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**National Vision Holdings, Inc. (EYE)**

Q2 2024 Earnings Call Transcript

## CORPORATE PARTICIPANTS

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## PRESENTATION

**Tamara Gonzalez, Vice President-Investor Relations, National Vision Holdings, Inc.**

Thank you, and good morning everyone. Welcome to National Vision’s second quarter 2024 earnings call. Joining me today are Reade Fahs, CEO and Melissa Rasmussen, CFO. Our earnings release issued this morning and the presentation accompanying our call are both available in the Investors section of our website [nationalvision.com](http://nationalvision.com). A replay of the audio webcast will be archived in the Investor section after the call.

Before we begin, let me remind you that our earnings materials and today’s presentation include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties that could cause actual results to differ materially from our expectations and projections. These risks and uncertainties include but are not limited to the factors identified in the release and our filings with the Securities and Exchange Commission.

The release and today’s presentation also includes certain non-GAAP measures. Reconciliation of these measures is included in our release and the supplemental presentation. We would like to draw your attention to slide 2 and today’s presentation for additional information about forward-looking statements and non-GAAP measures. Further, please note that all financial measures in today’s commentary are based on a continuing operations basis unless otherwise noted. As a reminder, National Vision provides

investor presentations and supplemental materials for investor reference in the Investors section of our website.

I will now turn the call over to Reade. Reade?

**L. Reade Fahs, Chief Executive Officer and Director, National Vision Holdings, Inc.**

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Thank you, Tamara, and good morning everyone. Thank you for joining us today. Over the past two years, we've been working to rapidly adapt to new market realities. This included the successful launch and expansion of remote exam capability, changes to how we approach doctor scheduling, various pricing actions and increased digitization of key parts of our business. While these initiatives have brought valuable changes to the way we operate, we acknowledge that we are not yet delivering the financial results we anticipated at this point in the year.

In addition to the transformation activities we've had underway, we are taking new actions to accelerate improvement and strengthen our foundation. We've initiated a comprehensive review of our store fleet and we are welcoming new leadership to our team to bring fresh eyes and perspectives. Before we dive into that discussion, I will briefly review our second quarter highlights. Melissa will then discuss our financial results and outlook in more detail before we open the call for questions.

Revenues in the second quarter were \$452 million, up 4.6% over this time last year. Adjusted comparable store sales improved from the first quarter to 2.4% due to improved performance at America's Best, which increased 2.9%. Adjusted operating income increased 13.8% to \$14.1 million. This resulted in adjusted diluted earnings per share of \$0.15.

Our Eyeglass World brand continues to make progress. We saw sequential improvement in comp store sales from the first to second quarter as efforts to energize the brand begin to have an impact. We continued to see quite healthy traffic from managed care customers. This is particularly evident at America's Best where we saw high-single digit comps for managed care. I believe this performance reflects growing knowledge amongst managed care customers that their money goes further shopping with us.

Comp sales from cash pay customers was essentially flat to last year at America's Best, a notable improvement from the low-single digit negative levels we saw in the first quarter. That said, we saw heightened macro consumer pressure, and as a result, our second quarter sales results, while positive, needed to be higher to give us confidence that the back half would accelerate and deliver full-year comparable store sales growth in the mid-single digit range as our original guidance contemplated.

As such, we have revised our guidance accordingly. This revision reflects results year-to-date and a change in our expectations in the back half, which now assumes current trends generally continue. Melissa will review this in more detail in her remarks.

Now let me turn to discuss our strategic initiatives and the areas in which we're accelerating our transformation. Since establishing our key strategic initiatives two years ago, we've made significant progress to strengthen our foundation for growth, including rapidly expanding and evolving our remote exam capabilities, implementing more flexible schedule options for optometrists, executing various pricing actions and promotions, implementing EHR and digitized patient records and rightsizing cost structure in connection with the exit of the low-margin Walmart partnership and AC Lens operations. But we need to do more to accelerate both the pace and rigor of our transformation to drive profitable growth.

This brings us to our recent announcements with respect to leadership and store optimization. I'll start with recent leadership changes. First, Patrick Moore, our Chief Operating Officer and former Chief Financial Officer, announced his intention to retire at the end of this year. From our pre-IPO days dating back to 2014 through today, Patrick has been instrumental in leading our business and we're deeply grateful for his partnership, counsel and contributions over the last 10 years. Patrick will soon shift to an advisory role focused on supporting the leadership transitions.

Next, I would like to extend a warm welcome to Alex Wilkes, who's been named as National Vision's President and will be joining us on August 19. Alex is an exceptional leader and brings a depth of experience across all areas of the optical industry. Alex joins us from CooperVision, where he served as President of the Americas. He was formerly general manager of Pearle Vision and previously held an optometric leadership position with LensCrafters. He's held executive positions at two of our largest suppliers, CooperVision and EssilorLuxottica. This, coupled with his proven track record of driving sales and profit growth and an ability to develop market shifting strategies, will be tremendously additive to our go-forward transformation efforts.

And last month, we announced our new Chief Stores Officer, Mark Banner. Mark is deeply experienced in retail operations in categories requiring consultative selling like optical and in leading sales and real estate teams, both of which are critical elements to our transformation plan. He shares our people-oriented belief in culture as a competitive advantage. And in the month or so since he joined us, he's really hit the ground running. Between Alex and Mark, there's a wealth of talent and fresh perspective that we're bringing to the National Vision team. Both will work very closely with myself and Patrick to make sure the transition is seamless.

As we look to strengthen our foundation, we are actively reviewing all stores to optimize our fleet to drive growth and profitability. We are approaching this review with heightened scrutiny in light of the current operating environment and in a disciplined, thoughtful manner. Following our review, we will act on stores that are not meeting our profitability objectives by either closing, converting or implementing improvement plans, among other measures. The initial screen of the stores is less than 5% of our total fleet. Our comprehensive review will consider many factors beyond financial impacts including market and long-term strategy to ensure all actions taken will be accretive to both short and long-term profitability and strategic goals. We will provide updates next quarter as this initiative progresses.

Concurrently, we're planning for 2025 and considering new store openings at a level appropriate for incremental free cash flow generation and healthy growth. We'll have more to share on this in the coming quarters as well. Our most important near-term priority is to continue to strengthen our core business. We're committed to doing this in a disciplined manner, and this is particularly important as we move to capitalize on our white space opportunity longer-term.

The next aspect of our transformation involves new initiatives to continue to add to our exam capacity. This includes adding late-day exam appointments, remote exam expansion, recruitment and retention initiatives. In the second quarter, exam schedules at America's Best locations were updated to increase the number of appointments at the end of the day. Results-to-date have been positive. We're seeing more patients when they want to be seen.

Additionally, our remote technology solution continues to progress well in helping address capacity issues. We've officially enabled nearly 600 stores across 28 states. We hit a milestone when the 500,000th remote exam was conducted and remote doctor productivity levels continue to improve. Remote exams now represent about 12% of exams in remote-enabled states. We expect this to continue to grow.

And as we shared last quarter, we began implementing remote in Texas, and I'm pleased to report that early results are encouraging. With that said, we do expect some of the benefits from our Texas expansion to be offset by lower-than-expected results with this year's OD recruitment class, which we did not have a full picture on until early summer based on the timing of new grad recruiting and acceptance seasonality. We're being prudent in our assumptions for this impact and trends in OD retention into the back half of the year, which are reflected in our guidance. Aligning exam capacity to patient demand remains a top priority for our teams.

We're actively investing in technology, tools and initiatives to optimize and expand capacity. As I reflect on the past few years, I'm very pleased with the additional exam capacity that our remote care technology has added, and I believe it can play an ever larger role moving forward. During the quarter, we also rolled out and are investing in new sales driving initiatives that we mentioned on our last call, which are showing early signs of success as reflected in the increased traffic and slight improvement exam conversion that we saw in the quarter.

With that said, let me share a bit more about our approach to marketing overall. We're a full funnel marketer with the majority of our spend in the upper funnel focused on awareness and the lower funnel primarily focused on exam appointment generation. So you should think of our spend as sort of an hourglass shape. At the top of the funnel we spend on both traditional national network TV and on streaming and online video platforms like YouTube. In the middle of the funnel, we spend on social and display ads. At the bottom of the funnel, we spend on multiple platforms like Google, designed around getting people to book an exam appointment, primarily search-related spending. We feel good about our top of funnel as our awareness in the second quarter hit a record high level for us. We likewise are confident about our bottom of the funnel as our share of voice across the exam and optometric terms outpaces our competitive set.

We continue to balance our marketing investments in key channels that have driven the highest returns while stimulating demand by testing new promotional messaging and events such as the recent launch of our Wise Buys Sales Event. The event launched at the end of June and involve limited time sales promotions, such as a first time ever offer on progressive glasses at two for \$129.95 and a rollback to our historical base offer of two for \$69.95 for single vision glasses. We believe events such as these can further attract new and existing customers, and are pleased with the initial results they have contributed.

As we think about the future possibilities, I often say that the eyes are a window in the broader health and the role that vision care plays in a person's general health is vital. We continue to actively evaluate AI technologies and solutions in both the optical and healthcare industries and continue to be pleased with our investment in the AI startup, Toku Inc. When it comes to applying AI to healthcare, National Vision has built a unique and valuable asset. We have one of the largest employee doctor networks in the country, including one of the largest networks of installed retinal cameras. We're moving to a common set of electronic health records and are playing a role in the innovative AI solutions to serve patients.

While in the near term, we are navigating an uncertain macro environment, we're continuing to invest in our future and taking actions to ensure our foundation is strong. We are welcoming new leadership and taking a disciplined approach to our store fleet while also executing on strategic initiatives to drive demand and expand exam capacity. I remain confident in the opportunity that lies ahead.

One final point before I turn it over to Melissa. Last week we announced the appointment of Caitlin Zulla to our board of directors. Caitlin is an outstanding executive and I'm very pleased to have someone of her caliber on our board. She brings a unique perspective to our boardroom that combines a broad understanding of the healthcare continuum and financial expertise, all of which will be helpful to us as we move forward.

In closing, I want to especially thank our store teams and doctors for the dedication to patient and customer care they exhibit every day.

And with that, I'll turn the call over to Melissa. Melissa?

**Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.**

Thank you, Reade, and good morning everyone. As Reade shared, we are implementing new actions to drive improved performance amidst the challenging consumer environment. Before I discuss our outlook, let me review our second quarter results in more detail.

As we have now completed the exit of our Walmart and AC Lens businesses, my remarks today will be focused on continuing operations unless otherwise noted. Please refer to our supplemental earnings presentation, which includes the unaudited results recast by quarter for 2023 and 2024.

For the second quarter, net revenue increased 4.6% compared to the prior year, driven primarily by new store sales in comparable store sales growth. Unit growth in our America's Best and Eyeglass World brands increased 6% on a combined basis over the total store base last year, and we ended the quarter with 1,216 stores. Adjusted comparable store sales growth for the quarter was 2.4%, driven by a 1.9% increase in customer transactions and 8.4% increase in average ticket.

These trends reflect sequential improvement from the first quarter, with June being our strongest month of the period as our newly launched sales initiative started gaining traction. We have added historical average tickets and traffic data in our second quarter earnings supplemental presentation posted on our website.

We continue to see strength in managed care trends as growth in managed care sales continues to outperform cash pay sales growth. Our cash pay sales comp continues to be driven by positive ticket, but we have seen our cash pay customers tighten their spending with fewer add-on purchases like lens upgrades and ancillary advanced purchases. As a percentage of net revenue, cost applicable to revenue increased approximately 110 basis points compared with the prior year quarter. This resulted in gross margin decrease of approximately 110 basis points, driven primarily by a decrease in eyeglass revenues offset by increased eye exam revenues.

This mix shift from eyeglasses to exams was primarily driven by lower utilization of our two-pair offer in America's Best, in part due to other product promotions during the quarter and fewer lens upgrades and add-on offering. Exam revenues were aided by pricing actions and growth in exam count and more than offset the deleverage in optometrist related costs.

Adjusted SG&A expense as a percentage of revenue decreased 120 basis points compared with the second quarter of 2023. The decrease in adjusted SG&A as a percentage of net revenue was primarily driven by a decrease in performance-based incentive compensation, based on underperformance of current year expectations and lower advertising expense. These lower costs were partially offset by increased occupancy and other operating expenses. Depreciation and amortization expense was \$22.7 million compared to \$22.1 million.

Adjusted operating income was \$14.1 million compared to \$12.4 million, and adjusted operating margin increased approximately 20 basis points to 3.1% compared to the prior year period, due primarily to the factors previously discussed.

Net interest expense was \$3.2 million compared to \$1.8 million in the prior year period. As a reminder, our interest guidance excludes non-cash mark-to-market and deferred financing costs, which total \$3.5 million. Excluding these costs, interest income was \$0.3 million.

Adjusted diluted EPS increased to \$0.15 per share in the second quarter of fiscal 2024, from \$0.12 per share a year ago, and reflects an effective tax rate of approximately 18%, which is consistent with the prior year.

Turning to our year-to-date financial results. On a continuing basis, net revenue increased approximately 4.2%, driven by new stores and adjusted comparable store sales growth of 1.3%. Adjusted operating margin increased 10 basis points compared to the prior year period, driven primarily by the same factors which impacted the second quarter that I just reviewed.

Moving to discontinued operations, as noted in our press release, beginning in the second quarter both Walmart stores and AC Lens operations are now accounted for in discontinued operations. Year-to-date, Walmart store operations delivered approximately \$18 million in revenue and an adjusted operating loss of approximately \$600,000. And AC Lens operations delivered approximately \$114 million in revenue and adjusted operating income of \$1.3 million. During the second quarter, to support a smooth transition and maintain required service levels, we transitioned AC Lens operations in a phased manner beginning in early June, which negatively impacted revenue in the second quarter.

Please refer to the second quarter earnings supplemental presentation posted on our website for additional details regarding our discontinued operations. Please see our press release for detailed reconciliations of our quarter and year-to-date adjusted results to the most comparable GAAP measures.

Turning next to our balance sheet. We ended the quarter with a cash balance of approximately \$179.5 million and total liquidity of \$473 million, including available capacity from our revolving credit facility. As of the end of the quarter, our total debt outstanding was \$456.8 million, net of unamortized discount. And for the trailing 12 months, net debt to adjusted EBITDA was 1.9 times. Our available liquidity allows us to have flexibility as we actively evaluate settlement options for the convertible notes maturing in May of 2025.

Year-to-date, we generated operating cash flow of \$75.4 million and invested \$39.6 million in capital expenditures, primarily focused on new store openings and investments in remote technology. We continue to maintain a strong balance sheet and healthy cash flow to support our growth in capital allocation priorities.

Turning now to our fiscal 2024 revised outlook for continuing operations, which includes our Owned & Host and Corporate/Other segments. One e-commerce website, DiscountContacts.com, previously operated by AC Lens, was retained under the National Vision umbrella and will continue to be reported in Corporate/Other segment.

When we last spoke on our first quarter earnings call, we discussed that we would need to see a greater improvement in comp trends as we progressed through the year to deliver results towards the high-end of our guidance range. While we have seen an improvement in trends from the start of the year, we did not see the degree of improvement in the second quarter that was necessary to give us confidence that we would see an acceleration in comps contemplated our original second half expectations. As such, we are revising our outlook to reflect year-to-date trends and updated expectations for the remainder of the year.

With adjusted comparable store sales of 1.3% to date, achieving the low-end of our prior range would imply a mid-single digit comp trend level for the remainder of the year, which we have not seen in the current environment. While we are seeing early positive results with the expansion in Texas and other new sales initiatives, given our performance to-date in our expectations for the second half, we are taking a prudent approach in revising our guidance accordingly. Our guidance reflects our most current views for customer and patient demand, exam capacity and various sales improvement initiatives.

On a continuing basis, we now expect revenue to be in the range of \$1.82 billion to \$1.84 billion, based on an adjusted comparable sales growth range of 0.5% to 1.5%. We now expect adjusted operating income to be in the range of \$57 million to \$62 million, and for adjusted diluted EPS to be in the range of \$0.45 per share to \$0.50 per share.

As you look at your models for the back half, on a continuing basis, we expect adjusted operating margin to be flat-to-up approximately 50 basis points. We expect to see a relatively similar level of year-over-year gross margin contraction and adjusted SG&A leverage that we delivered in the first half of this year given the trend we have seen to-date, including the impact of lower performance-based incentive compensation.

As a reminder, our fourth quarter is historically our smallest quarter of the year and therefore would expect sales growth and operating margin performance to be more heavily weighted to the third quarter. Please refer to our press release and supplemental slide deck for additional details on our outlook.

Looking further ahead, as we have previously discussed, achieving our mid-single digit operating margin target for fiscal 2025 was predicated on fiscal 2024 results, reaching the midpoint of our original guidance, and a return to mid-single digit adjusted comparable store sales growth. Given our updated outlook for fiscal 2024 and assuming no change to the macro environment, we expect to target a similar adjusted operating margin profile in 2025, that is now expected for 2024.

While our return to mid-single digit operating margins is taking longer than planned, and there are many factors that contribute to planning, achieving this objective remains a top priority. We will share formal 2025 guidance in connection with our fourth quarter results.

As Reade shared, while we constantly review our store fleet, our threshold for underperforming stores has intensified, and we are planning to be increasingly discriminate in our expansion plans for 2025 to ensure we are maximizing performance. We look forward to sharing more on our plans once our review is completed in the coming quarter.

While we continue to navigate near-term challenges, I want to reiterate our confidence in the long-term opportunity we see ahead and believe the actions we are undertaking today will strengthen our foundation so we can better capitalize on growth going forward.

Thank you for your time today. I will now turn the call over to Reade for closing remarks before we open the call for questions. Reade?

**L. Reade Fahs, Chief Executive Officer and Director, National Vision Holdings, Inc.**

Thank you, Melissa. During the second quarter, our transformation entered a new phase. We announced new leadership, bringing fresh eyes on our business who will complement our tenured team. And we're conducting a review of our store fleet to advance our profitability objectives and ensure we have a strong

foundation for future growth. We're taking new actions to drive sales, improve efficiencies, and expand exam capacity.

While this transformation will take some time, we are grounded in the reality of the effort ahead and are confident we are investing in the right resources and have the right talent to ensure success. My confidence in the future of National Vision is unwavering. We are intently focused on long-term shareholder value, the successful execution of these initiatives will be the driver of that value.

With that, I'll turn the call over to the operator for your questions.

## **QUESTION & ANSWER SECTION**

***Michael Lasser, UBS Securities LLC***

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Good morning. Thank you so much for taking my question. So Reade, if you look back prior to the pandemic throughout the early-to-mid 2000s and 2000s and teens, National Vision has a long history of growing its same-store sales in the mid-single digits. What has changed either about the industry or National Vision that has made returning to that consistent pace of growth more difficult, because that track record occurred both during good economic periods and not so good economic periods?

***L. Reade Fahs, Chief Executive Officer and Director, National Vision Holdings, Inc.***

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Yes, Michael, we had long consistent track record of comparable store sales growth consistently in the mid-single digit range. What changed? Post-pandemic was three things. There was a disruption in the purchase cycle that occurred, because so many people, especially our customer with the stimulus money they got, bought in 2021 and that disrupted the purchase cycle. Our customer bought the best pair of glasses they had ever had at that point in time. Also, as with so many other healthcare professions, medical people retired early and cut back the number of days that they traditionally worked. And so that led to for us an optometric shortage. We had always said that we never have as many doctors as we want to have, but the situation became more challenging after COVID.

And then finally, the inflationary trends – trends increased significantly over the recent year-and-a-half, two years, and that affected our customer significantly. What we did at that point in time was that was when we started to really get behind remote medicine as a way to counteract the challenges related to our doctor coverage. And boy, am I glad we did. And that just keeps going from strength to strength and helps us ever more in that area. We implemented flexible schedules to help to increase our retention. We executed various pricing actions to help us keep up with the inflationary pressures on our business. And we digitized various aspects of our business, including our medical records and sort of an EHR system for our doctors, which they also liked.

So to answer your question succinctly, there were a lot of industry factors that require us to transform our business to adjust to the new realities. We have been doing that and have been pleased with those results, but we need to accelerate that now given we haven't hit our targets yet to get back to the mid-single digit comps and operating income margin that we are craving there.

***Michael Lasser, UBS Securities LLC***

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And my follow-up question is based on all those answers, it seems like the cost of doing business is going up through having to invest more in optometrist wages, marketing more and being more promotional. So with that being said, is that the reason why you think next year's operating margin rate is going to be flat

to this year? And if the business can't get back to a mid-single digit same store sales growth rate, what else can be done to improve the profitability? How much of there – is there an opportunity to improve the profitability from rationalizing the store portfolio? Thank you very much.

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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Hey, Michael. Yes, the cost to do business has certainly increased and we're seeing that with doctor wages in addition to other associate wages, and just cost of benefits and things like that. So, yes, we are in fact seeing those higher cost to do business and we do operate a high fixed cost model. And where we've historically been at mid-single digits to leverage that cost model, we're always looking for ways to make that more efficient and be able to leverage our cost structure at less than a mid-single digit and that through technology advancements and other initiatives that have been put in place. And so with that, yeah, to Reade point, we had worked on the EHR implementation in digitizing our store. In addition, it has been back office. As we look to become more and more efficient, we expect that we would be able to reduce our cost structure in such a way to be able to leverage at less than a mid-single digit range in the future.

***Michael Lasser, UBS Securities LLC***

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Thank you.

***Simeon Siegel, BMO Capital Markets Corp***

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Thanks. Hey, good morning, everyone. I hope you're having a nice summer. Do you – how is the range of sales productivity across the fleet? I am just wondering, is there a notable divergence across maybe the quartiles for average revenue per box, maybe unit level economics? So just as you're thinking about the store optimization, like how are you approaching that? And do you already know that there is some discrepancies across?

And then, congrats on the higher exam revenues. Can you quantify the order of magnitude there of that growth? Maybe a simplistic question, but just when you think about like are you at full capacity, just trying to think through the trajectory of the improving eye exam revenues versus the goal to improve exam capacity? Thank you.

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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Hi, Simeon. So, yes, there is a divergence across the fleet that we see. We have clearly had the America's Best fleet has performed the best and our Eyeglass World brand to our previous comments is needing to be improved and we're working intently on getting performance improvements in place there. That being said, for the quarter, we saw America's Best comps at 2.9% and EGW while at a negative 0.5%, that was a sequential improvement from the prior quarter. So some of the operational efficiencies that we're putting in place are certainly gaining traction in that brand.

And as we look to do the higher – I'll move on now to the higher exam revenue. We put in place some exam pricing increases in December of last year. Part of that was to offset some of the profitability gap that we were seeing from our evolving business. And now that we have gotten past the Walmart, AC Lens exit, we're still seeing the lift in that exam revenue. However, we are seeing a divergence in revenues throughout the product and services line. So we're seeing some behavior changes as it relates to our cash pay consumer and some of that's related to promotions that we've been running in addition to different purchasing desires. So we're seeing less add-on purchases when people come in and purchase glasses versus the exam pricing that has been sticking relatively well.

***Simeon Siegel, BMO Capital Markets Corp***

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Great. Thank you. That's really helpful. Just follow-up on the first one. Sorry, I actually meant more within each brand's specific fleets, is there a divergence? So as you think through, as you're looking across and you're going to do this, you're going to look at all of your stores. So I was just wondering if there's a big divergence in each individual brands, average revenue per box and their own profit contribution?

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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Yeah. As far as each individual brand, and it largely boils down to capacity and demand where we're seeing the capacity meet the demand that we have, we're seeing more success in those stores. And that's one of many factors that we'll keep looking at while we do our fleet review. And the fleet optimization has a array of factors that we'll be evaluating and matching the product or the doctor capacity with the patient demand, is certainly one of the factors that will be paying close attention to.

***Simeon Siegel, BMO Capital Markets Corp***

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Great. Thanks so much. Best of luck for the rest of year.

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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Thank you.

***Anthony Chukumba, Loop Capital Markets LLC***

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Good morning, and thanks for taking my question as well. I guess my first question is just on what you're seeing in the third quarter today, particularly with start of the back – of back to school and how your current promotion have kind of played into that, so the two pairs of eyeglasses for \$69.95 and two pairs of glasses for \$129.95?

***L. Reade Fahs, Chief Executive Officer and Director, National Vision Holdings, Inc.***

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So, July looks like so many others out there, we were impacted by weather and the global IT challenges. So it was a little weaker than June, but still comping positively. But that's sort of the fact that July was not demonstrating the inflection point was another factor in our decision to lower guidance. And it's – still, it's too early to really say anything about back to school.

***Anthony Chukumba, Loop Capital Markets LLC***

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Got it, fair enough. And then just clarification. So, you mentioned in terms of this potential store rationalization, it's like sort of a mid-single digit percentage of your fleet. Just high level, like is there a correlation between, I guess those underperforming stores, and I'm assuming there's a correlation between those underperforming stores and optometrist capacity. And I'm assuming a lot of those stores are darker dim stores. Is that a reasonable assumption?

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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Hi, Anthony. That's one of many assumptions going into this rationalization. There are a mix of reasons. Our fleet review is an ongoing exercise. And based on where we are with this current macro environment and company profitability, the purchase cycle disruption that was encountered through pandemic and now

post-pandemic, seems to be the reality of where we are in today's environment. And so with that we are tolerant for how long it would take a store to recover from that period of time or return to the historical profitability, has changed. And so, we're looking to evolve the brand and make sure that we have heightened scrutiny as we go through this fleet review. And again, it'll be many factors. It'll be dark and dim, it'll be market driven, it'll be performance of stores, individual operational changes, one of many factors.

***Anthony Chukumba, Loop Capital Markets LLC***

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That's helpful. Thank you.

***Kate McShane, Goldman Sachs & Co. LLC***

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Hi. Good morning. Thanks for taking our questions. This has been asked somewhat a little bit already, but what we're trying to figure out is, at this point with the amount of self-help that you've done with the rollout of remote and other initiatives that you have with marketing and the doctor scheduling, how much of the comp weakness is a macro factor versus leaving sales on the table?

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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Yes. So there is a combination certainly there, Kate. And we're working to match our level of capacity to match patient demand, and that is the purpose of the remote technology. While we continue to evolve that remote technology, we'll be able to balance the demand with the capacity and with the doctors working less hours or less days, that's something that we're constantly having to balance. And we're always looking for the most efficient manner to deliver exams for our patients. And so it is a mixed bag, it is a combination of the two.

***L. Reade Fahs, Chief Executive Officer and Director, National Vision Holdings, Inc.***

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And in this environment, we focus on what we can control there and there are levers that we can use. The remote technology is one. I just want to point out that late appointments program that we put in place, that's also a lever that was net positive in terms of overall capacity for us.

***Kate McShane, Goldman Sachs & Co. LLC***

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Thank you. And if we could just follow-up on Texas and then remote rollout there, can you update us on, if that's been fully rolled out? And are there any expectations for things to change in other states that unlocking or remote rollout in the future?

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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Yes, the Texas rollout we started with the dark and dim stores. There were 25 dark and dim stores in Texas, all have been enabled with remote capabilities. There is a total of a little bit over 140 stores in Texas. We will continue to implement all of those stores. However, like I said, we started with the dark and dim, we've seen early positive traction on those stores and we'll continue to roll that out, expect to have all of Texas completed by the end of the year. And there are other states as well that will be focused on, and again it goes back to the legislation in specific states that where states becomes favorable to remote, we'll continue to deploy our technology.

***Kate McShane, Goldman Sachs & Co. LLC***

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Thank you.

***Zach Fadem, Wells Fargo Securities LLC***

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Hey, good morning. Reade, another history question. As this business generated both mid-single digit comps as well as another, call it, low- to- mid-single digit sales contribution from new stores, and now that times have evolved, curious what you think the right go forward sales algorithm for this business should be both in terms of industry growth, your comps and then the new store contribution? And then how should we think about the path back to this normalized level?

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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Hi, Zach. The algorithm has certainly evolved. The market, the overall competitive landscape, it looks like the industry is growing at about 3%. And with our new store growth and our established store growth, we're always looking to optimize that growth. Historically, it had been mid-single digit where we leverage our cost structure. And like I said previously, we expect to continue to find efficiencies to continue to look for ways to leverage that cost structure at a lower comp level. That being said, we still need to improve on top line to get back to the same store sales and be able to deliver the profitability that we want to deliver. And part of that is where we're going to be implementing the technologies that we've been working through to match patient demand with the capacity that we have with our remote program. And we'll continue to focus on recruiting and retention as well.

***Zach Fadem, Wells Fargo Securities LLC***

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Got it. Thanks, Melissa. And you also talked about lower utilization of your base offer due to other offers. And I don't know if I ever remember this being the case in the past, has this ever happened before? And then when you think about the softness in cash based customers, is this an industry-wide issue or do you think it's more so a change in your market share or mix?

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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Yes. So with our make-up of customers, we continue to have strength in our managed care business. We've been growing at mid-single digit positive comp in the managed care business, with the lower take rate on our two-pair offer. We ran some promotions during the quarter which contributed to that. We were – with those promotions the goal was to increase traffic and awareness amongst the lower income consumer and we certainly saw the pickup in traffic. We did see with that some changes in their purchasing patterns, which in part was due to the single-pair offer promotion that we were running. And managed care consumers don't typically participate in the two-pair offer because that's not something that managed care insurance pay for.

***L. Reade Fahs, Chief Executive Officer and Director, National Vision Holdings, Inc.***

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And on your industry question, yes, this – the cash pay customer is a factor for the industry. It's more of a factor for us because we're underdeveloped in the managed care segment. Again, managed care segment, high-single digits are positive comps in Q2, but we're still underdeveloped relative to the industry. And it's easier if you have – if the majority of your business is coming from managed care because that customer is not as cash focused since the insurance is paying for so much of their purchase.

***Zach Fadem, Wells Fargo Securities LLC***

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Got it. Thanks for the time.

***Simeon Gutman, Morgan Stanley & Co LLC***

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Hi, everyone. There's a lot of questions about historic average margin. If we look at some of the mature stores, Reade and Melissa, can you talk about where 4-wall margins land in some markets that are, I would call more successful. Meaning, if it's an issue of potentially overbuilding stores and there is a rationalization, might we get back to those type of productivity or profitability levels?

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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Yeah. As we go through the fleet optimization review, Simeon, we'll be looking to evaluate a multitude of factors. The 4-wall margin on our individual stores has been healthy overall. However, we do have some stores that are not meeting our profitability objectives and those stores will be evaluated as part of this exercise. And there will be a multitude of options that come out of this exercise as far as whether that's closure, conversion or operational changes within the store base, increased advertising, for example. And so, some of those are things that we'll be looking at, but overall we have seen healthy margins in both of our store base.

***L. Reade Fahs, Chief Executive Officer and Director, National Vision Holdings, Inc.***

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And we aren't thinking of this as an overbuilding of stores. We're thinking of this as places where there is coverage issues or real estate dynamics or operational execution, consistency, things of that nature. But we aren't seeing this as an overbuilding situation.

***Simeon Gutman, Morgan Stanley & Co LLC***

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Okay. And then Reade, this is the age old debate. We've talked about pricing and you've raised price a bit in the past. What's keeping you from either evaluating or raising prices now? Is there a governor around the price point in the industry that prevents you from taking price up again?

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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Yeah. Simeon, so we are evaluating pricing, that is something that we look at consistently. That being said, we have taken price in various places over the past several years and we balance those pricing actions with where we are in the marketplace. We look to make sure that we balance our pricing and growth appropriately and we run promotions to ensure that we can continue to take price, or if we have maybe taken too much price. We've seen that customers, however, are making purchasing decisions, we want to stay attractive to those customers. And while they're making purchasing decisions to potentially not upgrade as much or purchase add-ons, we are through there evaluating what makes most sense on our pricing levers.

***Simeon Gutman, Morgan Stanley & Co LLC***

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Okay. Thank you.

***Brian Tanquilut, Jefferies LLC***

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Hey, good morning. Maybe just to follow-up on that last question about being overstored and I hear your point, Reade. So as we think about expansion plans in the future, I mean does this also mean that we should expect maybe a slowdown in new builds going forward and that from a CapEx perspective or a free cash perspective, there should be a little bit of a lift down the road?

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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Yes. So, Brian, we've talked about previously that our new store plans have a long runway because of the amount of time that it takes to secure a lease to build a store. That being said, with the current macro environment, looking at our new store growth, we have determined that we will likely be bringing that down in the future. As far as the exact number, I can share more on that once we have finalized our 2025 plans. But we do expect that a part of not growing as many stores in 2025 would lead to additional free cash flow generation. And we'll continue to look for ways to produce healthy, profitable growth.

***L. Reade Fahs, Chief Executive Officer and Director, National Vision Holdings, Inc.***

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Yeah. And we think our white space opportunity remains the same. It's just given the current environment this now, it's just a matter of the pacing to get there.

***Brian Tanquilut, Jefferies LLC***

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That makes sense. And then, Melissa, maybe anything you can share with us as we think about the 2025 notes coming up for maybe refinancing?

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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Yes. So, our strong balance sheet and our cash position and the unutilized revolving credit facility that we have, provides us with some flexibility as we actively look for settlement options for the upcoming notes. We currently have enough liquidity on hand that we can continue to evaluate and take action when it makes sense to do so.

***Brian Tanquilut, Jefferies LLC***

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Awesome. Thank you.

***Brandon Cheatham, Citigroup Global Markets, Inc.***

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Hey everyone, this is Brandon Cheatham on for Paul. I was hoping to go back to the underperforming stores that you've identified, the 5% in your initial screen. Is there anything unique that you've been able to parse out about the lower performing stores? Are there certain vintage, certain location, urban versus suburban? And are a majority of those Eyeglass World? And how have the Eyeglass World that you switched in California to America's Best performed?

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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Yes. So, the overall assessment that we're looking to evaluate with the store optimization is less than 5% of our total store fleet, and that's across all of our brands. That being said, there is a mix between America's Best, EGW, et cetera. As we look to evaluate that there's not a specific geography or location,

it's a variety of factors. And we'll evaluate each individual store based on what makes sense for that specific location.

As far as the converted stores in California, they've only been converted – they've been converted for one entire quarter now. And as we look at that performance, we are seeing some improvements in some of the stores. We've seen some EBITDA lift in some of those stores. However, as with any new store, you have a ramp period and these stores are still in that ramp period. We are – they didn't have brand recognition in that market, and so we are increasing brand recognition and looking for other opportunities to invigorate the results going into those stores. But we do expect that there will be some ramp period.

***Brandon Cheatham, Citigroup Global Markets, Inc.***

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Got it. Thank you. That's helpful. And I'm hoping that you could help quantify what changed in your second half outlook. I understand recent trends are a little bit weaker than you expected, but how much of it is a renewed view on what you expect demand to be, maybe lower trade down or repurchase cycle that is not as strong as you expected versus second half doctor availability. Sounds like that also might be a factor. Just wondering if you can help quantify which bucket is really driving the reduction in the comp outlook?

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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Yes. So, as far as the outlook revision, there were a combination of factors. There was the year-to-date performance, the high-end macro concerns and we had some recruiting and retention trends that were little bit lower than we had expected. All three of these factors impacted our view of the back half. That being said, we have expanded exam capacity with our remote rollout in Texas, the late day appointments that we put in place and then the sales initiatives that we've put in place are also generating some positive momentum. We had a slow start to the year and we had said last quarter that we needed to see an improvement. While we did see an improvement as we went into second quarter and specifically June was strong, we did not see the degree of improvement that we needed in order to meet the back half of our guidance. That being said, we are being prudent in the view of the back half and lowering our guidance range for the year.

***Brandon Cheatham, Citigroup Global Markets, Inc.***

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I appreciate the time. Thanks, and good luck.

***Adrienne Yih, Barclays Capital, Inc.***

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Great. Thank you very much. Reade, I guess my question is on the macro pressure that you're seeing in the cash customer. There was a point a couple of years ago, few years ago, where we thought that they were deferring and then it would come back into the market. What do you think the dynamic is here? Where are they going? Are they forgoing or do you think there's a deferral and then another cycle that comes on the back of that?

And then, Melissa, what is the average lease life of your kind of preexisting fleet as we think about kind of the permanency of OD class sort of continuing to go up? I understand the IRR hurdle, sort of higher bar, but is there any thought that sort of across the chain that there's sort of a permanent 4-wall pressure on the overall contribution? Thank you.

***L. Reade Fahs, Chief Executive Officer and Director, National Vision Holdings, Inc.***

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So, as we said about the cash pay consumer, sort of the comps of the cash pay consumer was essentially flat in Q2 versus low-single digit negative in Q1. But as Melissa referenced, sort of they're coming in but they're not buying as many features as they had in the past. We do think we are maintaining market share, excluding the Walmart stores that we have exited, and these programs that we're doing the sort of Wise Buys programs that we talked about, the progressive's offer, the rollback, the temporary rollback to the two for \$69 (sic) [\$69.95], they're all designed to drive traffic from value seeking customers. And we've been encouraged by those, especially the progressive offer.

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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So our 4-wall profitability has certainly seen pressure, but it's still healthy. We continue to balance pricing with cost increases that we're seeing. And overall, our lease terms, to your question, they range between 5 and 10 years, depending on the specifics of that location.

***Adrienne Yih, Barclays Capital, Inc.***

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Okay. And then my follow-up is just, I guess it's an accounting question. The telehealth, the infrastructure for the telehealth, is it just an investment in CapEx or is there an ongoing kind of margin implication within the P&L or the 4-wall of the store? Thanks.

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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Yeah. So that's a mixed bag. The initial investment in technology is capitalized, but we do have a per click fee for exams that are offered through the remote technology. So it's a combination of both. But the large expenditure is an upfront capital expenditure.

***Adrienne Yih, Barclays Capital, Inc.***

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Okay. Thank you very much, and best of luck.

***Dylan Carden, William Blair & Co. LLC***

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Thanks a lot. What's the best guess here as to why you're not seeing more of repurchase cycle?

***L. Reade Fahs, Chief Executive Officer and Director, National Vision Holdings, Inc.***

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The answer is, our consumer base is cash strapped right now. I mean, this is not us, you're seeing it everywhere. There's just ongoing pressure. And consumers are trying to stretch purchases out. And I read about it in other sectors in The Wall Street Journal every day. It's out there, that's what's happening again. And look at our managed care business, high-single digit comps from the managed care side where it's not so much their money. And again we are pleased with the improvement in the cash pay customers and this is why we're testing a lot of different promotions along the way to try to really capture the value seekers and again, initially encourage.

***Dylan Carden, William Blair & Co. LLC***

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And then I guess, sort of blending that into the conversation on sort of the margin. I mean, it seems like you're kind of extrapolating current trends out, and whereas if you were to put yourself back to where you

kind of gave initial guidance, you were maybe hoping for more than...I guess the real question, what's the underlying comp assumption in not being able to return?

***Melissa Rasmussen, Chief Financial Officer, National Vision Holdings, Inc.***

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Yes. So, Dylan, you were a little hard to hear there. So I'm going to answer what I think you asked. And if that's not the case, then let me know. But basically with the slower start to the year and the heightened macro concerns and the recruiting and retention trends coming in a little bit lower than we had anticipated, we were seeing that we just didn't have the improvement in comps that we had expected in the first half, making the back half implied comp as a mid-single digit. Just based on where the year started, we've not seen those trends to-date. So, we've seen positive trends and we'll continue to expect to see positive trends as the year progresses. However, it's just not been as strong as we would have expected or liked it to be. We have, to Reade's point, seen some improvement in many of the things that we're putting in place. So the promotions that we've put in place have been driving increased traffic.

Some of those cash pay consumers that may have been sitting out likely came during the promotion that we did in second quarter. And then some of the promotions that we'll be doing in third quarter, have also seemed to have increased traffic. We've also expanded exam capacity at the end of the day, so that we can see patients at a time that they want to be seen. And we've seen some initial positive momentum coming out of the remote implementation in Texas. So with all of those factors combined, we feel that the revision is a true look at what our back half will be.

***Dylan Carden, William Blair & Co. LLC***

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Thanks. And I guess I'm talking to myself, my apologies for that. But if you can hear this one, just curious, remote care when you kind of first launched it, was thought to be a sort of incremental benefit to the model and now it feels like it's kind of just helping you cut water. Is there still a thought that long-term remote are incremental, positive revenue and margin normalized environment.

***L. Reade Fahs, Chief Executive Officer and Director, National Vision Holdings, Inc.***

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Yeah. Hi. You were breaking up and I think I've got it. So, we see remote as an important factor for where we are and where we're going. We think it is an important factor in expanding our exam capacity and we wouldn't be performing as we are without it. I will add that to some of the earlier questions about the costs and the margins related to it. Since we began this, remote has become ever more efficient for us in a variety of ways and we believe that we'll continue. Again, remote was a high-tech startup inside a traditional retailer. And it's been steadily progressing as we've learned more and just gotten better at it, and we think that will continue. And it is profitable and we're happy when there's a live doctor and there's a remote doctor, and we're happy they use it where it's dark, but it's just an expansion of capacity and you're going to be hearing more of it going forward, because just net incremental benefit and this is a great tool in addressing the OD situation that it currently exists in our industry.

***Dylan Carden, William Blair & Co. LLC***

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Thanks.

***L. Reade Fahs, Chief Executive Officer and Director, National Vision Holdings, Inc.***

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Thank you, Antoine, and thank you all for joining us today. We appreciate your interest and support and we're looking forward to speaking you on our Q3 call. Thank you all very much.

Operator: Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.