US Optical Overview and Outlook
December 2015
Just as couple important notes before we start this afternoon. First, the slides and notes from this presentation will be uploaded to The Vision Council website later this week. So if you have to leave your seat and miss any portion of this presentation, you can come back later and download / view any parts you may have missed. I will try and answer all questions as they arise during the presentation. If you have a question, please raise your hand and we’ll answer any easy questions on the spot and perhaps wait until later this afternoon or sometime before the end of the show to answer any detailed, in-depth queries. For any questions I miss due to time constraints, I will go back and answer them individually later this afternoon after the meeting has concluded.

Let’s start by taking a close look at the methods of vision correction that American adults are using to address their vision needs. And all of this information pertains to the 12 month ending period December 2015, the entire one year period from December 1, 2015 to December 31, 2015, with comparison to previous years.

All of this information is from a large-scale consumer research program that The Vision Council produces called VisionWatch. And just to give you a little background, VW is a large-scale consumer research study that interviews a demographically balanced sample of 110,000+ American adults each and every year. We ask them anything and everything about eyewear and eye care and most of the data in this presentation is from VisionWatch.
1. Currently there are 188.7 million Americans wearing some form of vision correction in the US—just over 3 out of every 4 adults. The percentage of American adults using any form of vision correction was historically trending down slightly over the past 15 years (it used to be in the 77%-78% range)—however since 2007 the decline has been slowing and has not been as precipitous as it was 8, 10, 12+ years ago and in fact, with the recent economic and population growth, even the relative number of US adults using vision correction has increased.

2. In fact, recently after falling slightly during the recession, vision correction usage rates have been rising and have returned to pre-recession levels as the economy slowly improves and consumers slowly regain confidence in the economy. For instance, the overall absolute number of vision correction users has increased slightly over the past 5 years due to the rise in the US adult population, in addition to a slight rise in usage rates and patterns itself. In the past two years the American adult population has increase by 4.8 million and the number of vision correction users has grown by 5.9 million (with an increase of 2.6 million over the past year—12ME Dec’15—alone)—an increase which has helped boost sales in the industry despite the still slowly recovering economy and still stagnant re-purchase cycles. On the bright side, the sustained “belt-tightening” attitude among some consumers that started in early 2008 has loosened up which means that consumer usage of multiple forms of vision correction is rising, particularly consumer usage of contact lenses.

3. We’ve seen changes in Rx vision correction usage across all demographics of the US adult population. There are some key demographics who have seen noticeable increases in Rx vision correction use over the past year, including: men, Americans over the age of 55, Americans with AHI over $60K, Americans with MVC coverage and Americans from the Southeast and Mountain-Pacific regions of the US. With the exception of men—who are embracing vision correction more readily than they did from 2012-2014, the growth areas of “new” vision correction users over the past year is identical to the demographics and population groups that grew the vision correction usage market from 2012 to 2014.
1. This graph depicts the number of total users of vision correction in the U.S. in a different manner—by product category.

2. As you can see here, due to the continual increase in the American adult population, as well as a movement back to vision correction usage among key demographics, there has been absolute increases in usage rates for most types of eyewear in the US. Usage (as a percentage of the adult population) is up the most for Rx sunglasses and OTC readers. In relative terms, plano SG usage has only increased minimally over the 12ME period Dec’15, but in absolute terms the US added almost 2.7 million new/additional sunglass users over the past year—mostly due to a rise in plano SG usage among men, people between the ages of 18 to 34 years old and people over the age of 55, as well as people from higher-income households.

3. As far as Rx eyeglasses are concerned, we have traditionally seen a slow decline in wearers during the earlier part of the new millennium. However, starting in 2006 we actually saw an increase, a noticeable increase, in the number of American adults wearing Rx eyeglasses; that increase continued in 2008 and 2009 as Americans stopped having LASIK procedures and stopped embracing CL usage with the fervor they did before the recession. Eyeglass usage increased again from 2010 through 2015 as the economy improved and many people continued to take advantage of MVC benefits. During the 12ME period Dec’15 Rx eyeglass usage increased despite the increase in people needing vision correction and not doing anything about it (up by 1% to 13.0 million). Most of this increase in eyeglass usage can be traced to the increase in people with MVC benefits and the decline in LASIK / refractive surgery procedures that occurred during 2013 - 2015.
Close to 2 out of 3 American adults currently wear Rx eyeglasses. This represents 159.2 million people. There are also about 22-25 million children under the age of 18 that wear eyeglasses (from our Parent—Child Eyewear Custom Consumer Report).

As I just mentioned, the percentage of American adults wearing Rx eyeglasses had been dropping from the late 1990s through 2006; however, as consumer confidence rose during late 2011 and early 2012, so did Rx eyeglass usage. Moreover, as a result of the rising population and declining interest in LASIK and contact lenses, the actual number of adults wearing Rx eyeglasses has increased by 2.8M million over the past year and increased by 10.0 million over the past five years since the end of the recession—growing as fast as the overall rate of adult population growth and much better than earlier this decade when we were losing eyeglass wearers.

Over the past year, Rx eyeglass usage has increased most among men, Americans over the age of 55, Americans from the SE and MP regions of the country, Americans with some form of MVC coverage and Americans with AHI of $60K+, the same groups where we not only saw stable numbers of squinters, but also saw increasing numbers of people using multiple forms of vision correction.

Unfortunately, while we are seeing more Rx eyeglass users in the US, many of those users are still waiting relatively longer periods of time between making a new eyeglass purchase—thus the growth rate of unit and dollar sales for eyeglasses is not growing as fast as the growth of eyeglass users in the US.
1. During the 12ME Dec’15, 46% of the US adult population received an eye exam (a total of over 113.9 million exams generating $5.93 billion in dollar revenue). Older Americans were more likely than younger Americans to have received an eye exam during the past year. In addition, Americans with MVC coverage were more than twice as likely to have had an exam recently than Americans without MVC.

2. Historically, the percentage of American adults receiving an eye exam has surged upward since the year 2000. In fact, when compared to the 12ME period Jun’06 there was a net increase of 16.7 million adult exams conducted in the US over the 12ME Dec’15.

3. The recent up-tick in exams has occurred among all demographics of the US population. Specifically, growth in exams over the 12ME period Dec’15 was strongest among women, Americans over the age of 45, Americans from higher-income households (up to $60K), Americans from the SE region of the US and Americans with some form of MVC coverage. These are the same groups that by-and-large are embracing different forms of vision correction more frequently (particularly eyeglasses and contact lenses). They are also the same groups that are buying more eyeglasses and contact lenses in the US over the past year and fueling the recent growth of the optical industry.
Now let’s examine how the trend in usage patterns discussed is effecting the revenue side of the optical industry. Let’s look at the overall industry from a topline point of view for the 12ME December 2015 with comparisons to previous years.
1. The total vision care industry generated $39.77 billion in revenue during the 12ME period Dec’15—rising by 5.8% over previous year totals and up by 15% over 12ME Jun’08 retail sales totals—before the recession set in. While the industry has clearly surpassed the previous industry high water mark from before the start of the “Great Recession”, there are some pessimistic developments worth noting. First, these dollar totals are in current dollars that are not adjusted for inflation, unit sales totals for the industry are still on-par with the unit total sales from before the recession set in, indicating that most of the growth we have observed in the industry over the past 3-4 years is resulting from increasing prices and several select groups of consumers trading up and buying higher-quality eyewear. Second, the growth rate in dollar revenues we observed during the 12ME period Dec’15 is less than the growth rates we have seen over the past 8-10 calendar quarters (5%+,6%+, etc...), so even though the industry is growing, the pace of that growth has slowed recently.

2. During the Dec’13 to Dec’15 time period the strongest optical markets were contact lens sales (+10.9% to $4.66 billion) and Rx lenses (+13.3% to $12.62 billion). Plano sunglass sales have also seen moderate sales growth, equally over the past two years, due to a balanced mix of increasing unit sales and rising prices. All other markets are currently growing at a moderate rate over the past couple years, with the exception of LASIK surgery.

3. Eyeglasses accounted for the largest share of the vision correction market (55.9%) representing $22.2 billion, growing by 11.2% over the past 2 years with a slight majority of that growth occurring during the 12ME period Dec’15 and slightly slower growth during the 12ME period Dec’14. In fact during the most recent year, eyeglass frame and lens revenue were up by 5.2% and 7.9% respectively from year-ago levels thanks to both rising unit sales and rising prices (especially for the lens market where prices have been rising steeply).
1. The independent side of the optical industry is by far the largest component of the U.S. vision care industry—generating $18.01 billion in revenues during the 12ME period Dec’15. When compared to dollar revenues from two years ago (12ME period Dec’13) the independent side of the industry was up by 13.2% in total; with growth over the past year (~+7.7%) slightly stronger than it was for 2014 (~+5.2%). During the past year the independents have seen a significant increase in aggregate revenue (about $1.28 billion to be exact—7.7% growth in sales) with Rx lens, contact lens and ophthalmic frame revenue increasing the most over the past year and allowing independents (as a group) to continually thrive and out grow other optical sales channels during the year. This has been the trend in the optical industry now for about 7 years and represents a reversal of fortune for the independents who, as a group were not performing as well as other distribution channels in 2005, 2006 and 2007. However, while independents enjoyed their sixth straight year of dollar revenue growth during the 12ME period Dec’15, other optical distribution channels also experienced growth recently. For conventional retail chains, sales revenue grew by 4.8% to $8.06 billion during the 12ME period Dec’15. Additionally, optical sales revenues for mass merchants and wholesale clubs grew by 3.7% to $5.03 billion during the 12ME period Dec’15.

2. While eyeglass sales (lenses and frames) make up the bulk of revenue for independent optical outlets, examinations are a close third (almost $4.11 billion in revenue) and that is the main driving component holding up the independent market during the past three years—the fact that independent optical practitioners could keep up eye examinations and the number of exams conducted. Unlike the recession and the early portion of the weak recovery, the increase in exam activity we are seeing now is being accompanied by an increase in purchasing activity. That increase would be even greater if the walkout rate for independent ECPs weren’t slightly increasing as well over the past two years (from 26.6% in December of 2011 to 29.3% in December of 2015).

3. In addition to increasing the number of exams performed in aggregate as a group, there are other reasons why independent ECPs are succeeding in the face of a challenging optical retail environment. The increased of MVC benefits by consumers at independent ECP locations is one such reason. The increased utilization and reliance on IPAs and buying groups is another reason. ECP membership in optical buying groups (or independent practice alliances) have grown to an all time high and grant independent ECPs access to resources, training and pricing that was not previously available to them on their own. Buying groups and alliances create for independent ECPs many of the same advantages (economies of scale, cost savings, training, marketing, etc...) that the chains, department stores and mass merchant optical retailers had 20-30 years ago that allowed them (as a group) to grow their sales and take eyewear sales share away from independent ECPs. Independent practice alliances and optical buying groups have helped to “level the playing field” for many independent ECP practices.
1. And as a recent TVC ECP survey shows, in addition to having more members participating in their programs, those ECPs who do belong to a optical buying group or IPA are utilizing the services offered by their group or alliance more and more recently. According to a survey of 271 independent ECPs that belong to an optical buying group, 36% are using the services of their group slightly or significantly more during August of 2014 than they were in August of 2013. On the other side of the utilization coin, only 7.9% of buying group members were using their services less over the past year.

2. Typically, buying group / alliance members are principally using their affiliations to obtain discounts on eyewear products and services. Specifically, obtaining discounts for contact lenses and ophthalmic frames are most common among group and alliance members. Using their alliance connections to obtain discounts and better optical laboratory services is another key aspect of membership that many ECPs are using. Moreover, relying on buying groups and practice alliances for procuring eyewear cases, plano sunglasses and practice management software and services are other key benefits that many members are taking advantage of on a routine basis. Conversely, only a relatively small number of ECPs are relying on buying groups / practice alliances to employee training services, marketing services, general consulting services or to help purchase finishing and surfacing equipment.

3. And the trend of increasing utilization of, and reliance on, buying groups should continue well into the future. 28.2% of current buying group / practice alliance members believe that they will be using the services of their buying group more over the course of the next 12 months. Only 4.1% of current group / alliance members are planning to rely on their group or alliance less over the course of the next year. It is worth noting that compared to our 2013 Buying Group survey, the number of ECP group/alliance members interested in using the services of their group / alliance more to a greater extent in the future has actually declined in 2014 after rising for a couple years in a row.
Let’s look at a couple of the smaller segments of the vision care market in the U.S., in particular, plano sunglasses, OTC readers and contact lenses. Even though these markets are smaller than prescription eyeglasses, they are important sources of revenue for many ECPs and retailers.
1. During the 12ME period Jun’15 there were 103.7 million pairs of plano (non-Rx) sunglasses sold in the US valued at $4.07 billion at the retail level. Over the past year, the rebound that first started in the plano SG market during late 2011 continued to grow and lead to more plano SG sales in the US market. However, recent growth is not as strong or fast as we saw in plano SG sales from 2003 – 2006 when the economy was in better shape. In total, unit sales are up by 3.2% when compared to last year and dollar volumes are up by 5.1% when compared to year-ago volumes. Sales activity (relative to the previous year seemed to be slightly stronger in the first half of 2015, with growth rates slowing slightly during the 6ME period Dec’15—some of that related to flat and turbulent general economic conditions in the US earlier this year—August through November.

2. When SG sales first started to rebound in 2011, sales of plano SG priced at more than $50 per pair where the first to rebound. And in fact, sales of plano SG priced at more than $50 per pair are again leading the growth in the sunglass market as a whole. Sales of $50+ plano SG were up by 5.9% in units and 5.8% in dollars during the 12ME period Dec’15. During the same period of time, sales of plano SG priced at less than $30 per pair were also up but not as much (+2.6% in units and up 4.4% in revenue).

3. Over the past year, plano SG unit purchases increased more for certain demographics of the US population; principally men (+3.8%), Americans between the age of 55 (+4.4%), Americans from the Southeast and Mountain-Pacific regions of the country (+3.6%), and Americans with annual household income over $60K (+5.8%). Surprisingly, when it comes to sales of high-end premium plano SG, sales have increased the most among men, Americans between the ages of 18 to 34 years old, Americans from higher income households (AH: $60K+), and Americans from the SE and MP regions of the US. In terms of price points, sales growth has been strongest among plano SG priced between $50-$100 per pair (unit sales up 5.9% during the 12ME period Dec’15).
In dollar terms, the 103.7 million pairs of plano SG sold at the retail level is continually dominated by two distribution channels: sunglass specialty stores and the amalgamated category of “grocery/drug/mass merchandiser/wholesale club stores”. In terms of unit sales, most sunglasses were sold in “grocery/drug/mass merchandiser/wholesale club stores” during the year—more than 38.1 million pairs priced at only $19.06 per pair. (down by $0.01 per pair over the past year). While pricing returned to pre-recession levels in 2011, it looks like the increasing number of summer “BOGO” promotions, as well as a slightly changing product mix, might have hampered prices in 2014 and 2015.

Sunglass specialty stores, on the other hand, only sold 12.8 million pairs of sunglasses but were able to generate $1.60 billion in sales with the average pair of sunglasses being priced at $125.68 per pair. During the 12ME period Dec’15, dollar sales revenue of plano SG outpaced unit pair sales growth at Sunglass Specialty stores (+4.7% for units vs +5.5% for dollars) during the 12ME Dec’15 period. That indicates that after a brief period of price stagnation in 2013, prices have started to grow again like they did in 2011 and 2012, with total ASP for sunglass specialty retailers now at pre-recessionary prices after dropping precipitously from 2008 through mid 2010.

In addition to sunglass specialty retailers, mass merchant retailers (and some “sporting good retailers” retailers) saw the largest growth in the SG industry. The “Other” category (which also saw unit and dollar sales growth in 2015) refers to sales of plano SG via gift stores, websites, mall/airport kiosks, gas stations, catalogs, designer boutiques and similar channels. For the popular-price / value-priced plano SG market, sunglass specialty stores (+5.5%) and mass merchant retailers (+5.1%) were the channels that led unit sales growth in the “Under $30” market during the 12ME period Dec’15. On the other side of the growth spectrum; warehouse club retailers and grocery store retailers saw the smallest amount of aggregate growth in unit sales during the 12ME period Dec’15 (0.0% and +0.1% respectively).

Premium plano SG sales growth during the 12ME period Dec’15 was strongest among sporting goods retailers (+6.0% in units and +5.7% in dollar value) and sunglass specialty retailers (+5.1% in units and +6.2% in dollar value). Premium plano SG sales at better department stores were also up 4.0%-4.5% during the 12ME period Dec’15.
1. The plano SG market is not only highly segmented by distribution channel but also by price point. And just as the performance of plano SG sales over the past couple years has varied by distribution channel, it has also varied by price point. This chart shows trended price point distribution. Since the high-water mark of 2007, when there were 113 million pairs of plano SG sold at the retail level, the largest absolute sales declines we have seen in the plano SG market has been in the “up to $30” per pair market. During the 12ME Dec’15 there were 8.1 million fewer pairs of plano SG sold in the US priced at less than $30 per pair when compared to the 12ME period Dec’07. That is a decline of 10.5% and is mostly attributable to a combination of consumers delaying their purchases and consumers limiting the number of pairs they buy during a purchase to try and save money.

2. In relative terms, the under $30 market still performed better than the $30-$49 market and $50-$99 markets over the past seven years. Since the 12ME period Dec’07, sales in this mid-price market have declined by 13.5%—a result of consumer postponing purchases and either trading down and purchasing sunglasses priced at less than $30 per pair OR trading up and buying plano SG priced at more than $50.

3. The story is slightly different for the premium priced plano SG market. During the recession in 2008 through 2010 this segment of the market experienced the largest declines in sales as many consumers simply stopped spending on luxury goods and tried to tighten their belts. However, this segment was also the first plano SG segment to rebound as the economy started to slowly recover and grow. During the 12ME period Dec’15 there were 20.2 million pairs of plano sunglasses sold in the US priced at more than $50 per pair, that is a 5.9% increase from what was sold during the previous year. The number of premium/luxury/$50+ plano SG sold in the US during 2014 and 2015 finally returned to the previous high-water mark set in 2007—a very encouraging sign. Those 20.2 million pairs of sunglasses generated $2.79 billion in revenue (just over 68.6% of all sunglass sales revenue)—also up by 5.8% over the past year.

4. High-end, premium priced sunglasses were far more important to some demographics and distribution channels than they were for others. For instance, men, younger Americans age 18 to 34 and Americans with relatively high annual household incomes were far more likely to purchase premium high priced sunglasses than other demographics of Americans. Over the past year, purchases of high-end plano sunglasses have increased among all demographics of consumer in the US, but increased most among men, Americans between the ages of 18 to 34 years old, Americans from higher income households (AHI: $60K+), and Americans from the SE region of the US. In terms of price points, sales growth has been strongest among plano SG priced between $50 - $99 per pair (unit sales up 7.6% during the 12ME period Dec’15). Many consumers in these groups had “traded” down and purchased more valued-priced sunglasses during the recession and came back into the market “with a vengeance” from 2011 through 2015. As the economy improves throughout 2016 we should continue to see an increase in plano SG sales, not just in the $50+ category, but across the board for all price points.
1. As you probably noticed on the previous slide, there was a large volume of both total and popular-price / value-priced plano SG sold in the US market that doesn’t quite fit into the 10 larger-broad distribution channels we use in the standard VisionWatch report template. Those 39.9 million pairs come from a variety of different sources and retailers.

2. As you might guess, about half of that “Other” channel is comprised of plano SG sales through mid-tier department stores (i.e. Sears, Kohl’s, Marshalls, TJ Maxx, JC Penney, etc...), online internet retailers or dollar store / extreme value retailers (i.e. Big Lots, Five Below, etc...). The remaining components of the other category include retailers as vast and diverse as designer clothing boutiques, mall kiosks, gift shops, convenience stores, duty free stores and military bases.

3. Demographically, as you might expect, each of the markets caters to a specific group of customers / consumers. For instance, mid-tier department stores are a popular destination for female sunglass buyers, as well as buyers from lower-income households. Online SG buyers are generally younger (under the age of 35), come from higher income households and view eyewear as a fashionable commodity. These online plano SG consumers are similar to “boutique” shoppers as well, although designer boutique plano SG buyers typically come from older age demographics (35 to 65 years old).

4. These projections are developed from “raw” un-weighted VisionWatch consumer-supplied data. We are looking into the feasibility of adding a couple of these categories to our regular reporting structure later this year as part of a plano SG report revision. However, given the smaller working sample sizes associated with these niche markets, as well as poor consumer recall associated with larger retailer lists, we are always going to have a large share of purchases occurring in the “Other” channel. This has to be expected given the incredibly large number of diverse locations from which you can purchase plano sunglasses. In fact, just to give you an idea of what we are talking about, you generally have about 56,000 physical brick and mortar locations (and about 400 different websites) were you can buy Rx / ophthalmic eyewear. There are at least 150,000 different retail locations and well over 1,000 different websites were you can buy plano sunglasses in the US. That shear number of retail locations—combined along with the considerable variability in the type and style of those retailers, will always present a considerable challenge and obstacle in trying to display and breakdown the plano SG market to the same level of detail and accuracy that we do for the Rx eyeglass market.
1. The number of American adults wearing OTC readers grew by almost 900K users between Dec’14 and Dec’15. The 30.9 million American adults that wear OTC readers purchased 51.2 million pairs of OTC readers during the 12ME period Dec’15, an increase of 3.7% when compared to unit sales from the previous year. The dollar value of the reading glasses sold in the 12ME period Dec’15 was up by 3.3% over 12ME Dec’14 levels. The past year has seen the strongest gains for OTC reader unit pair sales since 2008 before the crunch of the recession set in and caused people to adjust their buying habits and practices. Over the past five years (since 12ME Dec’10) there has been a net increase of 4.4 million additional OTC readers wearers (over the past year, most of the “new” users are typically female, over the age of 55, and come from higher income households—AHI: over $60K, and reside in the NE region of the US).

2. One of the major problems holding back readers sales growth from late 2008 through the first half of 2011 was the increased propensity of consumers to just buy one pair of readers when making a purchase. In 2007, before the recession set in, the average number of OTC readers purchased per transaction was 2.0. This decline in average number of pairs purchased means that even though there were more people wearing and buying OTC readers now than in 2007, the overall number of readers sold was not growing as much as readers usage. Unfortunately, after rising for a couple of years, during the 12ME period Dec’15, the average number of readers purchased per transaction remained flat at 1.91, indicating that while purchasing habits and behavior are returning to pre-recessionary levels, the number of OTC readers pairs purchased per transaction has not returned to pre-recessionary levels. Furthermore, just about 80% of the growth in readers sales over the 12ME period Dec’15 originated from that increase in new users, rather than an increase in buying activity among existing users.

3. When looking at Readers sales by price point, one-fifth of all OTC readers sold during the 12ME period Dec’15 had a retail price of less than $5. A large portion (32.4%) were priced between $10 to $20 per pair and a smaller number 3.3% (~1.70 million pairs) were priced at $50 or more at the retail level. While the number of OTC readers purchased priced at less than $5 per pair has remained stable over the past year, there was an increase in the number of readers sold priced between $5-$10 per pair and a decrease in the number of OTC readers purchased priced between $10-$20 per pair during the 12ME period Dec’15. There was also a 2.8% decrease in the number of OTC readers sold during the 12ME period Dec’15 priced at more than $20 per pair. That relative increase in lower-priced readers is one of the driving factors behind the decline in ARSP for readers during the 12ME period Dec’15 (down by 0.3% to $16.90 per pair).
1. The total readers market generated $865.5 million in revenue during the 12ME period Dec’15—a 3.3% increase when compared to sales volume from one year ago but still up by a strong 25% when compared to sales levels from five years ago at the peak of the completion of the Great Recession. Considering the 3.7% rise in unit sales, the lower rise in dollar volume can be attributed to slightly lower readers prices. In fact, average retail selling prices for readers have declined by about $0.05 per pair (or 0.3%) over the past year—thanks in part to more BOGO promotions offered by many retailers, and also an evolving product mix at retail that favors sales of readers priced at $5 to $10 per pair.

2. The market for readers is dominated by sales from grocery stores, drug stores, mass merchandisers and convenience stores; outlet share for grocery/drug/convenience stores and mass merchandisers increased by 3.2% as a group during the 12ME period Dec’15 after growing by 2.5% during 2014. During the 12ME period Dec’15, almost two out of every five pairs of readers sold in the US were purchased at a drug store or pharmacy (with unit sales growing by 2.8% during the 12ME period Dec’15). Almost one-quarter of all OTC readers pairs sold were bought from a mass merchant (with unit sales growing by 3.6% during the 12ME period Dec’15). About one out of every seven pairs of readers sold during the 12ME period Dec’15 (6.8 million pairs) were sold by a grocery store, convenience store or value retailer (i.e. dollar stores), with unit pair sales through that outlet growing by 4.8% during the 12ME period Dec’15.

3. When looking at sales by channel, the strongest markets for OTC readers over the past 12 months has been an amalgamated category of “Computer store/ Electronics store / Book store and Website” stores that sell primarily lower-priced readers (+10.3% in unit sales during the 12ME period Dec’15). Most of this increase can be traced to increased sales of OTC readers over the Internet. On the other side of the sales performance coin, the channels that lagged behind all others with regard to OTC readers sales include warehouse clubs (+0.5% in unit sales to 2.9 million pairs sold during the 12ME period Dec’15) and independent ECP retailers (-0.8% unit sales growth during the 12ME period Dec’15).
1. The 40.5 million American adults that wear contact lenses at least some of the time purchased $4.66 billion worth of contact lenses during the 12ME period Dec’15, that is up moderately from the previous year. Growth in CL sales flattened out during the recession as many consumers moved away from CL usage temporarily to save money on vision correction. However, from the latter half of 2010 through late 2015, we saw a large number of consumers move back to using CL as the economy improves. That fast growth in users continued in 2015—as the US gained an additional 1.3 million users over the course of the year. Sales of CL during the 12ME period Dec’15 have increasing accordingly due to the increase in CL usage and dollar values for contact lens sales have increased even more thanks to rising retail prices from late 2011 through December of 2015—about a 2.5%-3.5% annual increase in prices.

2. As you can see, most contact lenses (about $1.86 B worth) are sold via the optical independent channel. Over the past 24 months, sales of contact lenses are up among independent ECPs (dollar revenues up 5.3% over the past year and up 11.5% over the past two years), thanks in particular to increased purchases among men, adults over the age of 55, people from higher income households and people with some type of MVC coverage.

3. Fortunately for independents, during the 12ME period Dec’15, as a group they clearly out-performed the other distribution channels (conventional optical chains, mass merchants and internet retailers), with regard to contact lens sales. However, that being said, the other channels also saw growth of CL sales over the past year. Dollar sales of CL through conventional chain retailers increased by 5.0% last year after remaining flat during 2008 through mid-2011. However, from mid 2011 through the end of 2015, as the “foot traffic” increased at shopping centers and malls (where the chains are located) the number of people buying CL from those locations increased. Specifically, the number of customers purchasing CL from chain retailers increased by 3.3% during the past year. Sales of CL are also up for mass merchants and wholesale clubs (+5.4% to $1.15B) with most of the increase occurring among wholesale club retailers.

4. “Other retailers” (which includes mostly online/mail and phone order businesses not tied to existing physical retailers) saw sales grow significantly in the earlier part of this decade. Currently about 18.0% of all CL are sold online and internet sales of CLs had grown steadily by about 6%-8% annually earlier this millennium and dollar value of online CL sales grew by about 5.5% during the 12ME period Dec’15.
1. The refractive surgery component of the industry has encountered the largest amount of volatilily when compared to other sectors of the vision industry over the past decade. While surgery was growing by leaps and bounds five to ten years ago, it also suffered more than other optical markets during the recession. Moreover, it experienced the strongest rebound of all vision markets that started in mid 2011 and grew stronger through early 2012. Unfortunately, while other components of the optical industry were growing at a moderate and stable pace during 2013 and 2014, the surgery industry saw a solid contraction during this time. However, in 2015, the surgery industry rebounded slightly. There were around 936K people who had a LASIK procedure during the year-ending period Dec’15. There were 233K people who had a refractive surgery procedure during the fourth quarter of 2015. While the number of Q415 procedures is down by 0.9% from Q4’14 procedures; the quarterly total is still down by 45% from the number of people who had a procedure during the 2nd quarter of 2007—right before the industry started declining. It is actually up by 4.6% from the number of procedures performed during the fourth quarter of 2013. These recent small increases run slightly against the longer-term decline in LASIK, for instance, the 933K in current annual procedures is still a LONG way away from the 1.3-1.4 million annual procedures we were seeing in 2006 and 2007. Unfortunately, for the surgery industry, all 2015 growth in surgery procedures occurred during the first half of the year (procedures up 8.4%), while the growth in procedures during the second half of the year were down by about 1.5%). Losses in the US stock market, along with declining consumer confidence, increases in EG and CL usage in 2015, have hurt the surgery industry in the latter half of 2015.

2. The demographics of recent LASIK surgery patients are continually changing and some groups have been far more likely to have had a procedure recently than others. In particular, the recent LASIK patient (in 2015) has become increasingly female, from a lower-income household (however, the vast majority of recent surgery patients—62%—have an AHI of $60K+) and more likely to reside in the SE or MP regions of the country. After briefly changing during 2009 and 2010 (becoming slightly “older” and from a lower income household), the age and income profiles of recent LASIK patients has reverted to a split that was common from 2004-2008, with most procedures occurring among adults under the age of 35 and most procedures occurring in households with relatively high income levels (over $60K per year).
1. We’ll take a deeper look at 3 important patient types that will help understand opportunities for the entire industry.
   - Squinters- those patients who need eyewear but don’t have it
   - Never Examined – those adults who have never had an eye exam
   - 1st Time Examined – adults who had their 1st exam
Squinters
1. Over the past 5 years the percentage of the population using vision correction has risen from 73.8% to 78.2% while those who do not wear vision correction has declined from 26.2% to 21.8%, both statistically significant changes.
1. 22.3% of those that do not have vision correction, admit to needing one, and this has risen steadily from 19.6% in 2011 to nearly 25% in 2015. We define these people as squinters, and they comprise about 5.4% of the total population.
1. While 48.8% of the general population have vision benefits, only 40.6% of squinters have managed vision care.
1. Taking a look at squinters exam patterns we see that their most recent exam occurred much longer ago than the US population. Whereas nearly 51% of the US population (unadjusted data) had an eye exam in the last 12 months, this was true for only 21% of squinters. More than 50% of squinters have not had an eye exam for 2 or more years ago, and 5.7% have never had an exam, statistically significant differences.
1. IF we look at the age of squinters, we see that there is a significant decline in the percentage share of each succeeding 5 year age bracket except at age 40-44. Compare this to their percentage of the US population in each bracket which rises. The bump in squinters at age 40-44 is likely driven by emmetropic presbyopes, who prior to age 40 did not need vision correction.
1. Men comprise a significantly higher proportion of squinters than seen in the US population: 51.9% versus 48.5%.
1. Squinters typically have lower household income than the general population, so it's likely that personal finances and lack of vision benefits are some key drivers of failure to purchase.
1. Digging even deeper, when asked why they don’t use vision correction event though they need it, the most common reason is procrastination, and second most common is cost, while aversion to eyeglasses ran third. Note here that answer options are “select all that apply”, so many respondents have more than one reason explaining their lack of eyewear ownership.
1. When we break out the percent of those using the cost excuse by their income we see that 49.7% of squinters that blame cost are in the higher income segment, opposite to what intuition would say. Perhaps these people are not only squinters, but are stingy as well – in other words they are squinter scrooges.
1. Looking now to the never examined group, let's see what the data tells us.
1. Over the past 5 years about 2.4% of the US adult population has never had their eyes examined and the trend was declining but 2014 and 2015 showed slight increases.
1. Not surprisingly, only 18% of those never examined have MVC versus 48.8% of the US Population.
1. If we look at the share of the population between age 18-24, we find its about 11.5%, whereas this age group accounts for 21.5% of the never examined population. The never examined group is skewed much younger than the general population.
1. Males are far over weighted in the never examined group compared to the general population.
1. The never examined group has significantly more (nearly 68%) households earning less than $60k annually.
1. Looking at reasons for never getting an eye exam, we see that one third of that group cited the cost and a similar number said they don’t need an eye exam.
1. The perception of not needing an eye exam occurs in about 1% of the US Population and year to year changes are not statistically significant.
1. Among those never examined the Cost excuse has shown a significant decline over the past 4 years dropping from over 35% down to 31%
1. If we track those who blame cost for never having an eye exam, we see that they run significantly higher in the lower household income group than their share of the US population.
1st Time

VisionWatch: The Vision Council
Annual Sample Size: 110,000+ Adults
1. Those who reported their most recent exam was their very 1st comprise about 2.3% of all exams and less than one percent of the population; and growing significantly over the prior 5 year period.
1. Compared to the general population, a significantly percentage of people who had their 1st time exam have MVC: 51.4% vs 48.8%
1. The age of people getting their 1st ever eye exam, like the never group, is significantly younger than the general population, with 28% of all 1st time exams occurring in the 18-24 year old group compare to 11.2% in the US Population.
And, as with the Never examined group, the 1st time exam groups have a disproportionately larger share of males than the general population.
1. When we look at income of 1st time examined people, there are significantly more in the lower household income segment than the occurrence in the population.
If we look beyond the 1st exam to see if an eyewear purchase was made, we see that there was really no pent up demand, and that 1st times exams buy eyewear at a lower rate than the general population.
Now let’s take a look at the largest vision correction market in the US: Rx eyeglasses. We’ll start with the lens side of the business. Similar to what we will see with frames, the rebound in the Rx lens market that started in mid-2011, continued and grew stronger over the past year with increasing unit sales and rising in dollar value thanks to increasing prices and a slight change to the product mix being sold.

It is safe to say that the Rx lens market is now stronger than it was before the recession, particularly when you look at growing PAL sales, growing AR sales and growing polarized Rx lens sales.
1. According to VW, there were 82.9 million pairs of lenses sold in the US during the 12ME Dec’15—more than the number of lenses sold one year ago (about 3.7% more) and up by 6.1% when compared to what was sold two years ago, and up by about 8.5M pairs when compared to what was sold in the 12ME period Jun’08 before the recession set in and slowed sales through the entire optical industry. As always, the change in types of lenses sold in the US market continues to evolve.

2. Over the past 24 months, sales of PALs have rebounded nicely. Sales have easily surpassed where they were before the recession, and should continue to grow faster over the coming years with the increasing popularity and functionality of free-form digitally surfaced PALs. For the 12ME period Dec’15, PAL sales increased among women, Americans over the age of 55, PAL buyers from higher income households, PAL buyers with MVC coverage and PAL buyers from the MP region of the US— unit sales of PALs in these demographies are all up by 5%+ during the 12ME period Dec ‘15.

3. Even though PAL sales saw large Y/Y growth during the 12ME period Dec’15 (+5.7%) , SV lenses saw stronger growth in sales over the past year (+6.0%). During the 12ME period Dec’15 more than 43.5 million pairs of SV lenses were sold, representing a “net increase” of 2.5 million pairs when compared to sales metrics from the 12ME period Dec’14. This is mostly attributable to increased SV purchases by men, Americans over the age of 45, Americans from higher income households, Americans from the SE and MW region of the country and Americans buying lenses from independent ECP retailers.

4. After enjoying a brief period of increasing sales and popularity during the recession, the multifocal market saw sales declines during the past five years. There were 14.3 million pairs of MF lenses sold during the 12ME period Dec’15, which is down by 900K pairs over the number of MF sold during the 12ME Dec’14 period (down by 5.8%). Sales of MF lenses have been falling over the past year most among men, Americans under the age of 55, adults from higher-income households, residents of the SE USA and people using MVC benefits when making a Rx lens purchase.
1. Our shipments program—which provides comprehensive tracking of the wholesale lens market—indicates that domestic shipments for the Y-T-D Dec’15 period totaled 84.0 million pairs worth close to $1.32B. When compared to year-ago shipments there has been a moderate increase in unit shipments (+4.1%--corresponding to what we have observed in VW—3.7%). Dollar value has also increased, but just barely (+0.3%), due mostly to decreasing wholesale prices for poly lenses, PALS, poly lenses, finished SV lenses and non-photochromic lens products. 2013, 2014 and 2015 have been stable years for wholesale lens markets in the US when compared to the losses incurred in 2009 and 2010 and the wild swings in performance experienced in 2011 and 2012. Moreover, wholesale shipments have remained relatively stable even when compared to retail sales. So far in 2015, June and November were the strongest months for domestic lens shipments from manufacturers to retailers (+10% to +12% in unit sales) and October and December have been the weakest months of the year (unit sales +0.5% and -1.5% respectively when compared to 2014 activity).

2. As this graph shows the wholesale markets that fared the best through Dec’15 include: finished SV lenses, high index lenses, trivex lenses, polarized lenses and polycarbonate lenses.

3. Markets that are down the most through December of 2015 are: low index lenses (1.530 – 1.590), glass lenses, non-photochromic lenses, MF lenses and traditional PALS.

4. Throughout the 12ME period Dec’15, growth of wholesale lens shipments to wholesale lab and independent ECP customers (+2.2%) was less than wholesale lens shipments to retail chain and mass merchant retailer customers (+6.3%), a slightly different situation when compared to what we have observed in retail markets in the US lens market. Wholesale lens prices were stable and mostly flat Y-T-D Dec’15 for wholesale lab and independent ECP customers (-0.8%) when compared to prices for retail chain and mass merchant customers (-7.8%).
1. One aspect of the Rx lens market that has been having a beneficial impact on the market is the increase in lens prices, coatings and attributes that we are observing in the market as a whole. This is similar to what we have observed recently in the ophthalmic frame market; however, lens prices have been increasing now for about 6 years now (with prices climbing sharply in 2012 and 2013), whereas frame prices have only recently recovered over the past 3 years with price growth minimal compared to lenses.

2. On average, total retail Rx lens prices were up 4.1% during the 12ME period Dec’15 (representing an increase of $6.01 per pair) and prices during the Dec’15 period are now higher than they were before the recession started (up by 14% versus prices from 12ME Jun’08).

3. ARSP lens prices have increased among all major distribution channels over the past year. Prices were up the most among independent ECP retailers (+5.0%)—mostly the result of a rise in prices for existing products but also influenced by an increase in sales of higher-quality/higher priced lens products (sold—slightly more higher priced PALs (free form), high index lenses and premium AR lenses being sold).

4. In terms of lens styles and attributes, prices have increased for SV, MF and PAL products; with SV prices rising the most (4.4%) during the 12ME period Dec’15, after declining slightly for a few years. Prices for AR lenses and photochromic lenses were also up over the past year, with AR lenses seeing the largest increases (4.5%)—thanks to a rising number of high index lenses, photochromic lenses and PALs being sold with AR protection.

5. Even though prices of PAL lenses have increased moderately over the past year (+2.8%), they had also been rising faster from 2009 through 2012. Retail prices for PALs are up by more than $50 per pair when compared to 2008 prices. This is primarily because of the increasing popularity of digitally surfaced free form lenses, as well as increasing sales of higher-end premium PALs with AR coating, photochromic coating, polarization, etc... However, the pace of PAL price increases has slowed over the past three years as digital surfacing / free form technology and lenses has become more popular and available—helping to reduce upward price pressure on PALs as the technology became less exclusive and more brands were introduced to give consumers more choices when making a purchase.
1. The role of MVC benefits and coverage is incredibly important for the Rx lens business. During the 12ME period Dec’15 approximately 53.1 million pairs of Rx lenses were sold to consumers using insurance benefits (MVC and otherwise) when making that purchase. That means that about 64.1% of all Rx lenses were purchased with the assistance of some type of insurance benefit. The number of Rx lens unit pairs sold with insurance coverage increased by 5.4% during the 12ME period Dec’15. Conversely, the number of lenses sold without some type of insurance during the 12ME period Dec’15 totaled 29.8 million pairs—up by 0.7% over the past year.

2. The demographics of the typical MVC lens customer is slightly different from the FTC / uninsured customer. Adults using MVC to buy their Rx lenses were more likely to be male, under the age of 45, reside in a higher-income household and more likely to purchase Rx lenses from an independent ECP location. Most of these demographics (principally high-income lens buyers and independent ECP lens buyers) have been driving the recent growth in total Rx lens sales. These happen to be the same groups who are buying more optical products of any type; they are also the same groups who have been experiencing increased MVC benefit coverage as a result of increasing employment and the gradually improving economy.

3. The increased role of MVC in the optical industry is a highly controversial topic. The benefits and detriments of MVC among suppliers and retailers has been debated for years, but there is no debating it’s influence among consumers and eyewear buyers. Among approximately one-half of recent eyewear buyers with MVC coverage (particularly women and people who purchased from an independent ECP retailer), the benefits an options of their particular plan dictated both the timing and location of their eyeglass purchase. In most cases, consumers with MVC coverage bought eyeglass sooner than they were planning to because of their MVC coverage / benefits. Moreover, 30% of all recent eyeglass buyers who used MVC (especially younger buyers and people from lower-income homes) would not have been able to buy eyeglass without MVC coverage. There are other benefits associated with MVC coverage that are important for the industry. For instance, recent buyers who used MVC coverage when buying eyeglasses are more satisfied with their purchase than those who did not use MVC when buying eyewear (satisfaction ratings are about 10% higher). About 32% of recent buyers who used MVC coverage when buying eyeglasses where able to upgrade and buy a higher-quality pair of eyeglasses (a better frame, more/better lens features) when they recently purchased because of their insurance benefits. Finally, recent buyers who used MVC coverage when buying eyeglasses are more likely to return to the same location to buy eyeglasses in the future.
1. Earlier the millennium, one of the consistently strongest Rx lens markets in the US had been photochromic lenses. The market rebounded nicely in 2010 and has continued to grow ever since, although growth has slowed recently. There were 13.0 million pairs of photochromic lenses sold in the US during the 12ME period Dec’15. These photochromic lenses had a value of approximately $2.65 billion at the retail level and a value of $592 million at the wholesale level.

2. In addition to the continued rebound of photochromic lens sales, Rx sun lens sales also saw sales increases over the past year—helping them finally reach the high-water mark of unit sales that was set before the Great Recession occurred in 2008. There has been modest growth (+5.9%) in unit sales during the 12ME period Dec’15, with most of that growth occurring among independent ECP retailers over the past year (+6.7%). When looking at demographics of Rx sun lens buyers most of the growth during the 12ME period Dec’15 occurred among sales to Americans over the age of 55, Americans from higher-income households, Americans with NVC coverage/benefits, and Americans from the SE and MW regions of the country.

3. Photochromic unit sales have risen by 3.5% over the past year and are now well above pre-recession sales levels for both units and dollars. The dollar value of the photochromic market increased significantly over the past 12 months (+7.1%) due to increases in price at the retail level. Average retail selling prices for photochromic lenses are also up because the mix of lens styles is changing over the past 12 and 24 months, with most and more higher priced PAL photochromic lenses, more AR photochromic lenses sold and high-index photochromic lenses being sold.

4. Over the past 12 months, the independent ECP retail channel has seen the largest amount of growth among photochromic sales (+5.1%). Demographically over the past year, photochromic sales are up most for men, eyeglass wearers between the ages of 35 to 44, people from higher income households, people from the SE region of the USA, and eyeglass users with some type of MVC coverage. With the exception of age demographics, the folks who are increasing their purchases of photochromic lenses over the past year are the same demographics of people who are increasing their purchases of Rx sun lenses, as well. This is a reversal from previous years, when the main buyers of photochromic lenses were different from the main buyers of Rx sun lenses, suggesting that both products could succeed and grow without cannibalizing each other by serving different groups of consumers. However, for the 12ME period Dec’15, a slight majority of the key growth demographics for photochromic and Rx sun lenses were more apt and likely to select Rx sun lenses recently rather than photochromic lenses—contributing to the larger growth rates for Rx sun lenses during the 12ME period Dec’15.
1. The Anti-reflective lens market is another market that sagged during the recession, and like photochromics, we have seen a solid rebound in this market that started in late 2010 and continued through the fall and winter months of 2015. Sales activity has returned to pre-recession levels and has grown well beyond 2007/2008 figures. During the year-ending period Dec’10, 21.3 million pairs of A-R lenses were sold, representing 28.7% off all lenses sold domestically in the US.

2. During the year-ending period Dec’15 the number of AR lens pairs sold in the US stood at 25.0 million pairs, representing 30.1% of all lenses sold. During the 12ME period Dec’15, AR unit sales grew by 4.7% (an absolute increase of 1.1M additional lenses). Much of this increase is the result of increased purchasing activity by men, eyeglass wearers over the age of 55, and Americans residing in the NE region of the country. There has also been increased purchases of AR lenses by people from higher income households (AHI of $60K+), residents from the NE and MP regions of the country and people with some type of MVC benefits or insurance coverage.

3. With consumers willing to pay significant dollars for A-R lenses ($45-$100+ per pair more on average), the A-R lens market is estimated to have generated over $5.59 billion dollars during the year-ending period Dec’15 (up by 9.3% from year-ago dollar volumes).

4. Over the past year, we have seen the most growth in AR lens unit sales among independent ECP retailers (+6.2%). AR sales among mass merchant / club retailers and conventional chain retailers are also up over the past year (4.4% and 2.8% respectively), while sales of AR lenses through department store channel are actually down 0.5% during the 12ME period Dec’15. In terms of lens styles, most of the growth in AR lens sales has been localized among SV and PAL AR lenses, with SV AR unit sales up by 5.9% and unit sales of PAL AR lenses up 6.5% during the 12ME period Dec’15—sales of MF AR lenses were flat over the past year (-3.7%).
1. All in all, there were about 5.5 – 5.6 million pairs of free form PALs purchased by American consumers during the 12ME period Dec’15. That is up by about 9.7% over the previous 12ME period—after growing at a slightly slower rate for the previous two years. The increase in digitally surfaced free-form PAL sales means that the 9.7% growth rate during the 12ME period Dec’15 is significantly higher than total Rx lens sales, or traditional PAL sales, during the 12ME period Dec’15. In fact, sales of traditional, non-digital/free-form PALs was up just 4.7%. Men, who are less likely to buy PALs in general, were actually more likely to buy PALs produced with free form digital technology when compared to women. Moreover, younger PAL buyers were significantly more likely to be free-form digitally surfaced PAL buyers, when compared to consumers and eyeglass buyers over the age of 55—despite the fact that buyers over the age of 55 still accounted for the lions share of both PAL purchases free-form PAL purchases.

2. As you might expect, people from higher income households ($60K+ annually) purchased a majority of the free-form digitally surfaced PALs in the US during the 12ME period Dec’15 (about 72%). Moreover, a slight majority of free-form digitally surfaced PAL buyers possess and used MVC insurance benefits when last buying their free form progressives.

3. Recent growth of digital free-form PALs was strongest among men, adults over the age of 55, people from higher-income households, people from the MP region of the country and people who buy Rx lenses from independent ECPs.

4. Despite the higher prices associated with free-form digitally surfaced PALs, it appears that customers appreciate the product and are happy with spending the extra money for free-form digitally surfaced PALs. When compared to SV and MF lenses, consumer purchase satisfaction rates are about 15%-20% higher for consumers that buy progressive lenses. Satisfaction rates are even higher for free-form digitally surfaced PALs—with 89.9% of customers reporting being “very satisfied” or “extremely satisfied” with their recent free-form purchase. These strong satisfaction rates among recent consumers will only serve to bolster the sales and progress of free-form digitally surfaced PAL technology in the US market over the next 3 to 4 years.
Now let’s switch gears and look at the other side of the eyeglass equation: the ophthalmic frames sector of the industry. The frame side of the business has improved over the past year, with many consumers finally following through with purchases after postponing them during the recession and the weak part of the recovery. The increase in eyeglass wearers that we discussed earlier in the webinar has also been beneficial for recent eyeglass frame sales, as we’ll see in a moment.
1. There were 74.0 million pairs of eyeglass frames sold during the 12ME period Dec’15 (up by 3.5%), indicating that about 26.4% of the adult population purchased a pair of Rx glasses during that period of time. Women purchased a larger portion of eyeglasses than men last year, which shouldn’t be surprising since women, as a group, are still more likely than men to wear eyeglasses. The pace of eyeglass purchasing has picked up more among men more during the 12ME period Dec’15, which should be expected considering that men have been embracing eyeglass usage more over the past year when compared to women. That indicates that the eyeglass repurchase cycle (the average amount of time between the purchase of a complete new pair of eyeglasses) for both women and men now stands at 2.15 years. The repurchase cycle for both women and men dropped by about 2.5weeks over the past year, the first noticeable decrease in the repurchase cycle in almost 4 years. This situation represents a slight reversal in consumer psychology that started when the recession set in. Before the recession, women purchased eyeglasses two to three months sooner than men; then, after the recession from 2010 through 2013, men purchased eyeglasses about 1-2 months sooner than women. Now the repurchase cycle is almost equal between men and women.

2. On an aggregate level, the eyeglass repurchase cycle for all consumers has remained steady, declining only slightly over the past five years now at 2.15. For instance, during the 12ME period Jdec’15, the eyeglass repurchase cycle decreased by an estimated 13 days—very minimal given the 25-26 month repurchase cycle. The repurchase cycle was at it’s lowest (2.0 years) in 2006 and 2007 before turning up in 2008 and 2009—meaning that eyeglass wearers (particularly women and Americans over the age of 45) were lengthening the amount of time between eyeglass purchases during the recession, which partly explains the slowdown in unit sales over the past couple years. The fact that the repurchase cycle has declined slightly over the past year means that the increase in frame buying activity we have observed in the US is a result of both increased usage (+2.8M during the 12ME period Dec’15) and increased buying activity and increased multiple pair purchases (up by about 1.1% during the 12ME period Dec’15).

3. Over the past year, eyeglass frame buying activity increased most for: men (+3.9%), adults over the age of 55 (+5.4%), adults from higher income households (+5.1%), and consumers from the SE region of the country (+3.8%). Unfortunately, eyeglass frame sales among current contact lens users is down (-1.9%) during the 12ME period Dec’15—the third year in a row that metric has declined.
1. While age has a significant influence on the eyeglass repurchase cycle, the eyeglass repurchase cycle is also heavily influenced by income. Americans from households with annual incomes under $60K typically wait 2.5 years between purchasing a new pair of eyeglasses (~ 30 months).

2. On the other end of the spectrum, Americans from households with annual household incomes over $60K only wait an average of 1.9 years (23 months) between new eyeglass purchases. The re-purchase cycle gap between high-income and low income eyeglass wearers narrowed slightly during the recession, but it has increased over the past three years while remaining mostly constant during the 12ME period Dec’15 (thanks to an almost equal increase in usage and purchasing activity among Americans from higher-income households).

3. Americans from both higher and lower income demographics are helping to grow the frame market in the US over the past four years. From 2010 through 2013, the increase in purchasing activity among people from lower-income households was mostly attributable to a large number of FTC / non-insured customers from lower income households who entered the market and made an eyewear purchase after the recession ended when the economy started to improve. In total, frame sales among people from lower-income households are up 1.3% over the past year, but only up by 2.8% in aggregate over the past three years. Unfortunately, eyeglass usage among people from lower-income households is rising more than eyeglass purchasing activity among people from lower-income households.

4. Fortunately for the eyeglass frame industry, people from higher-income households are picking up the face and frequency of eyeglass purchases, thus helping to elevate the market in total. In addition to accounting for 57.8% of all frame unit purchases during the 12ME period Dec’15, adults from higher income households also account for 60.7% of all frame sales revenue during that same period of time. And while unit sales of frames among people from higher income households were up 5.1% during the 12ME period Dec’15, dollar value of frame sales were up by 7.1%, indicating that Americans from higher income households are spending more and more money for the frames they buy year after year.

5. It should be noted that during 2011 through the first half of 2013, purchases of eyeglass frames among adults from higher income households was not as strong as it was during 2007 through 2010. In fact, their growth in eyeglass frame sales had slowed significantly and much of that probably involves the increase in CL usage/purchases we have seen among higher income adults, as well as the resurgence in LASIK surgery procedures, most of which have occurred among adults with higher incomes. Now, as you might recall earlier we mentioned how LASIK is on the decline again, and that CL usage was relatively flat among people from higher-income households over the past year. These results seem to indicate that eyeglass frame sales are clearly benefiting from the waning popularity of other vision correction alternatives among the higher-income populations—as well as the increase in MVC coverage among people from higher income households (more on that in a moment).
1. The 74.0 million pairs of frames sold in the US generated more than $9.63 billion in sales revenue during the 12ME Dec'15—a 3.5% increase when compared to dollar value generated one year ago. Unfortunately, most of the recent increase in unit sales activity occurred in the first six months of 2015 (+4.8%) rather than the last half of 2015 (+2.0%). Increases in dollar revenue followed a similar pattern as frame revenue was also rising more in the first half of 2015 than they were in the last half of 2015.

2. Since Dec07 independent retail outlets have been able to keep up a consistent level of eyeglass frame sales and a grow their market share as a group. Sales of frames via independent ECP retailers are up by 5.0% in terms of units over the past 12 months, and up 7.4% in terms of dollars thanks to slightly rising prices (+$3.35 per pair during the 12ME period Dec’15). Increased eyeglass purchases by consumers with MVC benefits since the start of the recession has helped the independents keep the overall eyeglass market strong over the past four years. Independent ECPs have been able to grow their share of the frame market dollar pie by 8.3 share points since the 12ME period Jun’08. Over the past year, frame purchases from independent ECPs have increased most among men, eyeglass users over the age of 55, adults from the SE region of the country and eyeglass buyers from higher income households.

3. Unfortunately, the dollar share gains from eyeglass frame sales for independent ECPs have come mostly at the expense of the conventional optical chains that have lost 3.6 share points over the past seven years since the recession started. Fortunately, for conventional chains, the decline in sales turned a corner in late 2011 and has grown slowly over the past couple of years—despite losing share to the independent ECPs and online retailers. For the 12ME period Dec’15, dollar value from frame sales increased by 4.0% in value over the past year and unit sales rose by 2.7% during this same period of time. In fact, as the economy slowly and steadily recovers, the conventional chains are seeing more foot traffic in the malls and shopping centers that are helping their sales volumes. Over the past year, conventional chain eyeglass frame sales are up most for men, adults between the ages of 18 to 34, people from higher-income households, people from the MP region of the country—with frames priced less than $100 dollars per pair seeing the most growth among chain retailers.

4. Mass merchandisers and wholesale clubs have also lost some aggregate sales revenue because of the poor economy; however, they have not suffered as much as the conventional chains and their recovery over the past few years has been stronger than the rebound experienced by department store and conventional chain optical retailers. Over the past year, dollar sales of ophthalmic frames among mass merchants and wholesale clubs increased by 1.2% and unit sales increased by 1.7%. Over the past year, frame purchases among mass/club retailers increased most among men, Americans 18-34 years old, and Americans from lower & higher-income households. The slightly sliding ASPs during the 12ME period Dec’15 (-0.40 per pair), is primarily attributable to growing sales of frames priced at less than $100 per pair for mass merchant / wholesale club retailers—particularly among club retailers like Costco, BJs and Sams Club.
1. Another evolving trend in the US ophthalmic frames market pertains to the material of frames sold at the retail level. While most consumers still prefer “metal” frames when purchasing eyeglasses, the number of metal frames purchased by adults in the US has dropped by more than 3% since mid-2008—before the recession started. During the 12ME period Dec’15 there were 30.2 million pairs of metal frames sold in the US—with an average retail selling price of $143 per pair. Metal frames were relatively more popular among men, Americans over the age of 45, Americans with MVC coverage and Americans with annual household incomes over $60,000.

2. Over one-out of every four pairs of frames sold were made of a combination of metal and plastic and just under one out of every five pairs of all frames sold were constructed entirely of plastic. Plastic frames and combination frames were more popular among younger frame buyers, women frame buyers and eyeglass buyers from the SE and MP regions of the country. During the 12ME period Dec’15, there has been an increase in the number of plastic frame pairs sold in the US (+5.1%) while the number of “combination” (metal & plastic) frames sold in the US increased by a slightly lower pace during this same period of time (+2.9%). The number of rimless and semi-rimless frame sales have increased by 4.6% during the 12ME period Dec’15 totaling close to 6.5 million unit pairs sold in the US last year.

3. As the bottom portion of this chart illustrates, when compared to all frame buyers in the US, recent buyers of rimless / semi-rimless eyeglass frames were more likely to be male, under the age of 55, and live in higher income households. They were also more likely to pay more for the frames they purchased: about $150 per pair on average during the 12ME period Dec’15 (vs. the industry ARSP of $130.06 per pair for all frames sold).
1. Of the 74.0 million pairs of frames purchased during the 12ME period Dec’15, most (47.4 million) were purchased with some type of assistance from a managed vision care plan. The remaining 26.7 million pairs were purchased without any form of insurance assistance.

2. During the year-ending period Dec’15 there were 2.3 million more frames purchased in the US with the assistance of vision insurance when compared to the previous year—which shouldn’t be a surprise considering the increase in MVC coverage among the American adult population. During the 12ME period Dec’15 there was a net increase of 3.0 million covered adult 18+ lives who were covered by some type of MVC plan. This increase can be attributable to rising employment and additional employers offering vision insurance benefits as the economy improves. So, as a result of this increase in the number of MVC “covered lives”, the portion of frames purchased with some type of MVC assistance has actually increased for the third straight year (December-to-December) time since 2008/2009. During the recession, people with MVC benefits were taking advantage of their benefits before they expired or lost them, leading to a huge, unsustainable spike in MVC utilization for frame purchases.

3. On the other side of the coin, the number of frames purchased without vision insurance assistance declined over the past year after rising for a couple years in a row. There were 26.7 million pairs of frames purchased without any type of insurance assistance during the year-ending period Dec’15 (+160K pairs during the 12ME period Dec’15, a rise of 0.6%); however, despite this recent slow growth, the number of FTC/non-insured frame unit purchases is still up by a respectable 1.2M pairs over the past four years since the end of the recession (+4.8% growth). One reason behind the growth of the FTC market in 2014 and 2015 was the increase in Rx eyeglass usage among American adults from lower-income households (+&00K users in the past two years).

4. During the 12ME period Dec’15, MVC insurance frame purchases increased most among all major distribution channels and most retailers with independent ECP retailers (+6.7%) and conventional chain retailers (+3.4%) seeing the largest increases in frame purchases with insurance assistance. Demographically, MVC frame purchases increased most during the 12ME period Dec’15 among just about all consumers but increased most for men, adults over the age of 55, people from higher-income households (AHI: $60K+), residents from the SE region of the US and people using FSA/flex spending plans and people using a state or federal government program benefit with some type of vision care rider (Medicare, Medicaid, VA benefits, etc...).
Online / Internet Sales Trends

1. Back in June 2007, our members requested that we run a consumer survey in VisionWatch that examined the role of the Internet on optical industry purchases.
2. We have published seven editions of our Internet Influence report since then, helping members understand consumer usage of, and opinions toward, the Internet with regard to optical products and vision care. We have also expanded our coverage of online purchasing activity through our standard VisionWatch program.
3. This Internet Influence study is just part of a series of Vision Council reports that look to see how new technologies and market developments are viewed by consumers and how those new technologies may fare in the future. Recently, the Vision Council has conducted studies on digital eye fatigue / computer vision syndrome, Parent’s opinions and behaviors regard their children’s eyewear and the role of the economy in optical industry purchase decisions. We’re also planning on releasing new studies before the end of the year that look at the action sports sunglass market and the differences between “generational” eyewear habits and opinions.
1. During the 12ME period Dec’15, sales of optical “products” (eyeglasses, readers, sunglasses and contact lenses) generated $31.85 billion in sales at the retail level through all outlets and channels. $1.49 billion of those sales originated from the Internet through direct online purchase activity. In fact, we estimate that 2015 was the fourth straight calendar year for which more than $1 billion worth of optical products were bought over the Internet. The dollar totals from online optical sales for the 12ME period Dec’15 were up 11.7% over 12ME Dec’14 online sales revenues and up by 65% over 12ME Dec’10 online sales revenues. While prices for online products have increased slightly over the past two year (~2%-3%) most of that increase in revenue was driven by an increase in volume unit sales and an increase in the number of online purchase transactions.

2. A large portion of the revenue from online optical sales (47.3%) comes from the sales of contact lenses. CL is the most established online optical market in the US, and even though the number of online CL sales transactions and the amount of online CL dollar revenue increases by 6% to 8% per year, online sales of CL are not growing as fast as online sales of plano SG, ophthalmic frames, Rx lenses or even OTC reading glasses.

3. We estimate that about 3.9% of all eyeglass lenses and frames purchased in the US during the 12ME period Dec’15, were purchased online over the Internet—about 2.9 million pairs. Unit sales are up by 500% since 2007 when we first started to measure the online purchase incidence of Rx eyeglasses. For the 12ME period Dec’15, online eyeglass sales are up 19.3% in units and up 19.8% in dollars—signifying that sales of higher–priced, eyeglass products have increased during the past year. Even considering this recent increase in online prices, prices (in general) for online eyeglasses are still significantly less than prices for eyeglasses sold at physical and mortar locations—about 50%-60% lower on average.

4. Sales of online plano SG have also grown steadily over the past few years. In fact during the 24 month period Dec’15, online plano SG sales have increased by 25.8% in units and by 29.2% in dollar value—far faster and stronger than total plano SG sales in the US. Currently, about 6.4 million pairs of plano SG were sold directly online over the Internet during the 12ME period Dec’15—about 6.2% of all plano SG sales during the period.

5. Perhaps the smallest online optical market was OTC readers—and even there about 2.0 million pairs of readers worth over $30.2 million were sold online during the 12ME period Dec’15.
1. About 22.5% of American consumers who recently purchased Rx eyeglass frames within the last six months of 2015 did use the Internet for some activities. This represents a more than 100% increase from the 11% of buyers who used the Internet during our 2007 Internet Influence survey. Usage of the Internet to shop for an purchase product has also occurred in other eyewear markets, particularly plano SG—where the number of consumers using the Internet for shopping and buying activities increased by 6% over the past two years. Similarly, close to one-third of all contact lens buyers (over 12.5 million consumers) used the Internet for some type of shopping activity with 7.0 million alone using the Internet to directly “click and purchase” CLs. Using the Internet to shop for and buy plano SG was also a popular activity with more than one out of every 5 plano SG buyers using the Internet to some extent before buying sunglasses.

2. As previously mentioned, when using the internet to search for eyewear most Americans are usually “window shopping” online, in other words, they are conducting research and activities that are utilized to help them purchase eyewear in-person at a future date. People most often look for possible brands or styles of eyewear. They also look to the internet to compare and benchmark eyewear prices, and to examine possible retail locations where they might eventually make the purchase in-person. People are less likely to use the internet to select the exact brand of eyewear they will buy, or to select the exact retail location where they will make a purchase. Only a handful of consumers are using the Internet to review customer ratings/satisfaction relating to eyewear or eyewear retailers.

3. The groups that were more likely to use the internet for different functions when shopping for their last pair of eyewear were also the groups that were more likely to directly purchase eyewear online. In particular, women, younger Americans, Americans with relatively high incomes, and Americans that use the internet when shopping for general retail goods were all more likely than other groups to have directly purchased eyewear online within the past six months. In 2015 there was an increase in the number of men purchasing optical products online, as well as an increase in the number of people between the ages of 35 to 54, and people from higher-income households purchasing eyewear online.

4. The 2015 Internet Influence report indicates that online eyeglass and CL buyers prefer to use websites operated by eyewear retailers, especially retailers that only have a presence on the web (e.g. eyebuydirect.com, framesdirect.com, coastal.com). Among plano sunglass buyers, general online retailers that also sell eyewear (like Amazon.com and buy.com), sunglass specialty retailers (sunglasshut.com, solsticestores.com, etc..) and department store retailers are the most popular sites used to purchase plano sunglasses online. Significant numbers of recent OTC readers buyers purchased readers from sites operated by general online retailers that also sell eyewear, as well as websites operated by drug / pharmacy retailers and eyewear retailers that only have an online presence (such as 39dollareyeglasses.com or framesdirect.com).
1. So how will American consumers use the Internet when shopping for eyewear in the future? Over 1/3 of all recent eyewear consumers claim that they will never use the Internet to shop for or perform any shopping function when buying eyewear for the future. About 20% of recent eyewear buyers have signified that they will use the internet to examine possible brands or types of eyewear, and another 9% claimed they will use the internet to determine the exact brand or type of eyewear they will purchase.

2. A noteworthy number of recent eyewear buyers are planning to use the internet to examine possible retailers of eyewear (18%), and/or to determine the exact retail location where they will eventually purchase eyewear (9%). Comparing and benchmarking prices for specific brands of eyewear, or specific eyewear retailers, is another function that many eyewear consumers (22%) will perform with the assistance of the internet in the future.

4. And finally, about 19% of Americans that purchased eyewear in the past six months plan to use the internet to “possibly” purchase some form of eyewear in the future. An additional 11% claimed that they will “probably” use the internet in the future to directly purchase some type of eyewear. That means that we could have possibly up to 12 million pairs of Rx eyeglasses and up to 22 million pairs of plano SG sold online at some point in the future. Wealthy Americans, Americans that recently purchased from a conventional chain and Americans that used the internet to some capacity when last purchasing eyewear (checking brands, searching retailers, etc…), all of these groups indicated that they would possibly or probably purchase eyewear online in the future.

5. Consumers seem to be most willing to try and purchase either contact lenses or plano SG online at some point in the future. Purchasing a complete pair of eyeglasses (either clear glasses or Rx sunglasses) is another product people have expressed an interest in possibly purchasing online at some point in the future. Over the past year, future online purchase intent has increased for just about all optical products (with the exception of “lens-only” purchases, where online purchase intent declined in 2015), with the largest increases in online intent occurring for Rx sunglasses, plano SG and contact lenses; online future purchase intent for Rx eyeglasses also increased by about 10% over the course of 2015. When it comes to looking at online future purchase intent metrics by type of customer, we can see that current customers of conventional chain retailers (and other online retailers) are still more likely to express an interest in buying future optical products online when compared to customers of independent ECPs or mass/club retailers.
To close the presentation we will take a quick look at the foreseeable future and what it holds for the economy in general and the vision care industry in particular.
Here is what you need to know about the current state of the economy and where most experts believe it is headed. Officially the “Greet Recession” ended in June of 2009—over 80 months ago. We are currently in one of the largest (albeit slowest) economic expansions in the history of the USA. However, that slow, continuously improving growth is in danger in 2016. Here is what you need to know about the current state of the economy and where most experts believe it is headed. While the first-half of 2015 was as positive for the economy as any other time period in the past 5 years, the turbulent economic conditions have slowed economic growth and have increased worry among many consumers and economic experts alike for 2016 US economic market conditions.

2. Basically, when looking at the economy, it was a tale of two markets from 2010 through most of 2014. One market (the corporate / business / finance market) was doing relatively well and is enjoying most of the spoils from the recent recovery, while the other economy (the “labor” economy) only started improving in 2013—and with it—optical industry sales grew as the US “labor” economy grew in 2013, 2014 and 2015.

3. Now, in early 2016 economic indicators for both the “corporate” and “labor” economy are faltering. The stock market was reaching and going beyond all time highs until August of 2015 when US and global economic turbulence created volatility in the Dow and other markets not seen since 2008. Corporate earnings are strong but down from 2013/2014, reported profits are still high for some companies but not as high as they were in 2013/2014. Also, consumer and producer inflation are well in check but experts and pundits believe inflation may rear it’s ugly head again at some point in 2016. Add to that the lack of any tangible improvements in the residential and/or commercial US housing market, flat US productivity metrics (flat or down in 3 out of the last 6 calendar quarters and down by 2.2% in the fourth quarter of 2015 alone) and it seems like the “corporate/finance/business” side of the US economy is faltering and will likely contribute to a slowdown in US optical industry performance during 2016.

4. On the positive side for the US Economy, the EU is moving closer to pre-recessionary levels, gradually declining over the past three years. Currently the official unemployment rate is 5.0% as of Mar’16, lower than where it was one year ago (5.5%) and significantly lower than the peak of 10.0% back in October of 2009. While the US economy has added 12.9 million new jobs from Jan’11 through Mar’16 (including 620K new jobs in 2016 so far alone), it has only been recently that those new jobs are the quality full-time jobs that provide workers with disposable income for spending on retail goods and services. Unfortunately, while labor market growth and Consequently, disposable income rates have only increased moderately since the end of the recession and most of that growth occurred in 2013, not too much in 2014. After three years of slow and gradual recovery, it seems like the labor component of the economy is now faltering slightly, like the corporate/business/finance component of the economy.

5. That turbulence is now appearing in most of the consumer confidence and consumer spending numbers that have been released over the past few weeks. The Consumer Confidence Index, which has been rather volatile over the past five years stood at 96.2 in Mar’16. The Mar’16 CCI reading is down from Mar’15 (down by 5.1 points), but up slightly from Feb’16 (+2.2 points); while recent CCI readings are higher than they were during the start of the “Great Recession”, they are still down from readings of 110-15 we saw in 2007 before the recession set in and the 105-110 readings we saw in 2014/2015.

6. Consumer disposable and discretionary income is weaker than where it was one year ago (up by 1.5% to 3%—depending on how you want to measure it) but still up from recessionary levels. Considering that consumer and producer prices (as measured by the BLS CPI and PPI programs) are threatening to rise and may potentially eat into people’s future purchasing power capability for eyewear later this year, meaning that people will be able to increase the money they spend on eyewear spending—including eyewear.

7. All in all, we can say that the economy, while light years ahead of it’s position during the “Great Recession”, is not as strong or optimistic as it was one year ago and that is potentially bad news for the optical industry. The eyewear and eye care industry depend on strong consumer spending and strong consumer confidence to grow. With the labor component of the industry starting to falter (even as we return to pre-recessionary levels over the past 12 -15 months), it shouldn’t be a surprise that optical industry purchase intent indicators are flattening out and even declining in some segments of the market. VW future purchase intent indicators that were flat in 2012—turned upward again in 2013 and have stayed at high levels until the summer months of 2015, started to turn downward in many markets during the 3rd and 4th quarters of 2015—signifying that eyewear sales growth that started in 2012 will slow considerably in 2016. Moreover, when you consider the fact that many leading economic indicators are now turning downward and trending down (especially trade indicators and monthly advance sales indicators), most economic experts and pundits are predicting that the US economy will see aggregate growth of 2.0% to 2.4% over the course of 2016—growing less than 2014 or 2015 and likely leading to a slowdown in the growth for the US optical industry.
1. The Consumer Confidence Index, which has been rather volatile over the past five years stood at 96.2 in Mar’16, up from Feb’16 (+2.2 points) but down from the 101.3 reading from March 2015 (-5.1 points), indicating that consumers are NOT as confident about the economy now than they were one year ago when conditions were more optimistic.

2. Combine that with the notion that disposable and discretionary income only up about 3% over last year and that bodes poorly for the vision industry which depends on strong consumer spending and strong consumer confidence.

3. While the optical industry is closely aligned to consumer confidence and consumer spending, it is also important to note that the US optical industry is a lagging industry and a “sheltered” industry. That means a slowdown in optical industry sales does not really start to occur until 4-6 months after any particular slowdown hits the general economy. Furthermore, the optical industry is “sheltered” in that when consumers slow their spending on goods and services they usually slow their spending on other non-optical goods and services to a greater extent than they do for optical products. So when times get tight and consumers slow their spending, they usually spend less on casual dining, electronics, clothing, entertainment, etc… first and then cut spending on optical goods and services and change their buying habits later on during the recession. This is certainly what we saw during the Great Recession 5-6 years ago. Back then, we saw sales declines in the optical industry, but those declines were not as drastic or severe as what other industries experienced.

4. While being an insulated industry during bad times is often for the best, it can often be detrimental when the economy is booming and growing. As this chart from our Economic Situation report illustrates, while consumer spending on general goods and services has expanded considerably since early 2009 (in blue), increases in spending on optical products (shown in red) as a result of the improving economy has only been about half the increase we are seeing in the general retail economy. In fact, we estimate from April 2009 through April of 2015, the slowly improving economy is responsible for a net increase of 19.5 million eyewear and eyecare customers generating 33.9 million transactions generating up to $3.75 billion in additional optical sales. However, should the economy turn downward we will lose millions of potential buyers and transactions—but to reiterate, any potential “losses” for the optical industry will not be as bad or consequential as the losses other industries will experience should the economy turn downward at some point during the year.
1. So what about equipment sales in the industry and the future there? Well, after going through a brutal period during the recession and weak economic recovery where edger sales dropped significantly from the 2006-2007 period, 2011 and 2012 have been strong years for edger sales (and other surfacing equipment as well), with total new edger sales growing by 6.6% during 2011 and growing by 15.2% during 2012. Unfortunately, the large increase in sales for 2011 and 2012 has led to a “let-down” effect in edger shipments for 2013, before equipment markets flattened out in 2015. Unfortunately, the increasing pessimistic economic outlook has clearly had a detrimental effect on the equipment purchasing habits and buying patterns of eyewear retailers in the industry— even in 2015. For the entire calendar year 2015, sales of new edger totaled 986 units—down by 9.6% from units shipped during 2014, and down by 26% from 2008 before the recession hit the optical industry.

2. Sales of new edgers in the 12ME Dec’15 period were strongest among the independent ECP channel (but still down by 0.3% from the previous year). Sales of new edgers in the 12ME Dec’15 period were weakest among the Centralized Facility channel (down by 38.7% from the previous year). For the entire calendar year 2015, May and June were the best month for edger shipments with February and April being the worse months for edger sales (relative to the same months in 2014).

3. During the autumn months of 2011, we developed a forecasting tool for sales of edgers and other finishing equipment. Right now we are using a very basic regression model (linear regression) to predict LPT edger sales one quarter out using the NFIB Small Business Optimism Index and a couple leading economic indicators.

4. The most recent NFIB index reading (Feb’16) of 92.9 is down by 1 point from Jan’16 but down by 5.1 points from where it was last year in Feb’15, indicating that Q1 2016 new edger sales should come in at around 215 units. That is an increase of about 26% when compared to Q1’15 edger sales—an incredibly weak period for sales historically. While that isn’t exactly good news, it does indicate that the significant drop in edger unit shipments that occurred in 2014 and 2015 should stop in the first and second quarters of the year. By and large, when testing out the model on past data and sales, it has a predictive accuracy rate of 81%.
1. Now let’s look at some optical retail specific projections from VisionWatch. The percentage of American adults indicating that they will get an eye exam in the near future had been see-sawing from 2007 through 2011, and peaked in mid-2011 before stabilizing in early 2012 and remaining stable ever since. According to our most recent data from Dec’15, just under one-fifth of the adult population is planning to get an eye exam sometime in the next three months a number that is down by 2.5% from a year-ago. Despite the recent decline in exam intent (starting in August 2015), the current level of exam intent is on par with, and slightly higher than, exam intent before the recession started.

2. Most of the increase in recent exam intent has been focused on women, adults over the age of 55, people from higher income homes, people from the MW region of the US, people with some type of MVC coverage and people who have not purchased eyewear within the past 24 months.

3. Even though not all of the people will actually get an eye exam, it is a good sign that there are 48.8 million adults thinking about having an exam. All other things being equal we should see adult eye exams remain in the 114-115 million mark when the September and December 2016 reports are released later this year. Even though exam intent has been down over the past couple of years (declining by 1% or so each of the past two years, the number of adult eye exams administered has increased fairly sizably over the past two years (i.e. +3.1% during the 12ME period Dec’15 alone). This is primarily attributable to two main sources: 1. a continual increase in the size of the American adult population and 2. increased consumer outreach campaigns that encourage people to see the eye doctor, get an exam or address any vision problems. This includes both private “commercial” campaigns by larger eyewear retailers and suppliers like Wal-Mart, LRNA, VisionWorks, Essilor, Transitions, etc… and especially “public” campaigns from PBA and Think About Your Eyes. Those campaigns seem to have a measured effect on the consciousness of the American consumer and is leading many to get an exam without previously planning to go for an eye exam.
1. The declining eye exam future intent reading corresponds to the flat future purchase intent readings for optical eyewear products. Most other consumer purchase intent indexes (eyeglasses, contact lenses and surgery), while at a relatively high level (especially when compared to 2009 and 2010) — are flat when compared to where they were one year ago.

2. This is an index that we developed aimed at gauging demand for high-end plano sunglasses in the near future—which has increased slightly over the past year.

3. And according to this index, high end plano sunglass sales should continue to be strong in the spring and summer months of 2015, and moreover, the rate of growth over the first six months of 2015 will probably be similar to what we saw in early 2013 and 2014 (+4% to +5% increase in unit sales and a +6% to +7% in dollar volume). The continually improving economy and relatively nice predicted spring and summer weather season will certainly help to increase sales of plano 5G over the next 6, 9 and 12 months. It should be noted that despite the incredibly high purchase intent figures, sales of premium plano sunglasses (and plano 5G in total) have just recently returned to pre-recessionary levels from 2008 and before. With economic conditions for the US uncertain in 2016, the higher future purchase intent for high-end plano 5G (increasing from the previous two December readings), we will probably see total plano 5G sales in 2016 increase by 2.5% - 3.0% over 2015 levels.

4. During the 12ME period Dec’15, purchase intent for high-end plano sunglasses was still strong and actually grew for men, Americans over the age of 45, Americans from higher-income households, Americans with some type of MVC / vision insurance coverage and Americans from the SE region of the country. That is certainly a good omen for the plano 5G industry.

5. As of Dec’15 there are now 29.7 million American adults who are very likely or extremely likely to buy a pair of plano 5G priced at more than $50 per pair during the Jan.-Jun. period of 2016. Even though this number is up by only 100K when compared to the previous year (but up by 7.0 million when compared to the height of the recession) there has also been a decrease in the number of consumers who will “probably not” or “definitely not” buy high-end premium plano 5G at some point in the next six months, and that is one of the reasons why total SG purchase intent index has risen so strong against the previous year even though the number of “probable” buyers has remained relatively flat.
1. This is a similar index aimed at gauging demand for eyeglasses in the near future.

2. As you can see here, during the 6ME period Dec’15 Rx eyeglass purchase intent stood at 104, down by one point from the Dec’14 reading, and down by two points from the Sep’15 reading and still up by 12 points from Sep’10 reading (the all time low). The future purchase intent index for eyeglasses typically moves in a cyclical pattern (often tied to seasonal buying patterns and MVC usage). In late 2014 through the winter months of 2015, eyeglass future purchase intent increased most among consumers with some type of MVC coverage. You will recall a few moments ago how we mentioned frame purchases in the year 2015 increased most among those consumers with MVC benefits; they were the ones driving the increased sales we saw over the past year and they will continue to grow their purchases in 2016.

3. Our data indicates that the strong economic “good news” that occurred in from 2011 through the middle of 2015 caused people to follow through with the increased purchase intent that had built up during the weak part of the economic recovery. Fortunately, the improving business/corporate/finance economy, as well as the improving labor economy, helped to sustain increased Rx eyeglass purchase intent through June of 2015, however, Q3 and Q4 purchase intent was hindered by the stumbles of the stock market and the economy from August-November 2015. That clearly had a slightly negative impact on purchase intent during the 3rd and 4th quarters of the year. It also indicates that while sales of eyeglasses in 2016 should continue to grow above 2015 levels, the pace of that growth may be decelerated from what we observed in 2014 and 2015 (i.e. growth rates slowing from +3.5% to 4.0% to somewhere around +2.0% to +2.5%).

4. As of Dec’15, 9.2% of the adult eyeglass wearing population is “extremely likely” to buy a complete new pair of Rx eyeglasses within the next 6 months. Another 15.4% are very likely to buy a new pair of Rx eyeglasses within the next 6 months. That indicates that there are about 39.1 million adults in the market to buy a new pair of eyeglasses within the first six months of 2016. That is an absolute increase of more than 500K potential buyers when compared to one year ago, and it represents an absolute increase of almost 7.5 million probable eyeglass buyers when compared to 12ME Jun’10 when purchase intent was extremely low.

5. Rx eyeglass future purchase intent is up for some consumer groups over the past year. Specifically, purchase intent has increased most over the past year for men. Future purchase intent is also rising faster for Americans over the age of 45, Americans from higher-income households, Americans from the SE and MP regions of the country, and Americans with some form of MVC coverage. The notion that purchase intent is once again soaring for people from higher-income households tells us that we should expect purchases from that group to pick up in 2016 (+5%) as they continue to prop up the market during times of turbulent economic performance. Simultaneously, ophthalmic frame purchases among people from lower-income households will most likely remain flat or decline by 1%-2% as many lower-income, uninsured consumers postpone or cancel optical purchases until economic conditions become positive again. All-in-all, we expect 2016 total Rx eyeglass sales to increase by about 2.0%-2.5% in units and rise by about 3.5% to 4.0% in dollar revenue above 2015 year-ending levels.
We expect calendar year 2016 year-ending dollar sales to be up by about 3.0%-4.0% over 2015 levels with unit sales increasing by about 2.0% to 2.5%. For perspective, we saw unit sales grow by 3.5% in 2015 and dollar sales grow by 5.8% throughout the year. For the next 12 months, optical unit and sales growth should come primarily from new users in the market (as a result of population growth and high MVC coverage) and not from an increase in buying behavior from the existing user population (which created more than half of the sales growth we saw in 2014 and 2015).

For the year-ending period Dec’16 (over the next 9-12 months), unit sales of Rx eyeglasses should be up by 1.5% - 2% over 12ME Dec’15 sales (about 75.1 – 75.5 million pairs). During this same period of time, sales of OTC readers and contact lenses may grow slightly faster than eyeglass sales but not by much (+2.5% to +3.5% thanks to rising numbers of users). Sales of plano SG should during the 12ME period Dec’16 should grow at a similar rate for other market segments in the optical industry. There are two counter-balancing forces that could mingle to create a slowly growing plano SG market in the USA for 2016. First, : 1. The growing future purchase intent index for plano sunglasses we observed a few moments ago should lead to increasing plano SG sales in the short-term (spring and summer 2016 months). However, counter-balancing the potential increase in SG sales from growing purchase intent, is the notion that the sunglasses market is the optical market most responsive to changes in the economy. When times are bad, people stop buying SG before slowing purchases of other optical goods. Conversely, when times are good, people are more willing to buy plano SG first before other optical products. In total, since we believe the economy will experience some degree of turmoil in 2016, sales of plano SG over the next year will probably increase by about 2.5% to 3.0%. Moreover, we expect a slight majority of this potential increase in sales to occur among higher price points and premium / luxury product types (at least 50%-60% of growth.

We also expect MVC usage for eyewear purchases to continue growing in 2016, but at a slower pace than what we experienced in 2014 and 2014 (when coverage soared as UE declined). MVC coverage, growing from 2012 through 2015, will only continue to grow only slightly in 2016 as the economy slows and stagnates slightly—providing the economy with more jobs and providing employers with additional resources to offer vision insurance to their employees. This increase in potential customers with MVC coverage will serve to increase MVC sales over the course of the next 6, 12, 18 months. Even though MVC sales may grow by 4% to 5% in 2016, we will likely see a decline in FTC / non-insured purchases as the economy forces may uninsured, lower-income consumers to pause or postpone any optical industry purchases. In fact, the slowing economy, along with faltering future eyeglass purchase intent among FTC customers will lead FTC consumers to “sit on the sideline” again—similar to their behavior in 2009/2010 (although the decline in buying activity shouldn’t be as intense in 2016). All in all, FTC purchases should decline slightly (by about 1% in the first half of the year and down by 2% during the second half of the year.

Even though chains, mass merchants and department stores have had relatively strong years in 2014 and 2015 (experiencing positive retail product sales instead of losses like 2008 through 2011), most indicators report that the next nine months (through Dec’16) could be a rougher time for the non-independent outlets, as any economic faltering will surely have a detrimental impact the chains, department stores and mass / club retailers before it impacts the optical independent locations. Fortunately for the chains, the mass merchants, department stores, wholesale clubs and online retailers, the increased tendency of many consumers to get an exam at an independent ECP location and take their scripts elsewhere when making a purchase will help to boost the business for non-independent retailers and prop-up any losses in sales from a slowing economy and slowing foot traffic. Independent ECPs should continue to grow by 3.0% to 3.5%—similar to what we saw in 2012-2014. Chains, mass merchants, wholesale clubs and department store retailer should see optical industry sales grow by less than 1% in 2016, while online retailers will continue to see sales grow by about 8%-10% during the year 2016.

It is important to note that these projections are based on conservative economic performance for the general US economy in 2016, the first real “challenge” we have seen to the 6 year macro economic growth cycle. A major economic disturbance, (which could coincide with major stock market losses, a natural disaster/calamity, escalating military action in the Middle East, significant global economic slowdown, etc...) could lead to a considerably receding market with losses of up to 5% against 2015 levels. We simply do not know for sure; however, the overall outlook now is more pessimistic than it was in the past.

Now, I would be glad to answer any questions you may have on the market or the data that we discussed.