual growth rate of China's cataract surgery is 16.3%, which indicates an obvious growth trend

**China Cataract Surgery
Volume (million cases)**



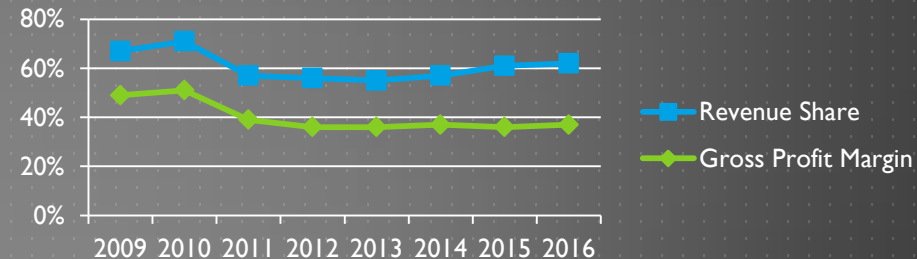
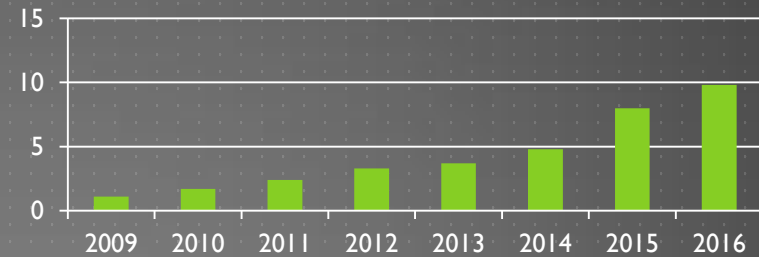
Number of Cataract Patients (in millions)



3. Business Introduction — Cataract Business: High Incidence, Low Operation Rate, Vast Potential

- Operating revenue of cataract surged significantly since 2014, mainly due to the promotion of new ICL femtosecond technology compounded with the increase of the operating unit price
- In 2016, cataract surgery revenue growth rate declined mainly due to “Wei Zexi” incident, to promote and lead cataract surgery standardization
- Cataract surgery only needs solid attributes for a rapid recovery in the first half year

Cataract Surgery Revenue
(in 100 million yuan)



Source: Company's Annual Report

4. Development Direction — Create a Full Range of Ophthalmic Medical Ecosphere

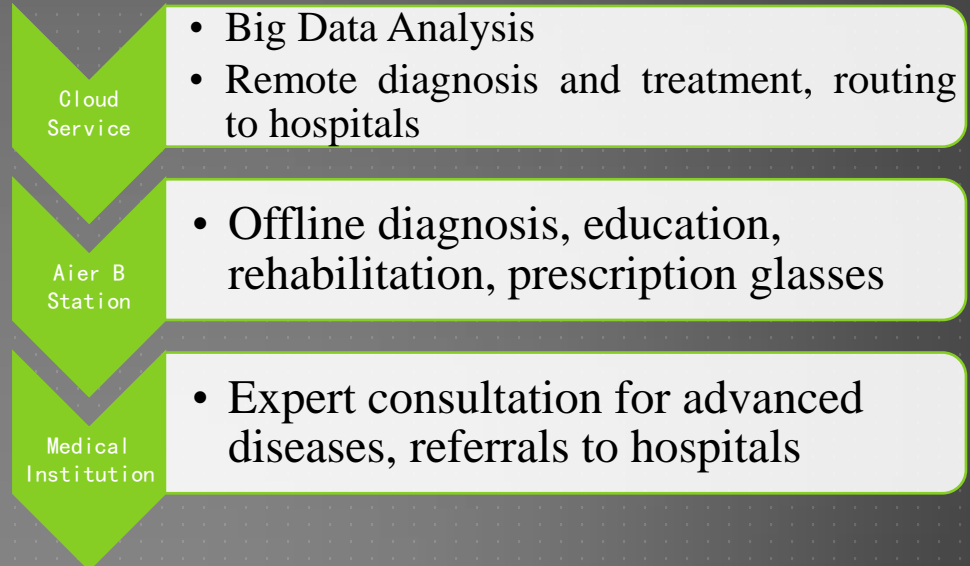
▶ Connect Hospital Network Ecology

Development of medical standards will be driven by the constructions of first-class hospitals in central cities

Eye clinic centers will be built in provincial capital cities

Become local eye center to provide patient delivery in the entire network

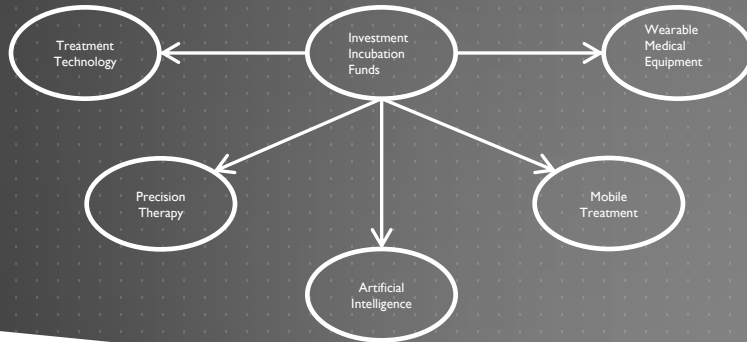
• Health Management Ecology



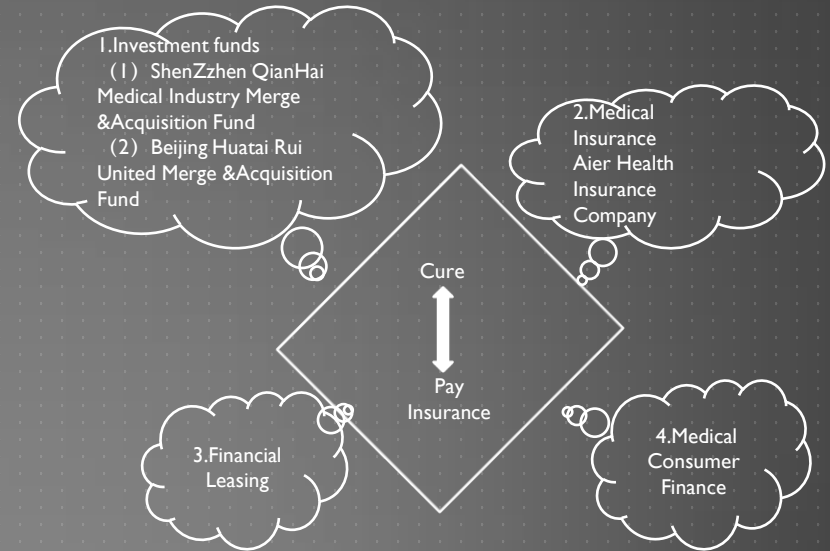
4. Development Direction — Create a Full Range of Ophthalmic Medical Ecosphere

- Science and Technology Innovation Ecology

Aier Global Technology
Innovation Investment
Incubation Fund



- Medical Financial Ecology



4. Development Direction —

Epitaxial Mergers and Acquisitions Resulting in International Giants

- ▶ Chain hospital model can be highly replicable. In addition to the self-building in some cities, the majority of publicly listed companies, obtained through industry mergers and acquisitions funds, have matured into operation. The current internal and external Eye Hospital 180 covers more than 30 provinces and cities nationwide, with only 76 listed companies in the system. At the end of 2016, the company announced plans to start injection into the first nine external hospitals, and the next two years will usher in the climax of corporate mergers and acquisitions.
- ▶ The acquisition of Hong Kong's leading ophthalmic medical compression axis medical group and the US high-end eye center Wang Vision has also been completed. On August 10th, 86.8% acquisition of the Clinica Baviera, SA, Europe's largest ophthalmic medical chain, has been completed, expanding it worldwide. With such globalized acquisitions, the giant international chain of eye hospitals have taken shape.

5. Profit Forecast and Valuation

- ▶ Leading the service level of the industry is the primary source of the company's rapid growth, and the expanding market demand ensures that the company will continue to grow steadily. As the company's operating capability and brand reputation increase, the overall incubation period will be shortened and newly-built hospitals will achieve rapid profitability with immense room for future developments. It is estimated that the company's hospital revenue in 2020 will reach 10 billion yuan.
- ▶ Without considering the impact of the extension of the consolidated table, forecasted are 17-19 basic EPS 0.50 yuan, 0.65 yuan, 0.85 yuan, which are increases of 35%, 31%, 32% respectively. Corresponding PE were 52x, 40x, and 31x respectively. In comparison, the company's medical service industry-wide PE level were 80x, health checkup chain of beauty health PE were 121x, and dental interlocking medical policy PE were 60x. As for the eye specialist hospital chain, the company's PE-Band fluctuation ranges between 50x – 80x, giving the company 60x in the 2018 PE valuation. As the target price of 39.6 yuan in the next 12 months currently has 41.4% upside, it is highly recommended to buy in.