08-May-2024

National Vision Holdings, Inc. (EYE)

Q1 2024 Earnings Call Transcript

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PRESENTATION

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

Thank you, and good morning, everyone. Welcome to National Vision's first quarter 2024 earnings call. Joining me on the call today are Reade Fahs, CEO; and Melissa Rasmussen, CFO. Patrick Moore, COO, is also with us and will be available during the Q&A portion of the call. 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 also would like to draw your attention to slide 2 in today's presentation for additional information about forward-looking statements and non-GAAP measures. As a reminder, National Vision provides investor presentations and supplemental materials for investor reference in the Investors section of our website. I will now turn the call over to Reade. Reade …

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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.

As you saw in our release this morning, we delivered first quarter top line results in line with our expectations of relatively flat adjusted comparable store sales growth. And, we are pleased to report total company adjusted diluted earnings per share of $0.32, which reflects our team's continued disciplined approach to expense management.

On a continuing basis, first quarter net revenues increased 4.2% and adjusted comparable store sales increased 0.4%, primarily driven by ongoing strength in our managed care business and growth within America's Best.

On our last call we shared that the softer start to the year was related to weather during January. This, along with a slower start to the tax refund season, adversely impacted sales and transactions in the quarter as consumers remain cautious in their spending.

During the quarter we also saw higher average ticket, and higher exam revenues driven by the pricing actions we have taken. In addition, the greater percentage of managed care purchases resulted in a mix shift between our two-pair offer and single pair eyeglass sales as Melissa will discuss.

Our business remains in the midst of a transformation that we began in earnest last year and we've made significant progress over that time, thus giving us a stronger foundation for future growth. We remain keenly focused on our customers while maintaining a disciplined approach to expense management by closely managing our cost structure both in the stores and at the corporate level. We are continuing to adapt our model to meet the realities of our industry today and the needs of our customers.

With that, I'd like to share my thoughts on the quarter in terms of what went well, and where we see opportunities to improve.

Let's start with what went well.

Our key focus for the past year has been on ensuring that eye exams are available for our customers when they want them. To accomplish this, we have focused on retention and recruitment of Optometrists, and leveraging Remote exam technology. From this perspective, things went well in the first quarter. Our retention levels remain healthy and recruitment remains on track with our 2024 goals.

And on the Remote exam front, we made some real progress. Recall that our Remote technology allows doctors working from other locations to perform an eye exam on a patient in the store. We find that recruiting doctors is easier with the Remote model given the flexibility it offers them.

On our last call we shared that our roll out efforts were hampered by certain large states that restrict or do not permit teleoptometry. We shared that we believe the general evolution will be toward authorizing more telemedicine options but that certain states had not yet adopted the practice. We specifically mentioned Texas as a state where we could really use Remote to help improve exam capacity.

Since our last call, based on recent updates to the regulatory environment, we are pleased to say that we are moving forward with Remote in Texas this year, in addition to our original locations planned for the year.

Since we began piloting remote eye exam technology in our America's Best stores just three years ago, we have enabled over 550 locations as of the end of 2023. On our last call we shared that we planned to enable 50 additional stores with Remote this year and complete the expansion of electronic health records, or EHR, throughout America's Best. With these latest positive developments, we now expect to add Remote to at least 150 stores this year and allow the EHR rollout completion to fall into next year, therefore we anticipate ending the year with approximately 700 remote-enabled stores.

Note that in the first quarter, remote exams represented over 7% of all exams provided and in Remote-enabled states they were in the low double-digit percentage range.

Recall that our rollout of remote is dependent on the state-by-state regulatory environment and we intend to continue adding select locations where feasible and advantageous.

Importantly, remote doctors now perform approximately the same number of exams as Optometrists practicing live in the store per day. Additionally, several stores are already at the point where they can perform as many exams a day with only Remote options as they do with Live Doctors, which gives us further confidence in the benefits of our Remote model.

In summary on this point, we feel quite good about how our efforts in retention, recruitment, and remote helped to drive an improvement in exam capacity in the first quarter compared to the prior year.

Moving on to where we see opportunities…

You are well aware of the challenging macroeconomic environment the retail industry is up against – especially for retailers like us who appeal to lower income consumers. As such, we've seen the kind of pressure on our business that you'd expect in this environment. Our comparable store sales remain below our target of mid-single digit growth – and this is our number one focus.

Last quarter we shared that we were waiting for March results as a data point for normalization in the purchase cycle following the green shoots we saw in the second half of last year. However, March did not prove to have as robust of a demand backdrop as we would have hoped. However, with much of the year still ahead, we remain focused on executing on our goals, and we are reaffirming our earnings outlook for the year. Melissa will go into more detail on our outlook in just a moment.

The data remains inconsistent, and we believe it is still too soon to declare that the optical purchase cycle has normalized -- particularly as our core uninsured customer faces ongoing macro-related headwinds.

Our lower-income consumers remain stressed given persistent high inflation. This is reflected in the lower contribution of our cash pay customers to our overall sales as this group weighs daily purchases such as groceries and gas with the necessity to see clearly.

As such, we did not see the growth in cash pay customers as we did in the fourth quarter. We did continue to see strength in managed care, which as of the end of last year represents about 35% of our business.

While we cannot control the macro factors impacting our business, we believe the actions we are taking provide us with a strong foundation for growth. I am pleased with the execution our teams are delivering against this challenging backdrop.

We also continue to tackle inflationary pressures on our business with pricing. In fact, on a continuing basis, exam net revenue fully offset doctor costs during the quarter for the first time in the past 12 months, reflecting the price increases we took at the end of the fourth quarter as well as increased doctor productivity.

We will continue to look for ways to offset inflation with pricing where we see the opportunity to do so.

As we shared last quarter, Eyeglass World is not performing to our standards. We are pleased with the actions the new leadership team is taking to improve that business and re-energize the brand. The primary focus has been to standardize operations by taking a page from our America's Best playbook, which includes improving coverage to better align days and times of coverage to meet our patient's needs. We began implementing Remote technology in select stores this quarter. Also, as we mentioned on our last call, we reallocated marketing dollars to provide Eyeglass World with higher advertising this year to improve brand awareness.

During the quarter, we largely completed the previously announced conversion of the 20 Eyeglass World California stores to America's Best. We are early in the conversion and some opportunities remain, but overall things are going well. Our training teams are doing an amazing job helping the staff and doctors transition to the new model. Additionally, we recently equipped California stores with EHR and plan to use remote in at least some of those stores for fill-in coverage.

Before closing, I'd like to share with you an update on our whitespace opportunity and some exciting AI developments at Toku.

During the quarter, we completed a detailed analysis on our whitespace opportunity. The new analysis is based on updated modeling by a third-party real estate data analytics provider, that we have used for many years. Based on these results, we increased the whitespace opportunity for America's Best by an additional 350 locations, for a new total of at least 1,650 America's Best locations. Our analysis assumes maintaining Eyeglass World's total whitespace opportunity of at least 850 locations, as we work to improve performance in that brand. Our total updated whitespace opportunity is now believed to be at least 2,500 stores, which is more than double that of our current store count.

As we think about opportunities and our new store opening plans, it is important to note that two thirds of the America's Best stores in our new whitespace opportunity are in currently remote-enabled states, a figure that will increase over time as we enter more states. Further, the majority of our new stores open with full doctor coverage, most with live doctors or some form of hybrid live and remote doctor coverage.

For the year, we continue to expect to open 65-70 new stores and will continue to provide details on our annual new store opening plans at the beginning of each year.

Looking ahead, we are excited about the many opportunities AI brings to the optical industry.

While still early stage, we are pleased with the progress being made by Toku Inc., the AI start-up we have invested in.

This quarter we were excited to be the first retailer in the U.S. to launch a pilot of BioAge, Toku's wellness product that utilizes retinal images to determine a person's biological age, which can give an indication of their overall health. We are currently piloting this in a handful of stores.

Toku was also granted its second Breakthrough designation by the FDA, this time for its chronic kidney disease assessment AI, which follows the designation granted for its cardiovascular assessment AI late last year.

Both of these products can use retinal images collected at routine eye exams which further demonstrate that the eye offers a window into broader health.

And with that, I will turn the call over to Melissa to review our results in more detail.

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

Thank you, Reade, and good morning, everyone.

As Reade noted, we delivered first quarter adjusted comparable store sales in line with our expectations on both a total company and a continuing operations perspective, and we have continued to progress our initiatives including expanding exam capacity by addressing both dark and dim stores. Given the termination of the Walmart management and services agreement in the first quarter, our historical Legacy segment is now presented as discontinued operations for the current and prior year periods. As you review our financial statements, note that the earnings impact from the termination of the Walmart management and services agreement can be found in one line item entitled discontinued operations. Today, my review of first quarter results will be focused on continuing operations unless otherwise noted.

Now moving on to our first quarter results in more detail...

For the first quarter, net revenue increased 4.2% compared to the prior year, driven primarily by growth from new store sales, which was partially offset by a slight drag from the conversion of the 20 Eyeglass World stores in California. The converted stores were closed for a short period of time prior to re-opening as America's Best locations. These stores will continue to be reflected in total net revenue performance and will be added to the comp base in the 13th full fiscal month following the completion of the conversion, which is consistent with our comp methodology. Adjusted Comparable Store Sales Growth for the quarter was 0.4% driven by an increase in average ticket supported by the pricing actions taken at the end of last year, partially offset by a decrease in customer transactions.

The timing of unearned revenue benefited revenue in the period by 50 basis points. We opened 14 new America's Best and converted 20 Eyeglass World stores to America's Best in the first quarter. Unit growth in our America's Best and Eyeglass World brands increased 6.5% on a combined basis over the total store base last year, and we ended the quarter with 1,201 stores.

As a percentage of net revenue, costs applicable to revenue increased approximately 60 basis points compared with the prior year quarter, driven primarily by a 110 basis points decrease in product gross margin, offset by a 50-bps expansion in service gross margin. The decrease in product gross margin was largely attributable to the mix shift in revenues given the strength in managed care and the underutilization of the two pair offer, as the cash pay consumer remains stressed. The 50-bps expansion in service gross margin was driven by increased exam revenue due to pricing actions and growth in exam count, which more than offset the deleverage in optometrist related costs. This is detailed on slide 8 in our presentation.

Adjusted SG&A expense as a percentage of revenue decreased 70 basis points compared with the first quarter of 2023. The decrease in adjusted SG&A as a percentage of net revenue was primarily driven by a decrease in performance-based incentive compensation, partially offset by increased occupancy and other operating expenses. We continue to be very disciplined with expense management and have implemented efficiencies to streamline processes and reduce costs. For example, during the quarter, we modified our store staffing program to better align store performance and demand, without sacrificing customer service.

Depreciation and amortization expense was $23.6 million, compared to $22.7 million in the prior year period.

Adjusted operating income was $35.8 million compared to $33.9 million in the prior year period. Adjusted operating margin increased 10 basis points to 6.6% compared to the prior period due primarily to the factors previously discussed.

Net interest expense was $4.3 million, compared to $4.9 million in the prior year period. As a reminder, our interest guidance excludes non-cash mark-to-market and deferred financing costs which totaled $3.3 million for the period. Excluding these costs, interest expense was $1.0 million.

Adjusted diluted EPS increased to $0.30 per share in the first quarter of fiscal 2024 from $0.27 per share a year ago and reflects an effective tax rate of approximately 31%.

As a reminder, our adjusted results exclude the impacts associated with one-time charges including the wind down of AC Lens, cost savings initiatives, charges related to our ERP and CRM implementations among other items as detailed in the reconciliation tables in our earnings release for our adjusted results on both a total company and continuing operations basis.

As it relates to the ERP project, workstreams are progressing well and we are on track to substantially complete the first phase of the project by the end of fiscal 2024.

Turning next to our balance sheet.

We ended the quarter with a cash balance of approximately $150 million and total liquidity of $444 million, including available capacity from our revolving credit facility. As of March 30th, our total debt outstanding was $459 million, net of unamortized discounts, and for the trailing 12 months, we ended the year with net debt-to-adjusted EBITDA of 2.0 times.

During the quarter, we generated operating cash flow of $24.0 million and invested $20.0 million in capital expenditures primarily focused on new store openings and investments in technology. We continue to maintain a strong balance sheet and healthy cash flow to support our growth and capital allocation priorities as detailed on slide 10 of our earnings presentation.

Moving now to the discussion of our 2024 outlook for the total company which includes the impact from discontinued operations as well as our continuing operations for the full year.

As stated in our press release, we are reaffirming our outlook for the fiscal year 2024.

The expected effect of Walmart and AC Lens operations on fiscal 2024 results are reflected on slide 13 of our earnings presentation. Walmart store operations, now reflected in discontinued operations, delivered $18 million in revenue and an adjusted operating loss of $800 thousand for the first quarter of fiscal 2024. These results include $3 million from unearned revenue and the impact of additional costs incurred after the contract termination not assumed in our original outlook. As a reminder, our AC Lens operations will remain in continuing operations results through June 30th. We now expect AC Lens to deliver approximately $122 million of revenue and $2 million of Adjusted Operating Income in the first half of the year, half of which was achieved in the first quarter.

In addition, our outlook for fiscal 2024 assumes a range of scenarios with respect to consumer sentiment, ongoing success with our America's Best brand, and performance improvement in our Eyeglass World brand.

As Reade noted, we experienced a less than robust tax refund season. While March and April both comped positively in the low single digit range, we would need to see a greater improvement in adjusted comparable store sales growth trends as we progress through the year to achieve topline results toward the higher end of our guidance range. That said, it is still early in the year, and we are controlling all aspects of performance that we can control. We remain acutely focused on executing our strategic initiatives to drive topline growth, which includes expanding our remote exam capabilities into Texas. We believe expanding remote exam capabilities into Texas will benefit sales in the second half of the year.

In addition, we continue to believe that the pricing actions we took at the end of last year, as well as our ongoing focus on disciplined expense management will support our profitability objectives. As I mentioned, we have evolved our store staffing guidelines to better adapt to changing consumer trends, and we are continuing to benefit from the cost savings actions we implemented late last year.

As a reminder, at the midpoint of our guidance, we would expect operating income margin relatively in line with fiscal 2023 driven by gross margin expansion of approximately 200 basis points, which is expected to be entirely weighted to the second half of the year, given the timing of the transition out of the lower margin Walmart and AC Lens businesses. Adjusted SG&A as a percentage of revenue is expected to deleverage by approximately 150 basis points, primarily driven by the year-over-year decline in revenue in the second half of the year given the termination of the Walmart and AC Lens businesses.

Looking further ahead, as we have previously discussed, fiscal 2024 results and a return to mid-single-digit adjusted comparable store sales growth are critical steps in achieving our fiscal 2025 target of a mid-single-digit adjusted operating margin. While we cannot control the macro environment which continues to pressure our core uninsured consumer, as reflected in our slower start to 2024, we remain committed to controlling all aspects of business performance within our control by taking the appropriate actions to improve productivity while driving gross margin expansion and expense leverage. We remain focused on achieving our objectives and delivering value to our shareholders.

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?

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

Thank you, Melissa.

To summarize, we are pleased to have delivered sales in line with our guidance on our last call. We remain intently focused on disciplined expense management which led to stronger than expected profits in the first quarter.

Our doctor retention and recruitment levels during the quarter remain on track, and we are excited to move forward with enabling our stores in Texas with remote technology which will allow us to improve coverage in that important state.

And our EGW Team is making progress to improve and re-energize the brand.

While the macroeconomic environment remains uncertain, the National Vision culture remains strong. It gives me great joy to see the passion associates and doctors bring to our stores each day to serve our customers. We are keenly focused on the areas of our business that we can control and are committed to continuing to make progress on our strategic initiatives to drive shareholder value.

And with that, we'll will now turn the call over to the operator for questions.

QUESTION AND ANSWER SECTION

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Michael Lasser Analyst, UBS Securities LLC

Good morning. Thank you so much for taking my question. Given the underperformance of the Eyeglass World segment, which tends to cater to a slightly higher income demographic, it does seem like you are seeing different trends by your class of income demographic. So, are there other factors at play that are weighing on sales outside of just the macro, in your view?

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

Michael, thank you for that. Yes, and you are right, the Eyeglass World does appeal to a slightly higher demographic, but we don't really think that that's what is the key challenge for our Eyeglass World business. We really think that we've got a few things that aren't quite in alignment there, that the coverage situation in Eyeglass World has not been as strong. We have a few different models there that we're trying to get to the point of the – of having the coverage we need to handle the consumer demand there, where we think that we've been under-marketing that and we're returning to healthier marketing levels. And we think that there is some operational crispness that we can improve also. And so, we really would think there are more internal factors associated with this than really the external – than the consumer segments that they appeal to. I will say we are adding remote to a number of Eyeglass World stores now, so that's going to – should be helpful to us in the near future.

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Michael Lasser Analyst, UBS Securities LLC

Okay. Thank you very much for that. And my follow-up question is, you just – you discussed the low-single-digit comps that you've been seeing in March and April. And if that continues, it would take out the high end of the comp range for the year. How should we think about the flow-through or where you would land on the profitability side if you come in at the lower end of your sales range for the year?

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

Hi, Michael. The way that we were considering the guidance with the comp trajectory that we've seen so far, while the March and April comps came in, in the low-single-digit, that's more in line with the bottom end of our range. And we were hoping for a more robust March than what we saw. That being said, there are some levers that we're planning to pull related to revenue, one of which being the rollout of remote into Texas. Texas is the largest state with America's Best presence in it. So, we do expect a meaningful impact to the back half of the year related to the remote enablement there. In addition, we're looking to implement some patient access initiatives in the coming weeks that we also expect will be a benefit to revenue. With both of those factors, we were confident in reaffirming the guidance range.

Now, Texas, we're expecting to make up some lost ground from the slower start of the year. And with the overall performance at the bottom line, we did see some benefit from disciplined expense management, but we also had an impact related to incentive compensation. Year-over-year, we're accruing lower incentive compensation that was built into the plan to some extent. However, based on the slower start of performance, you did see a bigger benefit of that this quarter than you'll see in subsequent quarters. We do expect that we'll continue to mitigate expenses to the extent possible and are continuously looking for efficiencies to implement and will maintain our disciplined expense management.

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Simeon Siegel Analyst, BMO Capital Markets Corp.

Thanks. Good morning, everyone. So, could you – just back on the March, April for a second, how was ticket versus transaction in that period? And maybe how are you thinking about the transactions playing out over the course of the year? And then, I know this is early, but just any early learnings you can share on the performance of the converted stores? Like, how are their openings or even the ramps you're seeing, how they compare to new store openings? Thanks.

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

So, there are three parts there. So, the March and April period is a little bit more transaction-driven than ticket driven. [ph] We think it's (00:30:56), I think, a little different in the two quarters there. We're going to check that for sure right now. The converted stores are transitioning well. This is the 20 Eyeglass World. Converted stores are –they are transitioning. We're teaching the new model. We – just at the end of the quarter, we got to the point where they got to the new model. But now, we're training all the stores on how to do the new model and it is a very different model. So that's coming along as we had expected.

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Simeon Siegel Analyst, BMO Capital Markets Corp.

Just thinking through how you would expect transactions to progress over the year within the high or low end range?

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

Yeah. I will say, right now, the category itself is slow. Right now, overall, it seems from everything we can, we're hearing from all the different vendor communities that the category is right now going through a slow patch. We do think and we think that's all related to consumer sentiment. There is not much in the headlines out there that's very encouraging. And we will – but we do think we have some strong programs that should help us to drive sales going forward, capacity-driving programs like Melissa just mentioned. We have some new product introductions that we think are pretty exciting and we're going to be trialing some new messaging as well, which we're hopeful that can help us in the second half of the year, second pre-quarter of the year, and we are still very encouraged by managed care, which just keeps delivering well for us.

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

Hey, Simeon. I just wanted to clarify that for – overall, for the quarter, we did see a higher ticket and lower transactions that offset that higher ticket to a slight extent. That being said, we did increase some pricing at the end of 2023, which helps contribute to that increased ticket that you were seeing in first quarter.

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Anthony Chinonye Chukumba Analyst, Loop Capital Markets LLC

Good morning. Thanks for taking my question. On the risk of getting too granular, in terms of Texas, can you just give us some order of magnitude in terms of the number of dark and dim stores there?

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Patrick R. Moore Chief Operating Officer, National Vision Holdings, Inc.

Hey. Anthony, it's Patrick. A couple of things I'll mention in Texas. That's a really big market, opened it 10 years ago and has been critical. We have more AB stores in the state of Texas than any other states in the US. And certainly, there is going to be some proportionate level of dark and dim there. We're going to be lighting up a 100-plus of those locations now this year as soon as possible, and to help remediate any of those that exist. And so, it's going to be – it's a really powerful tool and we'll be deploying it there soon.

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Anthony Chinonye Chukumba Analyst, Loop Capital Markets LLC

Got it. That's helpful. And then just quickly changing gears here, in terms of Toku and this BioAge, is that – what's the charge for that? And is that covered by insurance, or is that something that customers have to pay for out of pocket? Thanks.

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

So, it is – we bundle it in with a few other tests. It is not covered by insurance. The way it works is that you get a result that gives you your biological age. And if your biological age is five years or more older than your chronological age, then we really suggest you go seek medical help. And I've been frankly pleasantly surprised by the uptake of it. Again, it's just a handful of stores and it's early days. And what we're doing with all these things with AI is we're learning our way through this. And the BioAge thing does not require FDA approval, but the big news will be when the FDA blesses both the cardiovascular and the kidney AI assessments, because I think that really will be something that can play a role in the healthcare of our patients and we're learning through this, but AI is a big new exciting world and we want to find a variety of different ways that it can impact both our patient and customer-facing side of our business, as well as our back office.

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Simeon Ari Gutman Analyst, Morgan Stanley & Co. LLC

Hey. Good morning, everyone. Reade, I want to ask first on remote. We talked a bit about Texas and exams and driving some sales. Can you give us maybe a preview or tour of how remote evolves or shows up on the P&L? Obviously, sales. Do we have the embedded cost? I guess, there is fixed of optometrists already in your P&L. Are there other technology or are there more rollout costs or were at the embedded run rate and now it's all the benefits start to accrue once you roll it out to more markets?

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

Hi, Simeon. With the remote rollout, we largely see a benefit that's similar as [ph] in-lane (00:36:42) versus remote. There are some puts and takes that go into that. Now, to implement the remote technology, there is an incremental cost associated with that. You have the capital expenditure in addition to the teams that are deploying this technology. We do have it embedded into our run rate. Now that we have been doing remote in earnest since the – since 2022, we have been incurring the ongoing expense and seeing the ongoing benefit that, that provides to us. We do see a lift in productivity as the store has – as the store and the doctor has become more comfortable with that technology. And overall, we are seeing positive margins and operating margin related to the remote technology as a whole.

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

And Simeon, I do think this quarter was another step-change in our evolution on remote overall. I mean, the Texas [ph] news is wonderful (00:37:42). It was a surprise. It was far earlier than we expected. So that was great. And that's why we're raising the number of stores we're going to enable this year. But also just the fact that the doctors are as productive and that now we've got several stores that can do remote in a way that allows them to do as many events as they did with a live doctor. All those things combined to just take us to a new level and see it achieving its potential ever more. So, we think it was a really good quarter for remote all around.

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Simeon Ari Gutman Analyst, Morgan Stanley & Co. LLC

Okay. And then follow-up, just two parts, the price increases on exams. I am assuming, you are competitive within the market. But any other competitive changes on price, are you at a value to the market?

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

I was just going to say, of course, we did. We did a lot of analysis and checking and we're still really a great value. I mean, the exam price is $69 for the exam. By the way, for an extra $10, you can get two pairs of glasses. So, it makes that value look even more exciting. But yeah, we – it's still a great value relative to what you're going to find almost any place else.

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Simeon Ari Gutman Analyst, Morgan Stanley & Co. LLC

And then the incentive comp, I think Melissa said that you are accruing a certain amount, but you took it down a little further. Can you quantify that? And will that benefit remain the entire year. This 100 basis points, I guess it depends on sales. But roughly what you're accruing now, does that hold? And is that a good guide now to the P&L for the rest of the year?

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

Hey, Simeon. With the incentive compensation, year-over-year, we did take down the accrual. In 2023, with the year being better than we had originally expected, we did pay out a bit above target. Our plan this year contemplated that we would accrue incentive compensation at target. So, there was a little bit of a benefit baked into the plan anyway. Now, what we did see as we went into the first quarter was with the soft start, there was more of a benefit than what was originally baked into the plan. I would expect that you'll continue to see some benefit in each quarter as the year progresses, but not to expect it to be as large as it was in the first quarter.

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Adrienne Yih Analyst, Barclays Capital, Inc.

Great. Thank you very much. So, Reade, I guess, I have two kind of more broad questions. So, it sounds like you have even more confidence on sort of the remote uptake and believe in it very, very strongly over the long term. Just trying to figure out how you think about sort of Walmart's virtual health exit. I know they're still running the 3,000 vision care centers. But they talked about sort of the increasing costs and perhaps not seeing as much uptake, hardly any stores out there. But just kind of thoughts on that, how you marry it to the vision care? And then with your broad – your increase in the kind of whitespace opportunity, can you talk about the competitive backdrop in the whitespace? Are you entering markets where there really isn't anybody? Are you filling in space that others can't go? So, any color on that would be great. Thank you.

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

Thank you, Adrienne. And yes, of course, we've all read how Walmart has exited their major healthcare initiative, which – of which telehealth was actually, I think, just one of the offerings that they had. It was a much more elaborate offering, as you know, on that. For us, I think tele-optometry in the way we do it is very different from traditional telehealth. Traditional telehealth is about a consumer sitting at home and interacting with their optical provider. This is the same customer journey or patient journey that has always been the case for our stores and for the category with a patient walking into an exam environment that is filled with expensive equipment that is used to assess their eye health and determine their prescription. The patient experience is the same with the exception that the doctor is on a screen a few feet from them live and synchronous, but they are still sitting in the store.

So, I don't think that there is – I don't think it's a real analogy to what Walmart's telehealth experience was overall. But all I know is this. This is working well for us. It is solving our challenges of the fact that there are [ph] optometrist (00:42:48) shortages throughout the country. We are able to hire doctors pretty easily for this mode of practice. Patients are good with it. Our stores have figured out how to work with it. So, we are just real proud and real optimistic. And we're not trying to predict where this will go. We're going to let sort of the marketplace predict what percentage it achieves. But the fact that it's in low-double-digits already and we're so relatively new to it. I think it all says that when we start out on this road, we said we want this to be a solve for our doctor capacity challenges and we are ever more believers in that.

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Patrick R. Moore Chief Operating Officer, National Vision Holdings, Inc.

And then I'll take the whitespace question. Good morning, Adrienne. It's Patrick. We recently updated our whitespace. The last time we updated and shared it was 2020 and across the pandemic era, we looked at it once more, but there was just so much volatility across that era. We waited until now to kind of updated and reshared those stats with you. I won't repeat them. And what I'll say is, I think or we think our whitespace is kind of the theoretical potential target. And then as we think about actual entries, we take a variety of things into consideration. You're absolutely right. Is it a new market? Is it an existing market? Is it a highly competitively intensive market? What are our doctor capacity challenges? Do we have remote in that market?

What are rents, et cetera? So all of that factors in as we create our kind of updated annual plan of actually where we're taking stores. And that would also include brands, which brands we'll be opening in which markets? A couple of things I'll add that it really changed over time. We have improved exam capacity. And while there are still pockets of that, that we've got to improve, remote as a backup is actually become a very powerful tool. This is true with the existing stores, as well as new stores. So, our remote-enabled stores give us more confidence heading into and realizing and converting that whitespace into profit generating stores for us.

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Brian Tanquilut Analyst, Jefferies LLC

Hey. Good morning, guys. Maybe, Reade, just thinking about how you're highlighting how managed care penetration helps or has been helping drive the comp, right? So, as we think about the initiatives you're rolling out or what are you doing, maybe it's a better question, to drive increased managed care penetration, number one, and also parsing that out between the America's Best and Eyeglass World in terms of strategies to push managed care penetration in those two different brands? Thanks.

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

So, what is nice about the managed care piece is you generally have the same – I mean, you have the same insurance as all your co-workers. So, there is a very nice word of mouth element to that. You see someone in new glasses, you comment and you both know you have the same insurance and so that is helpful. There is a strong word of mouth component. We do have various marketing initiatives that we put in place to try to boost the – that part of the business. And again, it's been a consistent grower for us for years now and with very healthy comps there, and we expect that to continue going forward. And in terms of it's been strong for both Eyeglass World and for America's Best in terms of growth. But we do believe we're growing share in the managed care area.

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Brian Tanquilut Analyst, Jefferies LLC

Got it.

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

And I think it is the discovery that your money goes further with us, your managed care funds go further with us than they do in most places.

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Brian Tanquilut Analyst, Jefferies LLC

That makes sense. And then maybe going back to the Toku question. So, as we think about longer term, I mean, your vision for how Toku or AI factors into the strategy, right? So, is this something that will eventually evolve to where you're hoping or looking for managed care reimbursement for the screening? Or is this always going to be a consumer out-of-pocket type of service offering?

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

So, this is a longer-term innovation, you pointed that out. We have what we believe is the largest employee network of optometrists in America, and they're tied together on a common EHR platform. And we think that, that is a significant asset, especially in an era of, it's not just [ph] optometrist (00:48:01) shortages out there. There are healthcare providers shortages throughout American medicine. We find that the back of the eye is a treasure trove of medical information and we have retinal cameras in all of our stores. And we think this combination of large network of employed doctors, common EHR amongst them, the advancements in AI and the shortages of healthcare professionals throughout the land, we think that those things should come together to allow us to perhaps play a broader role in the healthcare of our patients' lives and perhaps participate in ways that insurance companies and pharmaceutical companies might find beneficial.

And so, we don't really think this will be as much cash pay oriented. We do think that we'd like to, over time, find partnerships with insurers and other healthcare providers where we can be playing a role in helping them save money, while keeping their patients healthier. Value-based healthcare is a thing and a growing trend in America. We think that keeping people healthier is a key piece of that value-based care. So, again, it's long range in nature. You've heard me list sort of all the elements that we think should be able to combine together to create value for patients and create value for insurers. And we're still in the early stages of figuring out and talking to lots of different groups to see how we could add value to what they're trying to do relative to their patient care.

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Zachary Fadem Analyst, Wells Fargo Securities LLC

Hey. Good morning. Reade, starting with your core lower income consumer, and if there is any extra color you could describe on the incremental behaviors you're seeing in terms of trade down versus deferral of purchase? And then do you think there was any impact at all in light of some of the recent pricing actions you've taken?

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

So, in terms of trade down, the majority of that relates to our growth in managed care. Those are generally better off consumers. So that's the biggest factor there. And in terms of the pricing actions, we did a lot of study work to make sure that we are still providing really great value and still very competitive in the markets in which we compete. And these are still really great prices. $69 for an eye exam is really a great price. And so, we are – we feel pretty good about those decisions.

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Zachary Fadem Analyst, Wells Fargo Securities LLC

Got it. And then circling back on the March-April acceleration, was this more about tax refund catch-ups or did you start to see any incremental traction on dark to dim stores or doctor availability? And then, as you think about the current low-single-digit run rate, is this the right way to think about Q2 as a whole as well as the rest of the year? Or is there anything else we should keep in mind?

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

So, we all know that the tax refunds were delayed. And again, we find consistent positive low-single-digit comps in March and April. We are hoping for a more robust tax season. And we know the category really saw that, which we think relates primarily to consumer sentiment. And – but we are hopeful that some of the initiatives that we can put in place and some of the things that we've referenced like Texas remote and other pieces that we can get some acceleration for the rest of the year, but it's a very uncertain time. And our crystal balls are not – are cloudier than they normally are in this strange macro environment.

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Dylan Carden Analyst, William Blair & Co. LLC

Hey. Thank you. Just to simplify this a little bit. Looking at your 10-K disclosures, you've added around 1,000 doctors in the last two years. You've added about 120 stores over that same period. So, just the overall exam capacity has increased rather meaningfully. And if you're kind of looking at stack trends, I know the sort of inclination here is to blame some of the macro. But just relative to yourself, why – what would be the answer to why you're not seeing that flow-through to more demand generation at this point? Thanks.

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

So, where we have coverage and demand, we are strong and healthy. Where we have coverage and low demand, we are still positive. Where we are lacking in coverage, things are tough. We have remote that is helping us and is going to help us ever more. And we are – we continue to work on recruitment and retention, which again is progressing fine. But we do think that we are getting ever better at having the coverage we need and now we are looking for macro demand.

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Patrick R. Moore Chief Operating Officer, National Vision Holdings, Inc.

Hey. Dylan, it's Patrick. The other thing I would just add to that is, whereas in 2019, a doctor was a doctor was a doctor, and they were all working kind of five days a week on certain hours, it's a very different world now. And we have three-day doctors and four-day doctors and five-day doctors. We have part-time doctors. We have casual part-time doctors. We have a lot more doctors, but they're working at a far more varied kind of work schedules than, say, they were in 2019. And that also contributes to that.

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

Just when I talk to people in other aspects of healthcare, sort of they literally say things like, yes, if you have doctor in front of your name, you are working less days than you were in 2019. And that's true in a lot of healthcare and certainly true for us.

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Dylan Carden Analyst, William Blair & Co. LLC

Yeah. And that makes sense that you're seeing that's part of the answer. But then I guess the question that stems from that is, so what's the ramification for the model at that point, right? If you're seeing that less efficiency in your doctor base and cost of doctors going up, how does that flow through if you're not seeing the demand [indiscernible] (00:55:15)?

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

And this is why we are emphasizing the successes that we had with remote in the first quarter, because, A, it's very flexible. Remote doctor never has a no-show. They appear where they're needed. They appear where a patient is. But these advances in remote where we do – we are able to recruit where there are ever more doctors who want to do this, this is the piece that really we think is going to be the big solve for this and allows us to deliver our model in ways that we can't if we don't have a live doctor in our store historically.

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Brandon Cheatham Analyst, Citigroup Global Markets, Inc.

Hey, everyone. It's Brandon Cheatham on for Paul. You mentioned the remote doctors see the same number of patients as live ones. I guess I do find that a little surprising. As you just mentioned, I would have thought they'd have better throughput, because they don't have missed appointments as a factor. So, do you expect that to increase over time? And how much of a factor, if any, is that in achieving your mid-single-digit EBIT margin target in 2025?

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Patrick R. Moore Chief Operating Officer, National Vision Holdings, Inc.

Hey. It's Patrick. I'll take the first part of that question. So our remote doctors, as we were ramping up this start-up, there was just – there were long ramps of learning and training and we were trading out some equipment and software optimizing and frankly, it took us a while to get to a point that we were comfortable with the overall machine. Those doctors are now doing right at the same amount of exams per that an in-line doctor is doing. We still believe that, that can exceed that of in-line for the reasons you said were not quite there yet. But I got to tell you, in the last six months, we have made a ton of progress on doing the right things, balancing supply and demand growth from doctors and giving them as frictionless and as easy of a process to conduct a remote exam. So, I have every intention and hope in the world that we're going to be at a point near-term, medium-term where I get to say our remote doctors are performing even more exams than our in-line for exactly the reasons you say. We're not there yet, [ph] but – while we (00:57:57) have we made some great progress in the last two quarters.

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Brandon Cheatham Analyst, Citigroup Global Markets, Inc.

Got it. I mean, how much of a factor is that in achieving the mid-single-digit EBIT margin in 2025?

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

Yeah. So, remote is certainly a factor in achieving the mid-single-digit operating margin in 2025. When we laid out our plan, we had a multitude of scenarios built into that. Remote has really become embedded into our overall business and the benefits of remote has been factored into our guidance as a whole. One thing that we do see some benefit – or that we're expecting some incremental benefit from is the remote rollout in Texas. While that was not built into our guide necessarily from the start of the year, because at the beginning of the year, we weren't expecting to go into Texas, we do expect to be able to make up some revenue ground from the beginning of the year starting slower than expected. So, we do have line of sight to the 2025 mid-single-digit adjusted operating margin goal, and we plan to continue to pull the levers that we've talked about and do tightly disciplined expense management and expect to be able to get there.

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Brandon Cheatham Analyst, Citigroup Global Markets, Inc.

Got it. Thanks. That makes sense. And then, I was just wondering if you could talk about what surprised you to the positive side or the negative side in the quarter? Did the America's Best performed better than you expected and Eyeglass World was a little worse? And then, sounds like March was below your expectations. Did you expect April to also kind of get back to mid-single-digit comp, or is that not contemplated in how you are expecting things to go?

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

Yeah. So, I'll start with, we had hoped to see a more robust tax return season that – we're pleased that we came in on our guide. But we had hoped to beat it. We had hoped to have another data point of, oh, good, things are getting a bit back to normal. And I think that with what's happening overall in the economy in the world, with consumer sentiment that, that did not come about in March and April. However, we are still [ph] comping positively (01:00:14). So that is encouraging from that front. In the quarter, the things that went well for us was –all aspects of remote went well for us, and that was really encouraging in terms of our long-term future. And we like the reaffirmation that the whitespace analysis suggests that America needs ever more stores from us. And we like the fact that the pricing initiative seems to have worked out well for us. What saddened us was just the category was slower than we had anticipated.

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Operator

Thank you. This concludes the Q&A session. I will now turn it back over to Reade Fahs for closing remarks.

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

Antoine, thank you for your help today. And thank you to the rest of you for joining us today. We appreciate your interest and support and looking forward to talking to you next on our Q2 earnings call. Thank you, all, very much. Have a great day.