U.S. Market Overview: Reorientation... and Some Radical Change

Marge Axelrad, Vision Monday
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The vision to help you succeed
Finding NEW WAYS TO BRING THE MESSAGE as Expectations change

- A real, palpable demographic need and opportunity for vision correction for all
- Sales up but not robust. Some categories gaining in $$ but not units, others gaining in units but not $$
- A digital revolution impacting everyone, every business, every perception, many actions
- Independents holding on, many chains pressured
- A new insurance climate that no one can predict

A new dynamic for business and healthcare models

- Insurance changes/ACA will mean movement among patients with benefits, new interpretation of those benefits – help needed among ECPs and retailers
- Uncertainty among many independent ECPs will be an opportunity for supplier partners to step up with solutions
- Reinforcing the business value of vision correction to the practice.
- “Omni-channel” marketing is the new orientation of “CLICK and MORTAR”
Look in the Rear View:
5 Years of Sales

- Total U.S. Vision Care Industry Sales in 2007: $34.3 billion
- Total U.S. Vision Care Industry Sales in 2013: $35.6 billion
- Change 2007/2013: +4.6%

5 Year View: The Spend Per Vision Correction USER

- In 2007: $201.16
- In 2013: $195.99
- Change 2007/2013: -2.6%
A DIFFERENT STORY for EYE EXAMS...

- The total number of eye exams continually trended upward through the recession.
- Between 2007 and 2013 the number of exams at independents increased by 8.0M or 12.4%
- Between 2007 and 2013 the number of exams at chains (all non independents) increased by 0.3M or 0.9%
- Approximately 73% of Exams have MVC coverage

Trends in Vision Correction

Past 12 months

The Vision Council’s VisionWatch survey

12MEJune 2014
Slow but steady gains Since 2009

Market Snapshot

- $36Billion
- Up 3.3% in $$
- Exams Up
- Lenses Up
- CLs Up
- Frames Flat
What’s Driving Sales?

- Rx Lenses
- Contact Lenses
- Eye Exams
- New Dynamics in Frames

Dollars Up in Most categories
Dollars up at Independents

Vision Care Products & Services – Total U.S. Independent Market Breakout

In $Millions$

All Independent Optical Retail*

<table>
<thead>
<tr>
<th>Product</th>
<th>Jun12</th>
<th>Jun13</th>
<th>Jun12</th>
<th>Jun13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frames</td>
<td>$4,579</td>
<td>$5,881</td>
<td>$4,579</td>
<td>$5,881</td>
</tr>
<tr>
<td>Lenses</td>
<td>$1,730</td>
<td>$550</td>
<td>$1,730</td>
<td>$550</td>
</tr>
<tr>
<td>Contact Lenses Sunglasses</td>
<td>$550</td>
<td>$550</td>
<td>$150</td>
<td>$36</td>
</tr>
<tr>
<td>OTC Readers Examinations</td>
<td>$36</td>
<td>$36</td>
<td>$36</td>
<td>$36</td>
</tr>
</tbody>
</table>

*All independent optical retail includes dollars spent at independent optical locations on either spectacle lenses (including Rx sun), frames, contact lenses, sunglasses (plano), OTC readers, or revenue earned from refractive surgery (LASIK only) or eye examinations. This number does not include sunglasses clips and reflects the dollars spent only by those U.S. residents 18 and older. Does not include retail dollars spent by for contact lenses and exams for those 17 years of age and younger. An independent optical location is a location with 3 doors or less that has either a MD, OD, Optician or Optical Retailer on site.

Different Cycles of Eyeglass Purchases

Eyeglass Purchases by Annual Household Income – Units (Millions of Pairs)

<table>
<thead>
<tr>
<th>Income</th>
<th>12ME Jun11</th>
<th>12ME Jun12</th>
<th>12ME Jun13</th>
<th>12ME Jun14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $60K</td>
<td>29.2</td>
<td>30.4</td>
<td>30.4</td>
<td>31.4</td>
</tr>
<tr>
<td>Over $60K</td>
<td>37.8</td>
<td>39.9</td>
<td>39.9</td>
<td>41.0</td>
</tr>
</tbody>
</table>

Repurchase Cycle: June 2014
2.6 years Under $60K
1.9 years Over $60K
Frame $$

Retail Structure of Frame Market (Dollars)

<table>
<thead>
<tr>
<th>Sector</th>
<th>12ME Jun12</th>
<th>12ME Jun13</th>
<th>12ME Jun14</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independents</td>
<td>50.0%</td>
<td>50.8%</td>
<td>61.2%</td>
<td>+1.9%</td>
</tr>
<tr>
<td>Chains</td>
<td></td>
<td></td>
<td></td>
<td>+2.8%</td>
</tr>
<tr>
<td>Mass Merchandisers / Clubs</td>
<td>28.3%</td>
<td>27.8%</td>
<td>27.6%</td>
<td>+1.1%</td>
</tr>
<tr>
<td>Department Stores</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>11.2%</td>
<td>11.2%</td>
<td>11.2%</td>
<td></td>
</tr>
<tr>
<td>All Sectors</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Rx Lens Retails Holding Well, All Sectors

Average Retail Selling Price for Rx Lenses (as Reported by Consumers)

- Independents: $156.73, $155.94
- Conventional Chains: $152.35, $151.34
- Mass / Clubs: $84.42, $84.42
- Dept. Stores: $188.25, $187.71
- SV: $99.05, $99.19
- MF: $99.25, $100.00
- PAL: $225.20, $225.49
- AR: $225.20, $225.49
- Photochromic: $188.28, $194.42

12ME Jun13 vs 12ME Jun14
The Big Influencer: Vision Plans > Health Plans

- Mergers Among MVC Providers
- Partnerships of MVC Plans With Health Plans
- Emergence of Private Exchanges
- Movement Towards Direct-to-Consumer Marketing
- Providers’ Fees Stable
- Plan Providers Examine Materials Reimbursements
- Online access to patients/members including product choices and doctor referrals and locators

Close to 2/3 Purchases Involving MVC

Frame Unit Purchases: Usage of Insurance By Consumers

<table>
<thead>
<tr>
<th>Frame Unit Purchases: Usage of Insurance By Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>67.9 Million</td>
</tr>
<tr>
<td>No Insurance</td>
</tr>
<tr>
<td>43.6%</td>
</tr>
<tr>
<td>56.4%</td>
</tr>
</tbody>
</table>

12ME Jun08 12ME Jun09 12ME Jun10 12ME Jun11 12ME Jun12 12ME Jun13 12ME Jun14
Online + Offline

- Harder to separate
- Consumers and patients interact in every channel
- Digital plus Brick & Mortar

New attitudes
Millennials
‘Social Commerce’
Eyewear Purchased Online: Small % but $1B Retail Now...

Vision Care Products & Services – Total U.S. Market

In $Millions*

-16.5%

*Online retail includes dollars spent on websites / online retailers for the sale of either spectacle lenses (including Rx sun), frames, contact lenses, sunglasses (glass), and OTC readers. This number does not include sunglass clips and reflects the dollars spent only by those U.S. residents 18 and older. Does not include retail dollars spent by for contact lenses and exams for those 17 years of age and younger.

Going Online to learn about brands, form opinions, shape purchasing behavior

How did you use the internet during your last eyewear purchase.

Among Consumers that Bought Eyewear Within the Last 6 Months
All Eyewear Products Part of the Digital Scenario

Which eyewear products may you purchase with the assistance of the internet in the future?

- A set of eyeglasses: 13.9% (Dark Bars) vs. 21.0% (Light Bars)
- Eyeglass frames: 9.0% vs. 13.9%
- Rx lenses: 4.5% vs. 6.6%
- Rx contact lenses: 7.6% vs. 16.6%
- Rx sunglasses: 9.2% vs. 13.2%
- Plano sunglasses: 8.4% vs. 11.3%
- OTC Readers: 3.8% vs. 3.1%
- Other: 0.4% vs. 2.2%

Among Consumers that Bought ANY Type of Eyewear Within the Last 6 Months

Digital Impacts Delivery

ECPs Explore the E-Commerce Equation
THANK YOU
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