



06-June-2024

National Vision Holdings, Inc. (EYE)

William Blair Growth Stock Conference

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Disclaimer

Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934. These statements include, but are not limited to, statements contained under “Total Company Fiscal 2024 Outlook,” “Total Company Fiscal 2024 Outlook Considerations” and “Walmart Vision Center and AC Lens FY24 Expected Effect,” as well as other statements related to our current beliefs and expectations regarding the performance of our industry, the Company’s strategic direction, market position, prospects including remote medicine and optometrist recruiting and retention initiatives, and future results. You can identify these forward-looking statements by the use of words such as “outlook,” “guidance,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “could,” “seeks,” “projects,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or the negative version of these words or other comparable words. Caution should be taken not to place undue reliance on any forward-looking statement as such statements speak only as of the date when made. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

Forward-looking statements are not guarantees and are subject to various risks and uncertainties, which may cause actual results to differ materially from those implied in forward-looking statements. Such factors include, but are not limited to, the termination of our partnership with Walmart, including the transition period and other wind down activities, will have an impact on our business, revenues, profitability and cash flows, which impact could be material; market volatility, an overall decline in the health of the economy and other factors impacting consumer spending, including inflation, uncertainty in financial markets, recessionary conditions, escalated interest rates, the timing and issuance of tax refunds, governmental instability, war and natural disasters, may affect consumer purchases, which could reduce demand for our products and materially harm our sales, profitability and financial condition; failure to recruit and retain vision care professionals for in-store roles or to provide remote care offerings could adversely affect our business, financial condition and results of operations; the optical retail industry is highly competitive, and if we do not compete successfully, our business may be adversely impacted; if we fail to open and operate new stores in a timely and cost-effective manner or fail to successfully enter new markets, our financial performance could be materially and adversely affected; if the performance of our Host brands declines or we are unable to maintain or extend our operating relationships with our Host partners, our business, profitability and cash flows may be adversely affected and we may be required to incur impairment charges; we are a low-cost provider and our business model relies on the low-cost of inputs and factors such as wage rate increases, inflation, cost increases, increases in the price of raw materials and energy prices could have a material adverse effect on our business, financial condition and results of operations; we require significant capital to fund our expanding business, including updating our Enterprise Resource Planning (“ERP”), and other technological, systems and capabilities; our growth strategy could strain our existing resources and cause the performance of our existing stores to suffer; our success depends upon our marketing, advertising and promotional efforts and if we are unable to implement them successfully or efficiently, or if our competitors are more effective than we are, we may experience a

material adverse effect on our business, financial condition and results of operations; we are subject to risks associated with leasing substantial amounts of space, including future increases in occupancy costs; certain technological advances, greater availability of, or increased consumer preferences for, vision correction alternatives to prescription eyeglasses or contact lenses, or future drug development for the correction of vision-related problems may reduce the demand for our products and adversely impact our business and profitability; if we fail to retain our existing senior management team or attract qualified new personnel such failure could have a material adverse effect on our business, financial condition and results of operations; our profitability and cash flows may be negatively affected if we are not successful in managing our inventory balances and inventory shrinkage; our operating results and inventory levels fluctuate on a seasonal basis; our e-commerce and omni-channel business faces distinct risks, and our failure to successfully manage those risks could have a negative impact on our profitability; we depend on our distribution centers and/or optical laboratories; we may incur losses arising from our investments in technological innovators in the optical retail industry, including artificial intelligence, which would negatively affect our financial results; ESG issues, including those related to climate change, could have a material adverse effect on our business, financial condition and results of operations; changing climate and weather patterns leading to severe weather and disasters may cause significant business interruptions and expenditures; future operational success depends on our ability to develop, maintain and extend relationships with managed vision care companies, vision insurance providers and other third-party payors; we face risks associated with vendors from whom our products are sourced and are dependent on a limited number of suppliers; we rely heavily on our information technology systems, as well as those of our vendors, for our business to effectively operate and to safeguard confidential information; any significant failure, inadequacy, interruption or security breach could adversely affect our business, financial condition and operations; we rely on third-party coverage and reimbursement, including government programs, for an increasing portion of our revenues, the future reduction of which could adversely affect our results of operations; we are subject to extensive state, local and federal vision care and healthcare laws and regulations and failure to adhere to such laws and regulations would adversely affect our business; we are subject to managed vision care laws and regulations; we are subject to rapidly changing and increasingly stringent laws, regulations, contractual obligations, and industry standards relating to privacy, data security and data protection which could subject us to liabilities that adversely affect our business, operations and financial performance; we could be adversely affected by product liability, product recall or personal injury issues; failure to comply with laws, regulations and enforcement activities or changes in statutory, regulatory, accounting and other legal requirements could potentially impact our operating and financial results; adverse judgments or settlements resulting from legal proceedings relating to our business operations could materially adversely affect our business, financial condition and results of operations; we may not be able to adequately protect our intellectual property, which could harm the value of our brand and adversely affect our business; we have a significant amount of indebtedness which could adversely affect our business and financial position, including limiting our business flexibility and preventing us from meeting our debt obligations; a change in interest rates may adversely affect our business; our credit agreement contains restrictions that limit our flexibility in operating our business; conversion of the 2025 Notes could dilute the ownership interest of existing stockholders or may otherwise depress the price of our common stock; and risks related to owning our common stock, including our ability to comply with requirements to design and implement and maintain effective internal controls. Additional information about these and other factors that could cause National Vision's results to differ materially from those described in the forward-looking statements can be found in filings by National Vision with the Securities and Exchange Commission ("SEC"), including our latest Annual Report on Form 10-K and subsequent Quarterly Reports on Form 10-Q, which are accessible on the SEC's website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this presentation and in our filings with the SEC.

Non-GAAP Financial Measures

Included in this presentation are certain non-GAAP financial measures designed to supplement, and not substitute, the financial information presented in accordance with generally accepted accounting principles in the United States of America ("GAAP") because management believes such measures are useful to investors. Additional information about these measures and a reconciliation to the nearest GAAP financial measures is provided in the appendix to this presentation and detailed in National Vision's press release regarding financial results for the first quarter of 2024, which is available at www.nationalvision.com/investors, together with this presentation.

PRESENTATION

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

So I'll do the introduction while we're doing all this. My name is Dylan Carden. I'm a Consumer Analyst here at William Blair. We've got Reade Fahs, Melissa Rasmussen, CEO, CFO of National Vision, respectively.

And yeah, we're just going to have a little bit of a conversation. Thanks for being here. So, yeah, let's just do sort of a one minute, two minute spiel. Thank you. Just about the business, who you are, how you're positioned for people that might not know you.

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

Great. And our lawyer wanted me to reference forward-looking statements, risks and uncertainties, you know the drill on that.

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

I have referenced at our disclosure.

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

Yeah. Okay, go ahead. Great, great. Good. Have you done that?

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

Yes, now we're good

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

We all have legal disclosure

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

We're compliant, yeah.

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

Very good. So my name is Reade Fahs. I have the pleasure for the past 22 years of running a company called National Vision. We are a low cost provider of eyeglasses, contact lenses and eye exams. We have 1,200 stores, primarily our biggest brand is called America's Best Contacts and Eyeglasses. We're in strip centers, next to Marshalls, down the street from a Dollar Store. We serve low income and budget conscious Americans through 1,200 stores.

We just last Friday opened our 1,000th America's Best store, which makes us the largest freestanding optical chain, in terms of number of locations out there, about \$2 billion in sales, \$165 million in adjusted EBITDA.

And so we're the second largest provider of eyeglasses in America. An immensely – prior to COVID, an immensely consistent and predictable business, 72 consecutive quarters of positive comparable store sales, prior to COVID, averaging 5% across those 72 quarters. And for the four years prior to COVID, we're averaging a 7% comp. So just an immensely predictable business until COVID came along and disrupted everything for us and so many others.

The key disruptions were a lengthening of the purchase cycle. Our consumer, in the year after the country reopened, our consumer was richer than they had ever been. They had been sitting at home and not spending money. And then the government gave them a really nice check and they went out and bought the nicest pair of glasses they ever had in 2021. So that was big. And frankly, that played a role in disrupting the purchase cycle for the entire category.

Second thing that came along was the inflation. Following all the stimulus and the inflation wax, our low income consumer more so than most. And then finally on the provider side, because the process of buying eyeglasses or contact lenses starts with an eye exam, not just optometrists, but if you have doctor before your name in America, there has been a shortage of you since COVID. Lots of doctors retired, I'm talking about across almost all medical fields, lots retired and lots cut back the number of days they offered to their provider challenges throughout medicine, and we've experienced that in optometry.

And of the things we could control, that was the biggest piece. So we have actively been focusing on retaining the doctors. We have recruiting more doctors, and something that I am sure Dylan is going to be asking about. So I won't go into great detail on, but we call it remote practice, where the doctor is at home while the patient is sitting in the exam room in our stores.

So that has been our leading digital innovation since COVID all designed to address the shortage of doctors. We've also been attacking our cost structure in a variety of ways, which has been helped by the end of our Walmart relationship, which ended earlier this year, after a great many years, which allowed us to relook at all aspects of our cost structure in a nice way.

We have been comping positively, despite sort of the macro environment, our managed care business, which is about a third of our business in people with insurance, that has been growing very nicely because guess what? That inflation doesn't affect them so much because they're insured and so it's not their money.

So that's been helping us. The remote practice that we've talked about has been helping us. And we have a variety of different promotional and product introductions over the balance of the year that we think are going to help us through the rest of the year. It's all designed to be structured well for when the purchase cycle returns and normalizes. The purchase cycle had been normal for decades prior to COVID. So we do think it should eventually normalize, but is not yet for us or the category.

But one thing you can count on in the world is the biology of the human eye. As you age, your eyes deteriorate and your vision deteriorates, and you need to address that. So our belief in the purchase cycle normalization is a belief in the biology of the human eye, which is not changing.

I will add just one other thing in terms of longer term innovation. In the process of building this large chain of providing eyeglasses and contact lenses, we built a very large network, perhaps the largest network of employed optometrists in America, all tied together on a common EHR platform. And we believe that, that going forward in the world of medicine in the future, our network of optometrists should be a great asset that can be leveraged in a variety of ways to play a greater role in the healthcare of our patient base, which I hope we'll get to talk about a bit also.

But in terms of our innovation road, we see a variety of ways of future income streams coming to us through technology and through partnerships, leveraging this large network of optometrists that we have. I think that's it. Did you want to add anything into that?

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

I think you covered it.

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

Okay, very good.

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

Well, you want to cover it, so let's kind of start there. I mean, the thing I'm most curious about is you alluded to a lot of just how much has changed.

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

Yeah

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

Right. And the philosophy or the strategy historically has been kind of relying on the predictability of the business, right.

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

Yeah

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

And that's been kind of thrown into sort of question for the last three years.

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

World changed.

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

World changed. What, in your view, is sort of, how do you come out of this

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

Yeah. Yeah

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

Is it as simple as, we always want to get back to 5% comp and forget that anything ever happened? Or is there some fundamental shift in...

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

Just want to get back to that 5% cut? That would be fun. And that's what we're looking for.

Dylan Carden Analyst, William Blair & Co. LLC

Great. That is absolutely, objectively would be great. But there will remain a lack of access to doctors.

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

Correct.

Dylan Carden Analyst, William Blair & Co. LLC

Right. There's only so many eye schools in the world, in the U.S. And so how do you think about how this business evolves out of this period?

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

Yeah. And you said it well. I would say that prior to COVID, we were immensely successful, despite the fact that we were a quite rigid, reasonably analog replicator of a winning concept. And frankly, I think there are a lot of retailers who fell into that category, but quite rigid in the way we did things. If you were an optometrist for us, you had to work five days a week. Your days off are Wednesday and Sunday. I'm sorry, if your kids' soccer game is on Saturday, but that's when the patients want to come in. So you work five days and Wednesday and Sunday are your days off. That was very rigid, and frankly, that doesn't play anymore in a world of less doctors.

So we become very flexible now, and we have a variety of different flexible packages as to which days you work. And that has really helped us with retention, which has been improving sort of every year since 2022. And that has also really helped us with recruitment. And we're pleased that we recruited over 10% of the entire graduating class of optometrists last year. So we became a lot more flexible in that way.

We became a lot more digital and I could list for you all the ways that we have brought digitization to our business, but this remote chair is the most digital. We built sort of an Uber for eye exams inside what was a traditionally somewhat analog company, and we just brought a lot of different types of innovation, and new approaches to this. Our internal mantra is we have to rapidly adapt to thrive amidst the new realities.

And I'm very pleased that this company that had been winning through replication has been able to adapt and become far more digital quite quickly. I think. I'm just so pleased with how we've been able to bring this remote medicine to bear when, frankly, it wasn't in our competency base to do things like that prior to COVID.

Dylan Carden Analyst, William Blair & Co. LLC

And is there an option here to think about growth a little bit differently? I mean, you have the two concepts, Eyeglass World, America's Best. Eyeglass World has been sort of the slower growing banner. America's Best is bumping up against what you've kind of called out as the opportunity from a store standpoint. Do you need to grow 10% like you were pre-pandemic, or is there an opportunity to kind of maybe add efficiency more to the model and grow in that way?

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

Well, certainly we believe there's an opportunity to add efficiency to the model, and we're doing a variety of things around that. And frankly, remote care adds tremendous efficiency in that you have the high cost of our store is the doctor, and to be able to sort of spread them across place and time. The doctor is sitting at home. They're doing exams in any state where they are licensed. It's very efficient. If that doctor is sitting in a store and they have a no show, they're like, doing nothing, waiting for the next patient. There's never a no show with remote care. You finish one exam, and then you go to the queue and pick the next one.

So it makes the entire ecosystem more efficient in that way. But we believe that through the digitization efforts and the various innovations we're looking at here, that we can make the entire ecosystem more efficient.

Dylan Carden Analyst, William Blair & Co. LLC

Let's talk about remote then. How does that show up in the model? I mean, you have what, 550 now?

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

Yes.

Dylan Carden Analyst, William Blair & Co. LLC

America's Best to have remote care.

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

We'll have 700 by the end of the year.

Dylan Carden Analyst, William Blair & Co. LLC

700 by the end of the year, that concept is performing better than Eyeglass World. How does remote show up in the model, both from a top line and margin standpoint?

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

Do you want to handle that, please?

Melissa Rasmussen Chief Financial Officer, National Vision Holdings, Inc

Yeah, sure. So remote is, to Reade's point, we're able to leverage the doctor across time and space. So any place that they are licensed, they're able to do remote exams. And so you have less impact from no shows. You have less time between patients. Now, as far as the margin goes, looking straight, margin for margin exam per exam in lane versus remote, there are some incremental costs to the remote exam.

However, the other efficiencies about being able to see more patients, because you don't have to wait for a chair to be cleaned up. You don't have to handle a no show patient. You can jump from patient to patient, from store to store, state to state. So that makes it to where you get down to the bottom line. And the exams are roughly the same margin per exam, even though there are some incremental costs associated with that.

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

And can I just add one other thing? The added advantage is, it is easy to recruit doctors to practice remotely. Lots of doctors like the thought of practicing from the comfort of their home.

Dylan Carden Analyst, William Blair & Co. LLC

But pound for pound exam per exam, it's the same margin. But you're cutting down on dead chair time, right. So isn't the net effect of more higher margin box margin?

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

Yes, it can potentially be higher margin box because you're able to see, once you're fully ramped, more exams than you could in lane.

Dylan Carden Analyst, William Blair & Co. LLC

Right. Okay. So it's a net margin positive for the business.

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

Yes, it will be once all of the stores are fully ramped and doctors come up to speed. So some doctors are more productive than others, depending on where they are in their learning curve, but yes.

Dylan Carden Analyst, William Blair & Co. LLC

And when will that be, do you think sort of the maturity curve on that?

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

Doctors that started in 2023 early are up their productivity ramp and doctors that are just now getting remote technology, they'll get up their productivity ramp much quicker than the doctors that started in 2023 because our training modules have evolved. We've gotten better at explaining, we've gotten better at training the stores in addition to the doctors. So it's a much quicker ramp. I think we've been saying it's about a two month fully productive ramp.

Dylan Carden Analyst, William Blair & Co. LLC

So by next year, theoretically, you've got a sort of mature remote fleet in America's Best.

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

Yes.

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

Yeah

Dylan Carden Analyst, William Blair & Co. LLC

Eyeglass World, what's the strategy there? And I guess, it's a question in and around how you apply a remote to it, but it's also a question as to sort of, there's a simplicity now in the model, right. You've lost Walmart, which I actually think is a net positive, right. It could have happened at a better time.

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

I agree. Yeah.

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

And so eyeglass – so it’s sort of a two parter question that sort of merges in and of itself. But do you need two banners? And I know there’s a difference in that Eyeglass World has sort of the same day, next day. Do you need two banners or – and if you do, what’s the timeline to getting remote up and running in Eyeglass World?

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

Yeah, so a few pieces there. So eyeglass, so just for the America’s Best model is we bundle your glasses purchase or your contact lens purchase with a free eye exam and thus, you save money because frankly, eye exams cost a lot of other places. And our entry offers two pairs of glasses for \$79. And we include the eye exam in that. So this is a great deal, as our ads say, it’s not just a great deal, it’s America’s Best. It’s a really, really great offer. And we have a thousand of those.

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

Is that where the name comes from, America’s Best? It’s the best offer.

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

Well, there we go. All right, so now it’s out there, right. So actually it also, because it was back in the days of phonebooks, America’s Best appeared number one in the phonebook.

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

Ship where your order.

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

Yeah, A, B, right. So, yeah, there’s the history. So Eyeglass World is a slightly larger store, more branded frames, still very value priced. Entry offers two for \$89, but you don’t, you have to pay for the eye exam separately from that. And there’s a lab in every store so that you can get same day service. So one’s about absolute lowest price, one is about low price but also speed. So two different dimensions, differentiated concepts there.

And we like them both and we think they’re both strong brands and both have a strong reason for being in the category. But again, we’ve got 1,000 America’s Best stores, about 120 Eyeglass World stores. So it’s a much smaller brand. And yes, to your point of the end of the Walmart agreement does allow us to focus in on our growth brands. Walmart was a lower margin of growth, part of our business, of a lot of our heritage. But we are a cleaner, simpler, more growthy story without Walmart in the way.

So I agree with your assessment there. We have converted 20 of our Eyeglass World stores in California to America’s Best. And we’re seeing what that’s about and how that plays. We’re in a unique situation in California, where we had Eyeglass World in San Diego and Sacramento, but no America’s Best in either of

those markets. And just there were a variety of efficiencies that would go with this and we did that just in the first quarter. So we're still sort of in the transition mode of that.

There are plenty of retailers out there in the value space who do have more than one banner. You look at the TJ Maxx-Marshalls of that as differentiated concepts. So we think there's still room to be growing both of those. But certainly the majority of our sales and profits are coming from America's Best now. And that is a very high awareness brand that's been around for a great many years and is well known as a place for great value amongst our consumers.

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

And the ones you've converted in California, are they still same day next day?

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

No, no, no. The lab is not part of it. It is the America's Best concept. So there's no same day next day.

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

And you know that that's sort of a unique case and it's not something that you're looking to do further afield, right?

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

Right.

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

But I guess then can you add remote capacity to Eyeglass World? What's the timeline for that? And at some point that banner is going to have to grow to kind of offset the deceleration in America's Best.

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

Yes, but we have announced that again, we opened our 1,000th America's Best store in Philadelphia last Friday. We think America needs about 1,850 [correction: 1,650] of those. We still have plenty of white space there to grow on that. And what was your other question?

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

Remote and Eyeglass World?

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

Remote and Eyeglass World, So Eyeglass World has a variety of different models for doctor. We were sort of agnostic. So it grew up in such a way that some stores are – the eye exams are being done by a master of [indiscernible] (0:16:54), who has a couple dozen eye exam offices, optometric offices that are managed by that group. There are some stores that have a [indiscernible] (0:17:04), who has one or two locations, and there are some stores where we employ.

So with America's Best, it's easier to make changes and bring in remote because it's all an employed model. And with these three different models and the lease arrangements with the various groups, things go a little

more slowly. I think we have between 10 and 15 Eyeglass World's that have remote now, and we're working on different ways of addressing that.

But the key takeaway is how we manage to make sure an eye exam is available for the customers and patients who want them. That is the key focal point of the business. And again, we're pleased that last year we had improved retention, a really great hiring, especially amongst the student population and that we've made such advances with remote.

And I actually think going forward, you're going to be hearing us talk about deployment, too. Recruit, retain, remote and deployment of just how we deploy the doctors as another area of efficiency, more to come on that as the story evolves.

Dylan Carden Analyst, William Blair & Co. LLC

What does that mean deployment?

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

How we have them – the different ways we can do remote, where we put them. So you might have a store that has five days of coverage near a store that has three days of coverage, and you look at the balance and you might be able to say, actually, that store could handle things with four days of coverage and move that doctor over to that store. And so it's how you deploy the live doctors across the system and with remote as an add-on. We are getting just increasingly sophisticated in the ways that we are managing the doctor resources that are available.

Dylan Carden Analyst, William Blair & Co. LLC

Brings up another question that I get every once in a while. You've got a lot of sort of initiatives in and around solving for dim and dark stores.

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

Yeah.

Dylan Carden Analyst, William Blair & Co. LLC

And one question is, are these measures reactionary? And if they just sort of keep the business at a stable level that's more reflective of the current environment? Or if you get a normalization of demand, the model is now relatively spring loaded such that you would see an acceleration of the business. Does that make sense?

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

Good. Yes. Yes, that makes sense. I want to start with a piece and allow Melissa to share a little bit more detail on dim and dark. The doctor challenges are not new. We went public in October of 2017, and one of the things that we said on the roadshow and in every call since then has been, we don't have enough doctors. We've never had enough doctors. And you'll never hear us say that we have enough doctors. So that was part of our roadshow in 2017, and every call afterwards. In 2022, we came out on a call and said, you've heard us say that it's probably just sounds like noise to you. We want to say it is different now and is more challenging now because of the shortage that came about. Give a little bit on dim and dark and let me answer the spring loaded piece.

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

Yes. So we started evaluating. Well, we've always had dim and dark stores. That's always been a concept that we've had as a retailer. With that prior to COVID, so about the 2019 timeframe, our dim stores ran about mid-single digits of our America's Best fleet. And in the America's Best fleet for dark stores it was low single digits. In 2022, at the peak of the doctor capacity concerns that we had, we saw the dark stores move to high single digits and the dim stores move to low double digits.

With that, we have made steady progress on correcting and putting doctors in place where we need them, being able to service them through remote capabilities. And now the dim stores are down to high single digits and the dark stores are down to low single digits, which is where we were prior to COVID.

So we've certainly made traction on being able to match the demand and the capacity and continue to make strides where we're putting the remote capabilities in place in all states that allow and being able to hire in the stores where we need the most coverage.

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

And in terms of remote, we think that we are in single innings of the evolution. We just really started this and got behind it in early last year and we just announced that in Q1, the doctors are as efficient as the live doctors. And that's been a nice evolution and could eventually become more efficient and wouldn't be surprised by that. But we think that there's still a lot of headroom there in terms of the advantages that can come from the remote solve of the doctor shortage overall, again, because this is how doctors want to be practicing now and into the future. And we do think our continued evolution and sophistication and efficiencies derived from remote should be dovetailing with when the purchase cycle begins to normalize again and those things. Spring loaded is a big word, but that's the genre in my mind.

Dylan Carden Analyst, William Blair & Co. LLC

It's directionally...

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

Yes.

Dylan Carden Analyst, William Blair & Co. LLC

Okay. Do you buy into that there is a sort of repurchase cycle in the wings that everyone bought in 2021 and that there's sort of a – what is it, two to four year replenishment cycle for this category, so that theoretically, we're sort of at the beginning.

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

Yes. I think the purchase cycle has lengthened because in 2021 our customers bought the best – our customers and a lot of the category bought the best pair of glasses they ever have. Our category is talking about how odd it is that the purchase cycle has expanded in this way. And yes, I do believe that there's a purchase cycle normalization that must come because people do need to see and you can put it off, but you can't put it off forever.

Dylan Carden Analyst, William Blair & Co. LLC

And that's sort of back half of this year is theoretically when you start seeing this?

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

The whole category has been saying – has been expecting it to come.

Dylan Carden Analyst, William Blair & Co. LLC

Okay. I'd be remiss if we didn't talk about pricing here. A lot of that conversation is outsiders looking in and really oversimplifying it probably, and saying, hey, you're \$80, right, for your entry price, which is about a third of the business. Walmart, Costco, the next sort of value chain offering is \$200, \$250. Why not close some of that gap? And I think I get that oversimplifies, but there is a sort of a different question sort of embedded in that line of thought where doctor wages according to the U.S. government optometrist wages are up 6% this year on a 7% gain last year, right? You've had to absorb a lot of cost in the model. How do you structurally get back to your margin profile if you don't take price? I think it's maybe the more thoughtful question embedded in that.

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

We have taken a variety of pricing initiatives since this inflation began. We have a few in place that just recently became in place this year. And so we are not averse to it, but we also are very careful about where we take it and how we take it. And as a value player, we don't want to ever lose that part of the positioning. Your decision to come to us again two years from now is based on the perception of value as you leave our store today.

There are groups in our category who do continually pull the price lever and that often hurts them two years later. And we like to balance the long-term and the short-term along the way. So we are not averse to this, but we are really careful and judicious and pick carefully where we do take this.

Dylan Carden Analyst, William Blair & Co. LLC

And then structurally on margins and I guess is sort of where that conversation goes.

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

Yeah. So, Dylan, I just want to add to Reade's point, the entry offer, the \$79 offer, a third of our customers don't take that offer. It's a much lower take rate than that. And what I mean is the \$79 offer, that's our base offer. So that's when people are coming in and they're getting the base frames, the base lenses. If they upgrade, that's additional beyond that \$79 as they get a more expensive frame, if they get more, I guess, ancillary items onto their lenses, they would have a higher price point than that \$79.

Now that's where we take price mostly is those ancillary items. So like the blue light coating that you put on your lenses or the anti-reflective coatings, those things we end up taking price on more so than the headline pricing. So we try to stay away from the headline pricing so that we have that base offer. But that is where we also have the base product frame and lens.

Now, from there, we add various ancillary things that you can upgrade to so you have different price points. Those carry a higher margin than the entry level offer, but we want to keep that entry level offer for the customers that absolutely are price conscious and don't have the ability to spend more than \$80 on their eye care.

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

Another place we took price this year was in the base eye exam price. Now, let's see if you're an insurance customer that doesn't affect you because the eye exam is free. If you're buying our two pair offer, then the eye exam is free. So the only people that affects is people who get an eye exam and don't buy product for whatever combination of reasons. And it makes the perception of the two pair offer even better. So things like that are where you can be very selective in terms of your pricing actions.

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

Yeah, so back to the margins.

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

That was the question.

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

Yes, we've continued to take pricing in multiple places. Not the headline pricing, but have overall taken pricing to offset the wage inflation that we've seen with the doctors. In addition to the additional strategic initiatives that we've been putting in place with the remote rollout and deployment, the electronic health records, we have taken pricing to offset that. One thing that was visible in our first quarter earnings was a shift between service revenue and product revenue. And that's where the entry level base offer was – the take rate on that was significantly lower than what you've seen in the past.

That shows that the low income consumer continues to remain challenged. But the pricing actions that we put in place related to our eye exams, that was where that was visible. And so to Reade's point, managed care consumers that is not really visible to them because the insurance company is paying for that exam.

So the folks that that impacts the most are the people that come in that get an eye exam and don't make a purchase. So either, their prescription didn't change, they don't need glasses, they end up with getting contacts. So there are various instances in where that inflation or that pricing is capitalized on.

Now, as far as the overall margins, we've continued to make improvements throughout our business in matching productivity levels in stores with the store staffing to make sure that we're as efficient as possible in delivering our model. We're also making back office adjustments so that we can make processes as efficient and productive as possible and continue to leverage any expense takeout that we can so that we can retain margins so to the extent that we can control things, we're absolutely controlling those. And profitability remained strong in first quarter despite the headwinds that we were seeing on the top line.

Dylan Carden Analyst, William Blair & Co. LLC

Thank you. This is telling me we're out of time. I kind of don't believe it because I think it started a little bit late. But you wanted to touch...

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

The fun was just beginning. Yeah.

Dylan Carden Analyst, William Blair & Co. LLC

You wanted to talk about kind of early innings of some of the – I don't know, more data driven parts of the business. Can you sort of touch on that? And particularly sort of the AI initiatives, the acquisition you've made, what you can do with all the imaging. I think they're...

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

Very quickly, the back of the eye is a treasure trove of medical information, not just about optics, but about your circulatory system, about your brain. Our doctors, on a constant basis, are finding. The first person to tell our customers that they have diabetes or hypertension or that they have a cardiovascular issue, they're finding brain tumors, they're finding aneurysms, they're saving lives every day in our stores, amongst our uninsured customers for whom this might be the only medical interaction that they're going to have.

We have cameras in all of our stores that take the pictures of the back of the eye, and there are now AI scans that can scan those pictures to determine the extent of cardiovascular issue, of hypertension, of diabetes, of kidney disease. And we are an investor in a company that does that. And we see longer-term the ability to participate in the broader healthcare of our patients relating to using AI and scans of these pictures in the back of the eye to help keep our patients healthier.

And we believe, both through the healthcare system and even through consumer pay, that these should provide revenue streams in the future, not in the second half of this year. But we see that our network of doctors dealing with lower income and uninsured basis can perform important medical functions to help keep them healthier and live longer.

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Dylan Carden Analyst, William Blair & Co. LLC

Thank you.

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

Thank you.

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Dylan Carden Analyst, William Blair & Co. LLC

Thank you, everyone. There's a breakout upstairs. See you there.

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

Thanks.