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National Vision Holdings, Inc. (EYE)

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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 third quarter 2024 earnings call. Joining me on the call today are Reade Fahs, CEO; Alex Wilkes, President; 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. A replay of the audio webcast will be archived in the Investors 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 include

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 in 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 presentation 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.

Thank you, Tamara, and good morning, everyone. Thank you for joining us today. I'll begin with a brief overview of our third quarter results and will then provide an update on the progress we're making to accelerate our transformation, including the actions we plan to take as a result of the completion of our store fleet review.

First, for the third quarter, revenues increased 2.9% to \$451.5 million. Sales were once again driven by strong managed care results, partially offset by softness in cash pay and lower e-commerce revenue. The trend in managed care strength offsetting performance from cash pay customers is in line with the trends facing the category based on recent reports from others in our space, as well as my ongoing discussions with industry leaders.

Adjusted comparable store sales were 0.9%, with America's Best comps at plus 1.2% and Eyeglass World at a decline of 0.9%. Eyeglass World was trending towards a positive comp quarter before Hurricane Helene hit. About 30% of Eyeglass World stores are in Florida, and thus, the brand was disproportionately affected by the late quarter storm. Adjusted operating income increased 22.2% to \$14.3 million. This resulted in adjusted diluted earnings per share of \$0.12.

Now, I'll turn to our strategic initiatives and the areas in which we are accelerating our transformation. This includes the results of the comprehensive review of our store fleet, the implementation of traffic-driving initiative, and our ongoing focus on expanding exam capacity. Last quarter, we shared that we were taking a hard look at our store fleet, as our threshold for underperforming stores has intensified given the current environment. The purpose of this comprehensive review was to ensure that our real estate investments are meeting higher standards with the goal of better optimizing profitability for the long term, as this will improve the overall health of the core business.

Today, we announced the results of this review, sharing that we plan to close 39 stores through 2026. This includes 21 America's Best stores, nine Eyeglass World stores, and nine Fred Meyer stores. As a result, we expect to deliver approximately \$4 million in adjusted EBITDA improvement by the end of 2026. We are grateful to the associates and affiliated optometrists in the affected stores and are working to maximize their transition to other stores where possible. We're also committed to ensuring that there is a seamless transition for the patients and customers who rely on us. As part of our review, we also identified four Eyeglass World stores that we plan to convert to America's Best by the end of 2024. These stores are all in the Detroit market, which America's Best has been in for 38 years, and thus, has significant brand recognition.

Finally, we announced today that we are temporarily moderating new store growth in 2025. We plan to open between 30 and 35 new America's Best stores next year, essentially all in remote-enabled states. Taken together, the store closures and moderating new store growth next year provide us with the capital

and dedicated time to focus on improving the patient and customer experience and operational execution in our current base of stores.

We are being intentional in taking this time to strengthen our comp base and plan to reaccelerate our new store growth plans towards our more recent opening cadence as our strategies begin to take hold, with a renewed focus on profitable growth. Our white space opportunity for growth is significant. As we shared with you earlier this year, our total opportunity is more than double our existing store count, with at least 2,500 total stores across our brands.

Turning next to our initiatives that are focused on driving traffic through new promotions, exciting new product launches, and expanding optometric capacity. This summer, we introduced our new Wise Buys promotion at America's Best to attract more customers via enhanced value perception messaging. We were especially pleased with the results from America's Best first-ever progressive's offer of two pairs for \$129.95, which includes an eye exam. Following this promotion, we've introduced a new entry progressive bundled offer that provides an ongoing everyday value.

We continue to see both promotion and price as viable levers in our ongoing transformation. When it comes to price, we offer a very attractive value proposition to our customers. We will continue to evaluate all aspects of our pricing relative to our position within our category to ensure that our value offering remains compelling to our customers, while also balancing the impact of cost inflation.

In the area of product, mid-quarter, we launched the Florence by Mills eyewear collection by Stranger Things star Millie Bobby Brown in our America's Best and Eyeglass World stores. As the exclusive retail partner in the US, we are able to provide our value-seeking customers with a fashionable and affordable selection that is tied to a popular celebrity.

And at the end of the quarter, we launched our exclusive partnership with Pair Eyewear nationwide at America's Best. Pair Eyewear is a leading, customizable, stylish and accessible eyewear brand that has to date only been offered online and is generating a lot of excitement. It involves a base frame with a variety of magnetic top frames that allow customers to easily customize their look and style. We've created an innovative, personalized shopping experience with a store-within-a-store concept, where customers can try on a variety of swappable top frames.

This is a win-win partnership. Pair gets access to doctors and store infrastructure, and we get to be the exclusive brick-and-mortar provider of a unique online brand experiencing strong customer interest. We have high hopes for what this can mean in terms of generating consumer excitement for this historically online-only brand and what it can mean to enhancing our fashion credibility with younger audiences. Lastly, with respect to our efforts in expanding exam capacity, we continue to leverage our remote capabilities to expand exam capacity. As our remote technology solution continues to advance, we are better able to address capacity issues across our fleet, as well as provide doctors with convenient new ways to practice. We now have over 730 locations enabled with remote technology. Remote exams represented about 11% of exams in remote-enabled states for the quarter. Encouragingly, this quarter, remote doctors' patients seen per day exceeded that of in-store doctors for the first time.

We also recently expanded our hybrid remote pilot to 16 stores. Recall this involves optometrists in stores remotely performing exams in other stores based on availability and demand. We have high hopes for the systemic enhancements this approach could potentially generate to see more patients. We believe our remote program is still in early innings and there continues to be significant opportunity and expected benefits.

We remain pleased with our previously announced decision to add incremental late-day appointments. We want to be there for our customers who are ever-more returning to traditional working hours. Our optometrist retention levels remain in line with our historical range of 80% to 90%. During the quarter,

we saw the lowest OD's resignations in Q3 since 2020. On the recruitment front, we're taking a number of steps to enhance recruiting success, providing additional support to those studying for their board exams, while also strengthening our internal recruiting team and its resources.

Overall, we're making progress against our initiatives, and we remain on track with our objectives for this year, as noted, with our reiteration of guidance. I want to thank all of our teams for their ongoing execution and commitment as we accelerate the pace of change across the organization. I could not be happier with the two new leaders who joined us late this summer and have hit the ground running, bringing fresh perspectives and insights to our teams.

Before Melissa covers our financial results and outlook, I would like to share some perspectives on how our business has been reinvigorated by the fresh perspectives brought by our newly appointed President and our new Chief of Stores. They are leading a reexamination of our operational elements that directly impact the patients and customers. In the process, we've taken a hard look at our operations to uncover areas that directly impact the patient and customer experience across operations, merchandising, marketing and managed care.

Some examples of areas we are improving include consultative selling, modernizing the exam and shopping experience, more personalized marketing, and enhancing the product assortment. I'm optimistic as I have already seen the excitement from our field leadership in response to these new ideas and from our stores to the initial rollout of the first few of them. These are specific areas we can improve that are within our control, each of which, we believe, will drive higher revenues and increased profitability.

I'd like to now turn the call over to Alex Wilkes, who was recently appointed National Vision's President. He and I have been working side-by-side for the past 2.5 months. With experience with major frame, lens, and contact lens suppliers, as well as the important leadership roles he played with competitors, Alex has a unique collection of reference points to help guide our ongoing transformation efforts.

And with that, I'd like to introduce Alex and let him say a few words, before we turn the call over to Melissa. Alex?

Alex Wilkes, President, National Vision Holdings, Inc.

Thanks, Reade. Appreciate the warm welcome. During my time in the optical industry, I've had the privilege to observe National Vision from up close. I've always been impressed by the phenomenal growth of the company, the special culture within the stores, and the strength of the brands. I'm privileged to join the organization during this transformational moment and play a role in defining the next chapter of growth for the company.

Over the last several weeks, I've spent a lot of time in stores with our associates and doctors. I've come away from these experiences thoroughly impressed. Our associates and field leaders have an incredible sense of pride in their affiliation with the company, and our network of doctors and overall eye exam experience is second to none. The investments made in the exam experience, including our remote capabilities, are a true differentiator for us and a delighter for our patients and customers.

I've also been deeply engaged with our management team, reviewing our strategic approach to evolving the organization. We're taking a hard look at all aspects of demand generation and cost efficiency. As Reade mentioned, we have learned quite a bit from the promotional actions we took in the quarter. We are assessing our near- and long-term plans regarding price architecture and price evolution, and are taking significant steps towards enhancing how our customers experience us both digitally and in-store.

In the second half of 2025, we are on target to go live with a new CRM platform that will help further modernize our marketing efforts, allowing us to reach our customers with personalized messages based on data-driven insights. These customer journeys will allow us to engage and reactivate customers with one-to-one messages and to drive retention and basket size via tailored offers.

We're also making substantial investments in our merchandising capabilities, kicking off just this week this important merchandising phase of our ERP project. Once implemented, among other things, this will provide us enhanced regional assortment and pricing capabilities, unlocking the ability to serve our customers products most relevant to their specific segment.

These are just a few of the breakthrough programs we are currently working on to modernize our business. I'm confident we will accelerate our growth. I joined National Vision with a mandate to drive transformation and accelerate our change agenda. So I couldn't be more pleased with the widespread openness to new approaches and the sense of urgency the team has shown. We will be sharing our transformation game plan in more detail over the coming quarters, a plan that leverages the company's historical strengths while embracing new ideas and ways of working to deliver on our growth and profit aspirations.

And with that, I'll turn it over to Melissa.

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

Thank you, Alex, and good morning, everyone. As discussed, our third quarter results reflect trends consistent with what we have seen throughout the year, with growth in our America's Best brand, supported by ongoing strength in our managed care business, which has helped to offset the softness in our cash pay consumer.

For the third quarter, net revenue increased 2.9% compared to the prior-year period, driven by new stores, adjusted comparable store sales growth and the effect of unearned revenue, partially offset by the effect of converted and closed stores and lower e-commerce revenues. Unit growth in our America's Best and Eyeglass World brands increased 5.4% on a combined basis over the total store base last year, and we ended the quarter with 1,231 stores.

With respect to e-commerce, performance in the quarter was impacted by the transition of the DiscountContacts.com website. As a reminder, this was the one website previously operated by AC Lens that we've retained under the National Vision umbrella. During the transition, certain website features and associated marketing were temporarily disrupted, which we believe was the primary driver of the decline in performance during the quarter. We have since restored marketing plans and expect key website features to be fully restored during the first quarter of 2025.

Given these results are recorded in our Corporate/Other segment, they do not impact our adjusted comparable store sales growth. Adjusted comparable store sales growth for the quarter was 0.9% and included approximately a 50-basis-point headwind related to the severe weather we experienced during the period due to Hurricanes.

Beryl and Helene. Our adjusted comparable store sales growth was driven by an increase in average ticket of 1.3% and a 0.1% increase in customer transactions.

Given the promotional activity during the quarter, I wanted to provide a little more color on our traffic and ticket trends. Third quarter promotions focused on America's Best eyeglass purchases, driving a low-single-digit increase in eyeglass transaction, which more than offset the decline in ticket in that category.

As a percentage of net revenue, cost applicable to revenue increased approximately 20 basis points compared to the prior-year quarter. This resulted in a gross margin decrease of approximately 20 basis points, driven primarily by an increase in optometrist-related costs, which was almost fully offset by higher exam revenue, supported by pricing actions and growth in exam count.

Adjusted SG&A expense as a percentage of revenue decreased 60 basis points compared with the third quarter of 2023. The decrease in adjusted SG&A as a percentage of net revenue was driven primarily by a decrease in performance-based incentive compensation of approximately 80 basis points in other operating expenses, partially offset by higher store payroll and occupancy expenses. Depreciation and amortization expense was \$22.7 million, compared to \$22.5 million in the prior-year period.

Adjusted operating income was \$14.3 million, compared to \$11.7 million. And adjusted operating margin increased approximately 50 basis points to 3.2% compared to the prior-year period, due primarily to the factors previously discussed.

Net interest expense was \$4.1 million, compared to \$3.7 million in the prior-year period. As a reminder, our interest guidance excludes noncash mark-to-market and deferred financing costs, which totaled \$1.1 million. Adjusting for this, interest expense was \$3 million. Adjusted diluted EPS increased to \$0.12 per share in the third quarter of fiscal 2024 from \$0.11 per share a year ago, and reflects an effective tax rate of approximately 18.9%.

Turning to our year-to-date financial results. On a continuing basis, net revenue increased approximately 3.8%, driven by growth from new store sales, adjusted comparable store sales growth and the effect of unearned revenue, partially offset by the effect of converted and closed stores and lower e-commerce revenue. Adjusted operating margin increased 30 basis points compared to the prior-year period, driven primarily by the same factors which impacted the third quarter that I just reviewed.

Please see our press release for detailed reconciliations about the 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 \$81.2 million and total liquidity of \$374.8 million, including available capacity from our revolving credit facility. As of the end of the quarter, our total debt outstanding was \$353.8 million, net of unamortized discount. And for the trailing 12 months, net debt to adjusted EBITDA was 1.8 times.

As announced in August, we repurchased \$218 million of our outstanding convertible senior notes for an aggregate cash repurchase price of \$215 million. This transaction was funded with cash of \$100 million and incremental Term Loan A borrowing of \$115 million. After the repurchase, approximately \$85 million of convertible senior notes remain outstanding. Upon maturity in May of 2025, we expect to settle with cash or borrowings on our revolving credit facility.

We continue to maintain a strong balance sheet and a healthy cash flow to support our growth and capital allocation priorities. Year-to-date, we generated operating cash flow of \$103.4 million and invested \$63.5 million in capital expenditures, primarily focused on new and existing stores and investment in remote technology. We have revised our expectations for capital expenditures for the year and now expect CapEx to be approximately \$100 million to \$105 million.

With respect to the rest of our fiscal 2024 outlook for continuing operations, as detailed in our press release, we are reiterating our expectations including: revenue to be in the range of \$1.82 billion to \$1.84 billion, based on an adjusted comparable store sales growth range of 0.5% to 1.5%; 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 we have previously discussed, our guidance ranges consider a variety of scenarios. The midpoint of our adjusted comparable sales guidance range typically reflects expected results more in line with our current trends, while the top and bottom points reflect opportunity and certain levels of risk, given contemplated variables.

As many have discussed, this year has seen continued inconsistency with respect to consumer behavior. This continues to be the case as we look to fourth quarter. We saw a choppy start to the quarter with Hurricane Helene. However, our teams remain committed and focused on executing and driving results, especially as we head into the peak volume week of the quarter, which drove strong performance last year. Our outlook for the remainder of the year does not expect a material impact from the expected fiscal 2024 closures or the Eyeglass World conversions as a result of our store fleet review.

As Reade discussed, following the completion of our store fleet review, we plan to convert four Eyeglass World stores in fourth quarter to America's Best stores and plan to close 21 America's Best stores, nine Eyeglass World stores, and nine Fred Meyer stores by the end of fiscal 2026. We expect these closures to deliver approximately \$4 million in adjusted EBITDA improvement by the end of fiscal 2026, despite a \$13 million to \$16 million expected revenue headwind, as we have conservatively assumed no revenue recapture from other locations. As detailed in our press release this morning, the majority of the impact from both an adjusted EBITDA improvement and revenue headwind perspective will be reflected as fiscal 2025.

During the quarter, we recorded approximately \$1 million of onetime nonrecurring exit charges related to the fiscal 2024 and fiscal 2025 closures, and \$14 million in noncash impairment charges related to the Fred Meyer intangible asset and other tangible long-lived assets. We plan to continue to closely monitor store performance and store profitability as part of our ongoing real estate portfolio strategy to maximize returns. As a reminder, through this comprehensive review, less than 5% of our fleet was identified as not meeting our higher standards given the current environment.

We are committed to maintaining a healthy store fleet while focusing on driving improved comparable store sales growth. With this in mind, we have made the decision to temporarily moderate our store growth plans for fiscal 2025 and plan to open between 30 and 35 new stores next year. This will enable us to allocate capital to increase investments in enhancing the overall patient and customer experience, such as modernizing the exam and shopping experience. We believe through this enhanced focus on our current fleet, we will receive a greater return on investment through improving adjusted comparable store sales performance, which will drive greater leverage in the operating model and overall profitability.

As performance improves with initiatives gaining traction, we intend to reaccelerate our new store opening to our more recent store opening cadence, with a commitment to disciplined growth given the significant white space opportunity still in front of us. We believe the actions we are taking today will not only help stabilize our comp performance, but will strengthen our foundation as we continue to position National Vision for long-term success.

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. The energy and excitement here is strong, with the team driving fresh ideas and observations, thanks to the fresh perspective across all aspects of our business brought by new additions to our leadership team. We tried new promotions that brought in new customers and resulted in changes to our everyday offering. We launched exclusive, innovative new products, most notably Pair Eyewear.

We improved the efficiency of our remote program and expanded the trial that could result in a real systemic improvement with ODs in less busy stores performing exams remotely in busier stores. And the store closures stemming from our fleet review, along with temporarily moderating new store growth in fiscal 2025, together provide us with the capital and resources to devote to improving the patient and customer experience in our current stores, along with renewed focus on operational execution.

We are committed to transforming our business and are taking a hard look at all aspects of demand generation and cost efficiency, with an improved and differentiated patient and customer experience. And we believe we will emerge as a stronger business by taking next year to refocus on our comp base of stores. The organization is excited by and rallying around the transformation, and we believe it will drive shareholder value.

Thank you for your interest in National Vision. Operator, we will now open the call for questions

QUESTION & ANSWER SECTION

Michael Lasser, UBS Securities LLC

Good morning. Thank you so much for taking my question. So it seems like the business is experiencing a stabilization phase. You're making a bunch of changes, including to the store portfolio, the pricing architecture, some of the operational processes. If you could tie this all together and give us a sense of what that means for the margin profile of the business in 2025, it would be extremely helpful.

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

Hi, Michael. Good morning. Thank you. Yes, as far as the 2025 margin profile, what we had talked about last quarter was that we had anticipated that the 2025 margin profile would look similar to what we were going to end 2024 at. Now, what that specifically contemplated when we spoke to that was it contemplated the headwind that we talked about related to incentive compensation, because it's been a tailwind this year and we expect that to turn into a headwind next year.

We also expected some benefits from our fleet optimization. While we were still undergoing that exercise and didn't know the exact amount, we did anticipate a level of benefit from that. Now, what we did not incorporate into that statement was everything that we spoke about today. So, it doesn't contemplate the moderation in store growth as well as the initiatives that we plan to focus on that we're expecting to help drive some comparable store sales growth and overall improve the stability of the fleet

Michael Lasser, UBS Securities LLC

Okay. And Melissa, I don't suppose (00:30:52) you want to frame what all these actions that you announced today could mean.

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

Yeah, sure. So, the way that we were looking at that is we expect this investment in our overall store fleet to drive some improvement in top line. We're expecting to see some modernization of our stores. We're expecting to see some patient and customer improvement in the overall experience. And that was going to come through a couple of different paths.

We were expecting to put some investment into our overall fleet, including e-commerce, so that it more closely modeled the journey of our in-store experience as well as the digitization in tools that we expect to give to our sales associates to help facilitate more modernized selling experience.

Michael Lasser, UBS Securities LLC

Okay.

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

And the flat view essentially is the base case. That's what we spoke to last quarter. I would expect that this updated discussion will include more of an upside. It will, of course, provide some incremental information on that as we release our 2025 guidance.

Michael Lasser, UBS Securities LLC

Okay. That's very helpful. My follow-up question is on pricing. It seems like National Vision is more willing to exercise the use and muscle of price more so than it has been in the past. It's finding areas where there's inelasticity in its assortment and amongst its customer set. So, A, is that true? And B, you probably saw there was an election last night. So, to what degree is this going to help as you navigate what should be through – what could be a tariff environment? And how exposed are you to tariffs from not only China but overseas in general? Thank you very much.

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

Oh, thank you for that. As we've been mentioning, we've brought in two new leaders with some really fresh perspectives. And Alex Wilkes has deep industry experience, but from other parts of the industry with different dynamics. And Alex, why don't you sort of take the pricing piece of that?

Alex Wilkes, President, National Vision Holdings, Inc.

Sure. Hey. Good morning, Michael. So, first and foremost, I'd say we're committed as our – to our position of being a value-based brand. However, we certainly do see that there's opportunity to expand pricing, balancing both our pricing and our promotional approach. So, certainly, we're going to look for ways to do that, and also considering the impact of inflation going forward.

Now, I think one of the interesting things about our company is that historically our pricing has been architected around the cash pay customer. And as the team has spoken over the past few quarters, we've seen our managed care consumer base grow substantially. So, with that in mind, that does require us taking a different look because, to your point, we do know there are different elasticities between a managed care and a cash pay consumer, and we certainly have opportunities to adjust our pricing as we've evolved towards the managed care consumer.

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

Yeah. And Alex has experiences with a retailer with a much higher managed care percentage than we have. And it's been a really great perspective to hear, to have that brought to our business, too.

Now, Melissa, would you like to take the tariff question?

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

Sure. I'll take the tariff question. So, Michael, with the election results coming in where they did, we don't quite, at this point, know what the tariff impact is going to be with the new administration. However, based on what was enacted last time, we don't expect it to materially affect our financial statements. Less than 10% of our cost applicable to revenue are subject to the tariffs that were in place the last time. And we've even made more progress at moving more and more activity out of China. We no longer have a lab in China. And 90% of our private label have already been moved out of China, and we expect to continue to progress that over 2025. And private label, just for your reference, is about 54% of our business

Michael Lasser, UBS Securities LLC

Very helpful. Thank you so much and good luck.

Kate McShane, Goldman Sachs & Co. LLC

Hi. Good morning. Thanks for taking our question. I wanted to drill down a little bit more on your commentary around promotions. Can you talk about how you are viewing them for the future? What are some of the bigger learnings and how it impacted gross margins in the quarter?

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

Thank you, Kate. Yes, well, promotions are something we're getting good at learning on. We've been trying a couple of them in the past few years. We were pretty pleased with the learnings, especially on the progressive's offer that we had, and we thought that worked so well in driving new progressive customers who are great customers to have that we implemented an ongoing promotion offer into America's Best even in non-promotional periods, so that's live and going now. These are good at driving in new traffic and we would expect to continue with promotions in the future, targeting, of course, the cash pay customer.

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

Kate, I'll add on the gross margin question that you had. The promotions, of course, every time you offer a promotion, it does have an impact to gross margin. The specific promotions that we were putting in place during the third quarter drove an increase in traffic overall, and that increase in traffic more than offset the impact that those promotions created for the gross margin.

Kate McShane, Goldman Sachs & Co. LLC

Thank you. And then, our follow-up question is just about the remote capabilities, what the cadence of rollout remains for this year and into 2025. And is there any way to quantify the lift that you saw in the quarter from the remote exams?

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

Yeah. So, yeah, thank you, Kate. So we have 730 remote-enabled stores. We've probably got a couple dozen that we're going to do by the end of the year. And we haven't formalized yet the number of stores that we'll be doing next year. And of course, we continue to watch as states open up to remote. Also mentioned, well, it's about 11% of exam in enabled states and that we're pretty excited, while it's still in the early stages, by the possibilities of hybrid remote, in that it just is such a systemic improvement in overall efficiency to have a doctor live in a store, who, if they get a cancellation or it's a slow part of the afternoon, they can pick up exams any place else in the state. And Texas continues to be encouraging and we're pleased with that along the way.

Kate McShane, Goldman Sachs & Co. LLC

Thank you.

Zachary Fadem, Wells Fargo Securities LLC

Hey. Good morning. So, now that you're a ways through your exam capacity investments, curious what KPIs you can share around how much you've increased exam capacity across the fleet this year, and then how your capacity utilization has trended through the years as you've stepped up the number of appointments.

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

Yeah. So, again, we are expanding this and it has been nice in terms of improving capacity along the way. So, we're pleased with how that is going and with its continued potential along the way. And it's all about – it creates new slots. We don't report out our utilization, but it is giving us incremental average exams per day, and that is helpful. And we're pleased that combined with that, we're also seeing sort of Q3 with a great quarter for retention because you're trying to balance live and remote. And in terms of we had less people resign in Q3 than in any other Q3 in the past several years. So, that was another encouraging signal.

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

Sure, Zach. As we went through the review, each specific store had individual characteristics that were evaluated that were specific to that store. Overall, the overwhelming majority of our stores are profitable. This exercise targeted less than 5% of our fleet. And out of that, we're taking action on 43 stores, including closing 39 and converting four of them from Eyeglass World to America's Best. Some of those were dark, some of those were dim, some of them had doctors but not the appropriate level of demand that we needed to see to drive the profitability that we needed in that specific store.

So, as we evaluated the overall profitability, including the lease expiration dates, we made decisions on whether it made sense to make operational improvements or whether it made sense to exit the stores. There were different vintages across the board, so we can't say that it was specifically tied to stores opened in one year versus another or older stores versus newer stores. And so, as we went through the exercise, we paid very close attention to cost to exit versus what the overall loss was and made appropriate decisions

Jonathan Elias, BMO Capital Markets Corp.

Good morning. This is Jon Elias on for Simeon. On the store fleet review and the \$4 million EBITDA opportunity there, just to clarify, did those stores collectively lose \$4 million of EBITDA or does that number contemplate improvements beyond the closures?

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

Yeah. So, the \$4 million figure that we put out did equate to the loss that we were seeing from those individual stores. Now, the \$4 million that we are expecting to receive an EBITDA benefit on, that split across the years that we spoke to. So, \$2 million to \$3 million of that is expected to be realized in 2025 and the remainder of which will be recognized in 2026.

Jonathan Elias, BMO Capital Markets Corp.

Great. And then, for my follow-up, as we think about the remaining stores not impacted by the closures, can you give us a sense of what the margins look like for your top performing store cohorts versus the bottom? Thank you.

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

Yeah. So, as far as our overall fleet performance, we have top performers and we have performers that we need to pay close attention to, to make sure that we can make operational adjustments. As we continue to evaluate the overall fleet, we will strive to improve operating margins for the entire fleet as a whole. The ones that we did close were, in fact, unprofitable and taking that out will, of course, improve the overall performance of the fleet.

Lauren Ng, Morgan Stanley & Co. LLC

Hi. This is Lauren Ng on for Simeon. My first question is just on consumer demand and the overall macro. I guess, the reiterated 2024 comp guidance at the midpoint does imply Q4 comp acceleration both on two- and five-year stocks. I guess, could you provide us any more details on what the low-end and high-end of the comp guidance contemplates? Thank you.

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

Sure. The midpoint of the comp definitely anticipates in-line results with where we are currently. We did see at start of the quarter where we had a choppy start because of Hurricane Helene, and we did talk to the shorter selling season at the end of the year, which is our peak week for the fourth quarter. That being said, as we've talked previously, the high end of the guidance would typically incorporate an improvement in macro overall as well as some of the initiatives that we've spoken to taking hold. The low end would be a deterioration in overall macro and less traction from the initiatives that we're putting in place.

Lauren Ng, Morgan Stanley & Co. LLC

Got it. That's helpful. And then, my second question is just on SG&A. It appears the business has been able to generate some nice leverage year-to-date. I guess, looking forward, curious to see how this plays out in Q4 and perhaps into 2025. I think you mentioned the incentive comp could be a headwind in 2025, but just are there other factors at play would be helpful. Thank you.

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

Yeah. So, with SG&A, the incentive compensation component is by far the largest component driving SG&A. We have seen a tailwind for the entire year based on the lower levels of incentive compensation attainment based on overall performance of the company. That said, with that tailwind that we're seeing this year, we're also seeing some offsetting headwinds in payroll and occupancy that we spoke to in our prepared remarks.

Now, moving into 2025, we'll, of course, provide a full guidance when we announce our fourth quarter results. But I would certainly anticipate that we'll see a headwind associated with the incentive compensation that we've already talked to.

Dylan Carden, William Blair & Co. LLC

Thanks. I just have two here. One, it appears that we just aren't seeing a repurchase cycle here, now about three years into the last major uptick. And I'm just curious if this is a two- to four-year repurchase product, what do you make of that? And kind of any visibility you have into when that might correct, if that is indeed correct?

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

Yeah. So, Dylan, again, the managed care segment is quite healthy, but our demand trends relative to the cash pay customer remain similar. They have not shown a rebound yet. And – but we're not waiting for the purchase cycle to come back. We've got a lot of things in our toolkit that we can control on our own and we are driving towards those. And again, as I said, we've got a lot of fresh perspectives that we're putting to bear in our transformation. We are going about sort of improving the comp base. We're making investments to do that and to drive profitable growth. And I think you're going to be seeing ever more of that. I'm a little hopeful that maybe with the election behind us, there will be a little bit more consumer confidence and less uncertainty, but you never know in this world.

Dylan Carden, William Blair & Co. LLC

Okay. And I'm just confused here on the messaging on the pricing. It seems like you're ever willing to look at price across your offering, maybe breaking it down by managed versus cash. But then you were extremely promotional in the period as you kind of acknowledged. And so, I'm just – and didn't see much of a conflict as a result of that. So, I'm just – can you just kind of boil down, are you thinking about taking more price or you think about being more promotional? Where are you on kind of the price discussion at this point in time?

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

Well, looking at the two in – two together, price and promotions, so when we're talking about our price architecture, we can talk about our price and promotion architecture. We're seeing that managed care customers approach this differently. I mean, we know that, but they are approaching this differently and are looking for a variety of different things and approaches. And as we are launching new products, we have that in mind. And where we see the promotional piece is very targeted towards cash pay customers.

Dylan Carden, William Blair & Co. LLC

So net-net, does that leave you in the same place, I guess, is the question?

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

No. I think we believe that we can expand our price and take pricing and use it as a lever ever more in the future.

Paul Lejuez, Citigroup Global Markets, Inc.

Hey. Thanks, guys. Can you talk about the stores that you are opening next year? Are they concentrated in any particular region? Are you changing anything about those stores that you will continue to open? And then, second, with the lower store growth, curious what CapEx might look like next year. And just how we should think about CapEx even beyond next year? Thanks.

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

Great. We – thank you very much. We are focused on remote states only, so that way we know we can always have a doctor available. And we're only focused on America's Best now. And so, while we stabilize – while we go about stabilizing Eyeglass World, we think of this as very disciplined growth.

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

Yeah. And related to the CapEx question, Paul, we are anticipating that with the moderation in store growth, we will be reinvesting in our store fleet. Now some of that will come in the form of CapEx, some of that will come in the form of cloud, and some of that will also come in the form of operating expense. Now, as far as the operating expense increases tied to some of these initiatives that we've spoken to today, we expect that that's going to generate more than an offset in the top line. So, it shouldn't be an impact to profitability.

Paul Lejuez, Citigroup Global Markets, Inc.

Got it. So should we assume that CapEx levels sort of hold the same next year as this year?

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

We'll provide more details on CapEx as we do our 2025 guidance. But like I said, I would expect some moderation in CapEx from the perspective as we're reallocating our capital to these other buckets as well. So, some of it will be CapEx, some of it will be cloud and some of it will be operating.

Paul Lejuez, Citigroup Global Markets, Inc.

Got it. Thanks. And Reade, just another one. Just are there any opportunities out there to operate optical units within another retailer, maybe something you couldn't have previously pursued because of the Walmart relationship but now you can? Anything like that that you would consider?

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

There are always opportunities and we evaluate a variety of different things. Nothing immediately on the horizon, but we talk to everyone and look at a variety of different options. We know how to do a host. We're still doing host in our Military and Fred Meyer areas. But what we frankly do, we are focused on transforming the America's Best brand. That is our primary focus right now.

Brian Tanquilut, Jefferies LLC

Hey. Good morning. Maybe just one question. As I think about the store rationalization that you announced, and it seems like these are your unprofitable stores. And Melissa, it sounds like you ran a filter to figure out the exit cost as well. But as we think about kind of like the go-forward strategy, I mean, is there a look on like returns – metrics on return on invested capital to these stores or maybe raising the bar on the profitability threshold versus just breakeven?

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

Hi, Brian. Yes, as we've looked through this store rationalization, of course, the goal is to have the highest profit margin as we can. However, that being said, there are different factors to consider for each individual store. When we talked through the filters that we were looking at as far as the store closures and the profitability associated with those, there are also differences in the stores that have remained open. There are differences by brand. There are differences by doctor model. Some stores have one lane, some stores have two lanes. And so the overall four-wall impact is different by the type of model. And so – and as we look at that, we'll continue to make sure that we make the right operational changes for each individual store to keep them healthy and profitable.

Adrienne Yih, Barclays Capital, Inc.

Thank you very much. And thanks for all the color. Reade, I was wondering if you can talk about the target 2,500 potential stores across all brands. How should we think about that? Obviously, mostly America's Best. And then, maybe a metric such as how many MSAs or DSAs have maybe one store and what percent maybe of two stores? So what does the fill-in look like? Secondarily, in a lower rate environment, kind of as the Fed potentially continues to cut, how has your customer reacted in the past in such an environment on sort of like the demand curve, the outward demand curve? Thank you so much.

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

Thank you, Adrienne. We do not see the recent actions as impacting our white space. We closed less than 3% of our stores, which we just consider sort of good hygiene along the way. And so, as we see our comp base improving in more profitable ways than – and our efforts taking root that we see returning to more recent store growth trend levels. And we're pleased that the vast majority of stores in the white space that we've got there are in remote – currently remote-approved markets. So, that's a plus for us also in terms of dealing with the optometric shortages out there because remote, of course, is so efficient. In terms of lower interest rate environment, well, that has to be good for our consumers. So, yes, as rates go down, we see that that should provide some relief to the cash pay segment of our business.

Adrienne Yih, Barclays Capital, Inc.

Okay. Great. And then, just a quick follow-up for Melissa. As we think about kind of maybe possibly the shaping of 2025, how should we think about sort of SG&A dollar growth, net of the closures and just like the core continuing ops business? Thanks so much. And Reade, one final one for you. The trade-down effect, are you still seeing that in your income cohorts or has that stabilized?

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

Sure, Adrienne. As far as the overall SG&A, again, I'll provide a full 2025 guidance when we release our fourth quarter results. We do anticipate that we will certainly have a headwind related to the incentive

compensation reset. As we talked about in this quarter, we saw a tailwind of 80 basis points related to incentive compensation. Again, I would expect similar levels of that as we roll into 2025 as far as a headwind, and we'll, again, provide more detail on that as we release our 2025 guidance.

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

And to the other part of your question, the trade down has not – it's not dramatically different than what it's been. Again, the big trend is more managed care and softer cash pay. And again, we're hearing that from various aspects of the industry.

We do find that we think this is a very sticky piece having – once people try us, they like our value. And we think we're providing good value to everyone, whether it'd be cash pay or managed care. I think the managed care folks are saying, well, our managed care money goes a lot further over at America's Best and Eyeglass World.

Molly Baum, BofA Securities, Inc.

Hi. Thanks so much for fitting me in here. I just had two follow-up questions based on some of the questions that have been asked. So, the first one I wanted to follow-up on is just on optometrist capacity. So, I'm curious if you can give an update maybe on maybe the percentage of dark and dim stores you're seeing in America's Best or if you have any numbers to give on Eyeglass World. I'm curious how remote expansion is offsetting maybe other trends you're seeing. I know last quarter you talked about the lower than expected results from the optometrist recruitment class. So, maybe just an additional color on the dark and dim stores, if you can provide it, and how those trends are maybe offsetting each other.

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

Hi, Molly. Yeah, related to the overall capacity with dark and dim stores, we have continued to see about the same levels of dark and dim stores. The America's Best fleet has a low-single-digit range of dark stores and a high-single-digit range of dim stores. We haven't spoken previously to Eyeglass World, but the remote – or I'm sorry, the dark and dim impacts America's Best disproportionately because of the size of the fleet. Now, remote does offset those dark and dim stores. And so, that's the lever that we continue to pull as we enable more and more stores.

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

Right. And I'd just like to add to that also. We are starting to put our remote system into ever more Eyeglass World stores also to provide the sort of benefit that we've been getting from America's Best.

Molly Baum, BofA Securities, Inc.

Got it. That makes a lot of sense. That's helpful. Maybe, quickly, a follow-up to that. I think the penetration of remote exams and remote-enabled stores was down slightly versus 2Q. Is that de minimis? Is it mostly seasonal stuff, just wanted to...

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

If you look at CrowdStrike and one or two other tech-related issues, I think that's really the primary part of that. It's a digital experience, the remote exam, and things like CrowdStrike can affect things. But as a percentage...

Molly Baum, BofA Securities, Inc.

Got it.

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

Yeah. So, think of it as de minimis.

Molly Baum, BofA Securities, Inc.

Got it. Okay. Just wanted to make sure. And then, one other follow-up question I had is just a little more clarification and color on where promotions are focused, because we did a store visit and noticed that there were some promotions in store targeting managed care customers. I think it was 40% off your second pair. But I think comments in the call have suggested that promotions are maybe more targeted to the cash customer. So, if there's just any additional color you can give on the strategy around pricing and promotions for managed care as well? Thank you.

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

Right. So, thank you and good notice on your store visit there. The managed care generally pays for a first – one pair a year or two years, and many people do like second pairs, as we've seen throughout our business here. And so, that 40% off second pair is sort of an always-on promotion that we've had for managed care for quite some time.

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

Well, Steven, thank you for your help with the call this morning, and thank you all for your interest in National Vision. We're feeling great momentum and excitement here, and I hope you can feel that from our comments today. We look forward to updating you on our Q4 results on our call next year. Thank you, all, very much.