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National Vision Holdings, Inc. (EYE)

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CORPORATE PARTICIPANTS

Alex Wilkes – Chief Executive, National Vision Holdings, Inc.

Christopher Laden – Chief Financial Officer, National Vision Holdings, Inc.

OTHER PARTICIPANTS

Kate McShane – Analyst, Goldman Sachs

MANAGEMENT DISCUSSION

Kate McShane, Goldman Sachs

Okay. Good afternoon, everyone. It's my pleasure to introduce National Vision to this afternoon session. Today, we have with us Alex Wilkes, Chief Executive Officer, newly minted Chief Executive Officer. It's so nice for you to be here. And Chris Laden, Chief Financial Officer.

And we'll kick it off with maybe just a lay of the land with the health of the consumer. I mean, you guys have a lot going on with your business and new strategies. And so, we'll definitely get into that. But could you maybe talk a little bit about the lower income consumer, which is still the crux of your consumer base and what you're seeing from that customer?

Alex Wilkes, Chief Executive Officer, National Vision Holdings, Inc.

Yeah. So interestingly enough, actually, the lower income consumer actually probably represents about 10%, 20% of our business. Our consumer base actually more closely mimics the US household income distribution than what we previously even thought as a company. And frankly, we're starting to see some resilience with that consumer. We've made a number of changes to our business model over the last year advancing our assortment, taking some pricing decisions. And across the board, we're actually seeing consumers, one, opt in to some products that are a little bit higher in the assortment range, and we're starting to see some kind of green shoots of acceleration of purchase cycle. We've certainly seen it with the managed care consumer. It's not quite back to pre-COVID levels yet with the cash pay consumer, but it is accelerating.

Kate McShane, Goldman Sachs

That's great to see. And I know it's been a lot on the execution side, but from a purchasing cycle standpoint, there has to be at least, I think, some pent-up demand at this point.

Alex Wilkes, Chief Executive Officer, National Vision Holdings, Inc.

Yeah. We're still seeing – certainly, on the managed care side, we're seeing the purchase cycle return to historical norms. The cash pay is still a bit depressed. I think we still have a bit of 2022 stimulus that we need to burn through in order for that to kind of finally normalize. But from what we're seeing so far, year-to-date, again, we're quite happy with where consumption is within our brands.

Kate McShane, Goldman Sachs

That's great. I have a bunch of questions about what happened in the last quarter and the strength in same-store sales, but maybe it's just better to take a step back. And since you're new to the role and have had implemented a lot of changes already, could you maybe walk us through just in these early days what you have found are strengths of the company, what are things that are more bigger challenges, and just how you're approaching this new strategy for National Vision?

Alex Wilkes, Chief Executive Officer, National Vision Holdings, Inc.

Sure. So for 19 years, National Vision was an incredibly successful company, and they were successful at running the analog replicator play that worked so well for them through a couple private equity transactions. And that model worked, and it worked through the COVID time period when a couple things, I think, occurred were the company needed to now rapidly catch up. The consumer evolved. It was a market that pre, call it, 2000s when National Vision and America's Best was really invented, the market was predominantly a cash pay market. The market today is 70% managed care. And the business model hadn't necessarily evolved to capture and to optimize for those managed care consumers.

The model had also evolved where consumers were expecting more, especially around lenses and contact lenses and frame assortment. And again, a model that had been so successfully replicated over a number of years just hadn't adapted and evolved to the consumer of today. So as we started putting in strategies, we're not chasing a different consumer type. Frankly, what we're doing is we're pivoting our model to better serve the consumers that we're already capturing with our message of value. We believe that we will continue to be the undisputed value leader in the optical category, but we're redefining what value means. And we think we can provide better value to managed care members. We think we can provide better value to cash pay consumers by offering them better selection, better product. So, that's one kind of component of a mindset shift within the organization.

But to your point, we are changing a lot. We've made some management team changes. We brought in a new CFO in Chris Laden, who I had the privilege of working with for a number of years at EssilorLuxottica, and Chris is a wonderful addition to the team. We brought in a new leader to run America's Best. We promoted someone internally to focus on Eyeglass World. We have just this week a new Chief Merchant that's starting with experience from EssilorLuxottica. We brought in some product people from Meta. We have a Chief Technology Officer starting who specialized in Adobe implementations. And we've talked a lot about this, we're moving to the Adobe CRM and the Adobe e-commerce stack as a way to drive loyalty and better stickiness with our customers. So, we have made significant upgrades to our talent within the team.

We've also made some important changes with our external relationships. We have a new campaign, a new brand identity that we just launched for America's Best within the last two weeks in partnership with VML that we frankly couldn't be happier with. Again, early innings, but so far, the reception we're getting from consumers has been quite positive. We've done some early stages end-market testing and the assets that we put out creatively are performing better than our historic norms. So, we're super excited about that. So yeah, it is a time of rapid change and rapid modernization of the organization, and we're just super pleased that the consumer is responding to the work that we're doing today.

Christopher Laden – Chief Financial Officer, National Vision Holdings, Inc.

Yes, Alex, you focused a lot on what are the things that were evolving today when you kind of think about

what are the things that we're already going great, right? We've got almost 1,300 points of distribution across 38 states in Puerto Rico. So, the team has done a great job of building out just a pool of very valuable assets through which we think that there's even more value to produce. We've got domestic laboratories, diversified supply chains. So, I think it was my third or fourth day in role when Liberation Day occurred. And it was a privilege and refreshing to begin to think through what are the implications on the business and the supply chain and sourcing the business had already built kind of seeing these trends coming, of that not being a major focus point of – a pivot point that we needed to make as an organization.

Alex Wilkes, Chief Executive Officer, National Vision Holdings, Inc.

And the last piece of around doctors and doctor scarcity, like these models, the optical retail model doesn't work without access to doctors. And from 2022 through 2025, the team did a really good job of building out remote care tech capability and technology to serve patients in a remote environment, building new recruitment strategies and flexible scheduling offers for optometrists that allowed us to attract over 10% of the graduating optometry class, with optometrists being a really scarce resource in this category. Those things went really, really well from 2022 through 2025 and gave us a strong foundation to build upon.

Kate McShane, Goldman Sachs

So there's a lot going on, as you mentioned, and there's also, I think, a new, I don't know if objective is the right word, but certainly, a new initiative maybe for your sales force and those who work in the store. Culturally, I think they've been there a long time. How is it going in terms of messaging this, messaging the change to them? I know there's been training involved. When do you think that will start to make its way into the store? If you could talk more about that.

Alex Wilkes, Chief Executive Officer, National Vision Holdings, Inc.

Yeah, no, it's like – so we're trying to take a balanced approach of changing things in the company both mechanically and kind of behaviorally both with the team members in the store and with the consumers. And historically, we were a company that prided itself on helping customers leave the stores, having spent as little as possible because that was in our ethos of what we believe made for great value and a great long-term sticky consumer.

But as we're thinking about value and delivering great value to customers, that's a different equation now than it was when some of those ideas kind of first took root. And I'd like to give really kind of visual examples. And in the world where 40% of our customers are managed care and those managed care members have benefits that they pay for, if we're not helping them get those consumers, if we're not helping them get the most out of their benefits, we're actually not helping them get the best value. And that's a complete mindset shift for the team members who are always so hyper-focused on helping customers save as much as possible. Getting what they actually need for their lifestyle needs and getting the most out of their insurance plans, it's a new muscle. So to your question, we started kind of around the beginning part of the year just saying, hey, look, we're going to lift the – this old way of working. You're no longer kind of constrained to that. Your job and your responsibility is to sell to a lifestyle need of the consumer.

And around the May timeframe, we brought all of our store managers together and taught them more around lifestyle selling, taught them more around this kind of sales floor leadership. And then just a few weeks ago, before we launched our new Every Eye Deserves Better campaign, we rolled out a meeting – kind of meeting in a box to the store managers to share and continue to reinforce this message with the stores. But changing that mindset is something that's going to take time. It's going to take continuous training. It's going to take follow-up. This is an incredibly complicated category to sell in lenses and insurance plans and a medical append to a retail experience, right? There's nothing quite like it that I've

found anywhere else. And motivating our 14,000 people to help consumers differently is certainly going to take time. But they're up for the challenge and they're certainly – they're excited about it. When we shared in May the direction we're going with Every Eye Deserves Better and what that meant in terms of our anthemic kind of call to action that the teams were legitimately excited about it. So they're embracing it, and now, we just have to continue to reinforce and teach them how to do it on a daily basis.

Kate McShane, Goldman Sachs

Great. You mentioned the management changes, I think, both at America's Best and Eyeglass World. Could you maybe talk a little bit? I mean, I know this is – the initiatives and strategy is in place for the enterprise, but is there any, I guess, difference between how you're approaching America's Best and Eyeglass World, one might be much bigger than the other but two different brand?

Alex Wilkes, Chief Executive Officer, National Vision Holdings, Inc.

Yeah, sure. I mean, America's Best is obviously our largest component of our business. And it was the thing that we focused on first over the last year or so. So when we briefed our agency partners and our consultants, it was like, hey, guys, help us get America's Best pivoted first, and now, we're really starting to see the success there and we're going to start turning our attention to Eyeglass World. As I mentioned, we promoted one of our most promising talents to run that brand. And her mandate is to get some of the operational stuff kind of shored up. Like there's some just pretty substantial opportunities to do that. We just made a significant change with one of our doctor networks within Eyeglass World, where we transitioned what was a sublease arrangement with 40 or so locations to an employee doctor model to be more closely aligned to how we do business at America's Best, at least operationally. So, that was the changes made in the last 60 days. And then we can turn our attention to like how do we evolve the brand, how do we evolve our marketing strategy akin to what we've done at America's Best, not the same – applying the same approach but with a different message and a different point of differentiation.

Kate McShane, Goldman Sachs

Could we maybe talk about the real estate strategy? How do you feel about the real estate portfolio as it is today? Is it the right portfolio to have if you're going to try and cater to a more managed care?

Alex Wilkes, Chief Executive Officer, National Vision Holdings, Inc.

Yeah. Actually, we feel great about our real estate – current real estate portfolio. The vast majority of our America's Best locations are in regional power centers anchored by a TJX or Target or something of that nature, right? So I mean, we do have some freestanding smaller strip locations, but a lot of our real estate is actually in these regional draw power centers. So, we don't think that real estate should be a hindrance to us executing our strategy.

Christopher Laden – Chief Financial Officer, National Vision Holdings, Inc.

No, I agree. I think one of the interesting takeaways is that a lot of our – as we think about a more premium frame assortment, better selling strategies to help articulate the benefits of more premium lens features, we're doing that with a consumer base who's walking in with a purchasing power higher than we previously assumed, right? The business was architected around the lower income cash pay consumer, but that's not actually who's coming through the doors today, as Alex mentioned earlier. So as we think about the real estate and the consumer base that's attracting today, these are folks that are walking in already. It's a matter of how we better meet them where they're already at and kind of better distribute our merchandising, our branding, our marketing, our consumer messaging to better resonate with the folks who are already coming through. And I think as we do that, what we'll find is that other folks across those consumer segments will better understand what Eyeglass World and America's Best are all about and help

with new customer acquisition.

Kate McShane, Goldman Sachs

Maybe we can go back now to what you just reported last quarter and what you see for the second half of the year. Very strong growth in the second quarter. I think the bigger contributor to the comp was ticket with traffic improving. Can you talk about the composition of ticket versus traffic, how you see that evolving? And what should we expect in terms of what could happen at the low end of your range in the second half versus the high end?

Alex Wilkes – Chief Executive Officer, National Vision Holdings, Inc

Yeah. A couple comments on, we believe that we have longer-term room to continue to evolve our ticket. We think we can do that both via price and through assortment changes over the next several years. So, we think we have significant – now we're going to maintain. Our intent is that we're always going to be the obvious destination for value. So, we're not going to push on this over to the point that we're repositioned versus market, but we think that we have a significant amount of kind of price and assortment evolution that can benefit our comp going into the future. From a traffic perspective, we did see, I think, 40 basis points of negative traffic in Q2.

Christopher Laden – Chief Financial Officer, National Vision Holdings, Inc.

Yeah. Year-to-date, we're about flat.

Alex Wilkes – Chief Executive Officer, National Vision Holdings, Inc

That being said, we're far more concerned with the composition of our traffic than the net traffic number, especially given the strategy. We're underdeveloped in the category on managed care customers. We're underdeveloped on a customer type that's the Outside Rx customer. That's the customer that comes with a prescription from a outside doctor. We're underdeveloped there to the tune of 3 to 1 to the category, 50% of managed care versus 70% category. Progressive wear is 20% is our mix, 40% of category. So, we're really hyperfocused on how do we grow our customer count within those underdeveloped segments more than – so than the kind of aggregate traffic number. So, your point is spot on. We grew Q2 from a ticket perspective. We think there's lots of runway left there. We are obviously putting initiatives in place to grow traffic, new campaign, new CRM, new targeted approach, but again, we're as if not more concerned about the composition of our traffic versus the aggregate traffic number.

Christopher Laden – Chief Financial Officer, National Vision Holdings, Inc.

Yeah. I think echoing a point earlier, right, we've put a disproportionate amount of our energy around kind of one of the fewer deciles in terms of the lower income cash pay consumer. So, the evolution is really just better proportioning our energy, our assets, our resources towards driving traffic across that broader group. So, you might see some potential degradation in decile one, but we expect to see then improvements in the other deciles that we're targeting.

Kate McShane, Goldman Sachs

And then when it comes to margin, that's another place that we saw quite a bit of success in the second quarter, both gross margin expanded as well as operating margin. Just how sustainable are these margin improvements? And do you think – or do you have a roadmap where you can get back to the historical operating margin range of 6.5% to 7%?

Alex Wilkes – Chief Executive Officer, National Vision Holdings, Inc

Yeah. I'll talk to some of the current and let Chris take the future question. On the current, for sure, making some decisions on not anniversarying our promotion from last year that did drive traffic, but not necessarily accretive traffic, was a contributor. Taking the pricing decisions that we took contributed to operating margin expansion as well as gross margin expansion. So, that's where we're we know and understand now. We have a better sense for what are the opportunities to continue to lean into those levers to expand operating margins both near-term and long-term. And we think those are going to be significant levers for us to move in that direction.

Christopher Laden – Chief Financial Officer, National Vision Holdings, Inc.

Yeah. Look, expanding operating margin is a primary focus area for this management team. So, the initiatives that we've spoken about to date are all going to drive, we've seen it in the P&L, about 180 basis points of operating margin leverage year-to-date, and we don't think that we're done. Something we haven't spoken about yet is a different view of kind of cost controls, that was March, April of this year, we signed a strategic partnership agreement with Accenture to come through and really turn over every rock and kind of the SG&A and indirect spend line. We don't have anything in our guidance in terms of the savings opportunity we have been communicating, with more to come here in future communications. But we're really excited about the prospects of that has. And look, we've broken open contracts with Fortune 100 companies and invited them back to the table, even though there might be a couple years left in the contracts. National Vision expects to continue growing at a very rapid pace for partners that want to join that journey with us, how we think about the strategic partnerships needs to evolve from where we've been, and those conversations have gone great.

Alex Wilkes – Chief Executive Officer, National Vision Holdings, Inc

Yeah. And for the no rock left unturned, one of my favorite examples is like it's actually whether or not store managers are going to be allowed to order catalogs from Office Depot. I mean, that's the level of granularity we're going to on the SG&A out. So analyzing stuff like that, mileage programs, fleet vehicle programs, shipping, logistic... literally every aspect of indirect spend is under a microscope.

Christopher Laden – Chief Financial Officer, National Vision Holdings, Inc.

Technology spend, everything.

Kate McShane, Goldman Sachs

You had mentioned some recent successes in getting the 10% of the optometrist class, graduating class. And I know it's been a very tight supply for – maybe for a very long time, actually. It's not just in recent years. Are you at a place now where you feel good about the level of optometrists that are working the store fleet and how do you maybe manage this better in the future?

Alex Wilkes – Chief Executive Officer, National Vision Holdings, Inc

So, we feel great about the number of optometrists we have currently affiliated with working with the store fleet. We – that was a topic that consumed a lot of management times, focus and effort and previous to kind of this iteration of management team. Luckily, it's not something we spend a whole heck of a lot of time concerning ourselves with now. Of course, continuing to lean into it and continuing to make sure we have the right mix of programs and offers in place to continue to attract and retain doctors is front of mind. But we don't have the kind of burning crisis that we might have had in the past.

And there's been a couple things that have allowed that. One is we are the only optical chain at scale that employs doctors through various mechanisms across the nation, and that has become predominantly the mode of choice for newly graduating optometrists. The days of optometrist wanting to be entrepreneurs, starting their own optometric practice in shop and dealing with the complexities of insurance and receivables, that's less attractive today than it ever was. And we offer a great salary, we offer benefits, and we offer the security of employment...

Christopher Laden – Chief Financial Officer, National Vision Holdings, Inc.

Some great flexibility as well.

Alex Wilkes – Chief Executive Officer, National Vision Holdings, Inc

...and great flexibility. So, the – we've introduced flexible scheduling options. So, doctors a little bit can kind of choose their own adventure of when they work. That's resonated. And most importantly, we have remote now in 730 locations, and for doctors that we want to recruit that want to actually practice out of the comfort of their homes, we offer that as a solution – as a scaled solution to attract optometrists. So, we think we're in a really, really good position with a super differentiated value proposition and a great message for those optometrists.

Kate McShane, Goldman Sachs

And then just to kind of close the loop on the optometrist piece, the remote medicine initiative, that I thought was pretty neat, like when it was being introduced as a solution to some of the shortage. Where does that fit in your strategy now?

Alex Wilkes – Chief Executive Officer, National Vision Holdings, Inc

Yeah. So, we – it is a – it's just a way of doing business now. We offer remote. We offer in 730 locations. We just crossed our 1 millionth exam that was done through remote medicine. It is how we do business, and it fills a very important gap in our coverage. We're in super early innings of figuring out how remote hybrid could work. So, remote today is doctor at home seeing patient in store. Remote hybrid would be the evolution of one doctor and one location seeing another patient and another. But there is a lot of change management involved in that because the doctors, when they look at their schedule and they see that they might have four appointments slots that aren't booked, I can't blame them. They're like, hey, that's my time to maybe eat an apple and read a book. And in the hybrid world, we have to create the right incentives, the right mechanisms, the right kind of training so that they'd want to kind of flag themselves for being available and seeing patients in another store that might be over capacity. So, we're approaching that very, very thoughtfully, very carefully. We think there's longer term, the ability in – to kind of leverage that spend. But we're just being – we're being super, super cautious.

Kate McShane, Goldman Sachs

And I should've asked this question much earlier, but since we have some more time, I just want to make sure I ask it now. As you start to again speak to more of the managed care customer than you had spoken to before, how – who would you now compete with more? Does the competitive landscape change that drastically or are you still kind of the value-oriented retailer just talking to a managed care customer?

Alex Wilkes – Chief Executive Officer, National Vision Holdings, Inc

I think we're beyond the managed care customer. I think we're a value-oriented retailer talking to a managed care customer, a progressive customer and an in Outside Rx customer. And to Chris's pie chart

example is that we spent 90% of our energy talking to the \$89 two-pair and an eye exam customer. But we believe that we still have – we've built this great business model on the notion of value, and that value message can apply to these underdeveloped segments that we have.

I don't think it changes the competitive landscape. Optical is still a super highly fragmented market. Over 50% of care is delivered through independent optometry. So, I don't see it changing necessarily competitively, who we go out, like who we go after from a consumer perspective. I just think we're going to have an offering and a message that's more relevant to a broader base.

Kate McShane, Goldman Sachs

Okay. And we're asking five questions of every company that sits with us today. Some are applicable, some are not. So, we'll try and like massage it a little bit. One is just the overall health of the consumer. So just very simply, what your e

Alex Wilkes – Chief Executive Officer, National Vision Holdings, Inc

So obviously, I think we guided with some uncertainty of the macro in mind. But that being said, I think we're optimistic about the consumer. Again, we're seeing – the thing that leaves me optimistic about the consumer is as we've introduced, some better product, some higher end price points. We're seeing consumers actually gravitate towards those and self-selecting into that. And to me, that's a bit of a signal of strength. Again, where we're seeing traffic in this environment, I mean, wow, flat traffic. That's pretty amazing. And we're seeing increased traffic again on the managed care side, on the progressive side. So there's, I think, signals to us that things are, if not, improving certainly – certainly stabilizing from a consumer perspective.

And where I get excited about our business is if consumer sentiment falls and pocketbooks tighten up. But I still think we've got a huge right to win in that environment as an obvious destination of value. So whether consumer sentiment is improving or degrading, I still think that there's opportunity for us to perform and to take share.

Kate McShane, Goldman Sachs

Okay. All right. Our second question is on pricing, and we've talked a little bit about that today. But we're curious about like-for-like pricing, so anything maybe that as a result of higher tariff costs. If your prices have to go up as a result, are you seeing or would you expect any pushback or elasticity from that?

Alex Wilkes – Chief Executive Officer, National Vision Holdings, Inc

We've had very minimal tariff exposure and have had to take very minimal tariff-related price increases. We have actually been on a journey since last year of taking price increases, even before this kind of tariff environment, because we believe we had ability to take price, because historically, we weren't price takers when the category had. We have not seen consumer pushback. Our kind of internal measures of elasticity point to that the pricing that we have taken not only stuck but hasn't created any type of ill consumer will.

Christopher Laden – Chief Financial Officer, National Vision Holdings, Inc.

No, that's right. I mean, our two elasticity measures we use internally are exam conversion to a materials purchase and NPSs most retailers would. And both of those metrics, since we've implemented our pricing actions, have either remained flat or gone up.

Kate McShane, Goldman Sachs

Inventory, what are your expectations for inventory growth into the second half?

Alex Wilkes, Chief Executive Officer, National Vision Holdings, Inc.

No real expectations.

Kate McShane, Goldman Sachs

With regards to margin...

Alex Wilkes, Chief Executive Officer, National Vision Holdings, Inc.

And sorry, just the reason for us, it's less of a concern. This is an inside baseball thing, but we run a showroom based inventory model. So basically, if you go into our stores, you pick your frame and then it's manufactured and fulfilled from a central warehouse. So, you're not actually buying the frame that's in the store, but that allows us to be very, very efficient because we have a pooled inventory at a central location.

Kate McShane, Goldman Sachs

Okay. With margins, ex-tariffs, so as we think about freight wages into 2026, do you think that's the better, same or worse?

Christopher Laden – Chief Financial Officer, National Vision Holdings, Inc.

Yeah. Look, I think versus prior years, I think we're seeing some further stability in terms of if you look back to 2021 through 2024, especially on the wage side, where things were inflating at a higher rate than the years prior on average, more were super excited as we've got a clear point of view on cost actions and opportunities where we're able to actually take cost out of those components. So, you've kind of got the macro or typical inflation look like for us. I think we're – we would normally be riding the same wave, but I think there's more strategic initiatives we've got in place that should help invert those trends and actually deliver significant savings.

Kate McShane, Goldman Sachs

Okay. And then the last question is just about consolidation. Do you think there will be more market share consolidation in 2026 than there was in 2025, if more, the same or less is the question.

Alex Wilkes, Chief Executive Officer, National Vision Holdings, Inc.

I would expect probably more of the same. Yeah. I mean, I think the – at least the consolidation in this category that's been kind of fueled by private equity consolidation of independent optometrists, I think, is still going to be ongoing. But I think the market's waiting to see these – the private equity consolidators at one point is their next transaction on the horizon. I think they're – everyone's kind of waited to see how that plays out to see whether that accelerates or decelerate. So, that's why I think it just kind of stays status quo until we have a better answer on that.

Christopher Laden – Chief Financial Officer, National Vision Holdings, Inc.

I agree. I think a key variable in that, to expand upon your thought, is just interest rates. If interest rates stay relatively flat, then that should drive material changes in the ability for those to acquire or go find the

next buyer.

Alex Wilkes, Chief Executive Officer, National Vision Holdings, Inc.

That's right. That's right. Chris came from the world. He was consolidating veterinary hospital before I recruited him. So, he knows that space well.

Christopher Laden – Chief Financial Officer, National Vision Holdings, Inc.

I was.

Kate McShane, Goldman Sachs

Well, thank you so much for joining us today. Appreciate the time.

Alex Wilkes, Chief Executive Officer, National Vision Holdings, Inc.

Thanks so much, Kate.

Christopher Laden – Chief Financial Officer, National Vision Holdings, Inc.

Thank you.