



HOW WELL CAN YOU SEE?

VALUE X VAIL JUNE 19, 2024

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What if I told you there is a retailer:

1. TRADING AT ALL TIME LOW PRICE
2. TRADING AT ALL TIME LOW MULTIPLE
3. THAT SELLS A NON-DISCRETIONARY PRODUCT
4. THAT IS CURRENTLY UNDER-EARNING
5. THAT IS GROWING UNITS 5% PER YEAR
6. GENERATES POSITIVE FCF
7. & HAS A PATH TO SALES ACCLERATION & MARGIN RECOVERY
8. HAS NEAR-TERM ~40% UPSIDE VS. 14% DOWNSIDE WITH POTENTIAL 3-YEAR GAIN OF >140%



WHAT'S THE CATCH?



Agenda

Intro /About Me

About Quo Vadis Capital

Our Process – Abbreviated Discussion

ValueX Vail 2024 Idea

Q & A

THANK YOU VITALIY & IMA TEAM



About me

Started Quo Vadis Capital in 2017

Equity Analyst since 1999

Kenyon College & University of Oxford

Started a PhD in Philosophy before finance

Originally a Wisconsinite, now in Paris

[Linkedin Profile](#)



About Quo Vadis Capital

Registered Investment Advisor

Idea service for professional investors

Manage separate accounts for individuals

More at quovadiscapital.com



Our process – Unit Level Economics

1. Look for businesses that can be separated into component parts or units.
2. Solve for ROIC, diagnose drivers & identify trends
3. Evaluate business quality & valuation through this lens



Unit Level Economics & Today's Idea

Investors frequently overweight near-term business performance, permitting us to buy an equity at a **discount to the value of its unit growth.**



Back to our idea, and “The Catch”

This retailer’s business was disrupted by Covid and its aftermath and is recovering more slowly than expected.

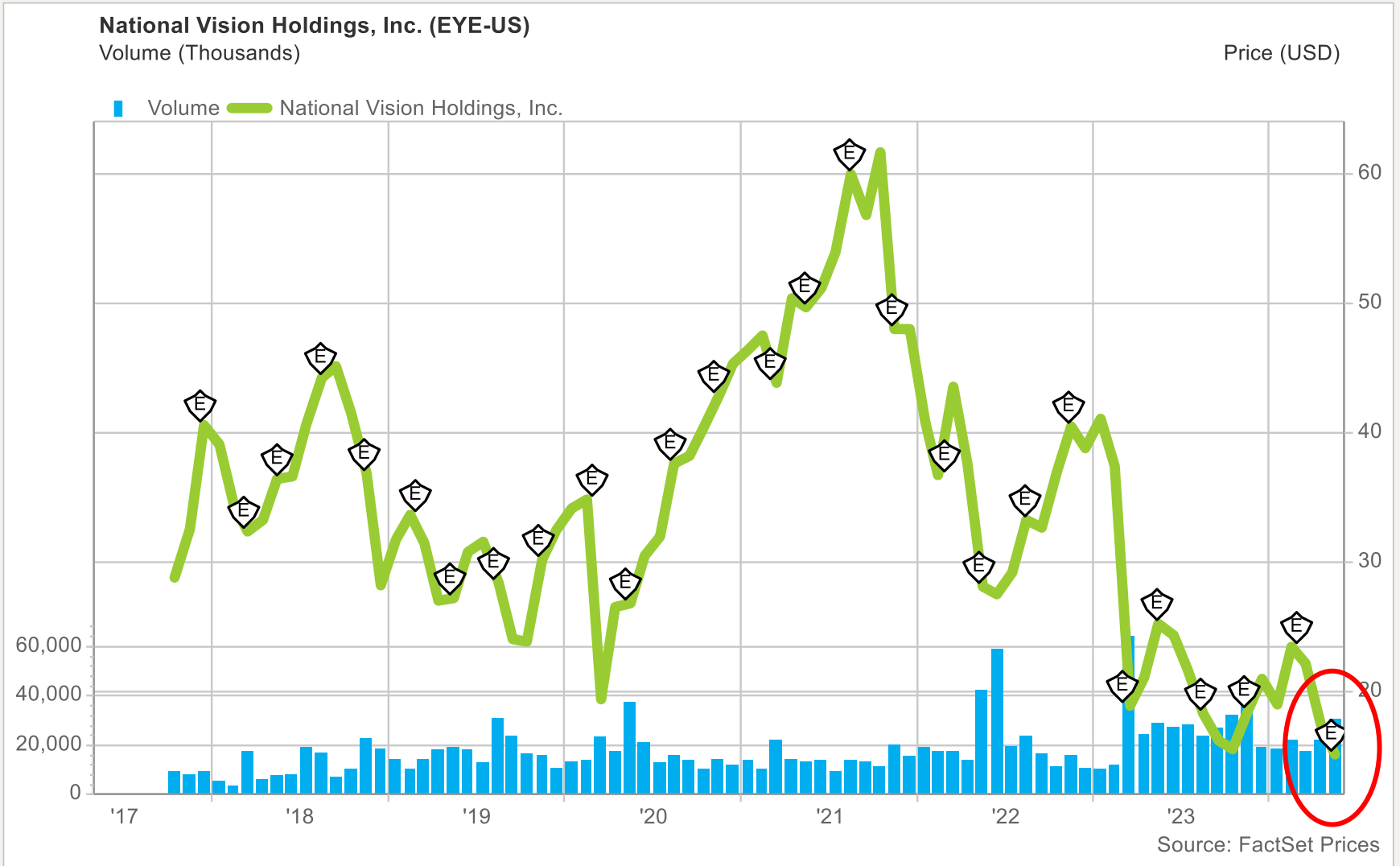


What is National Vision Holdings (EYE)?

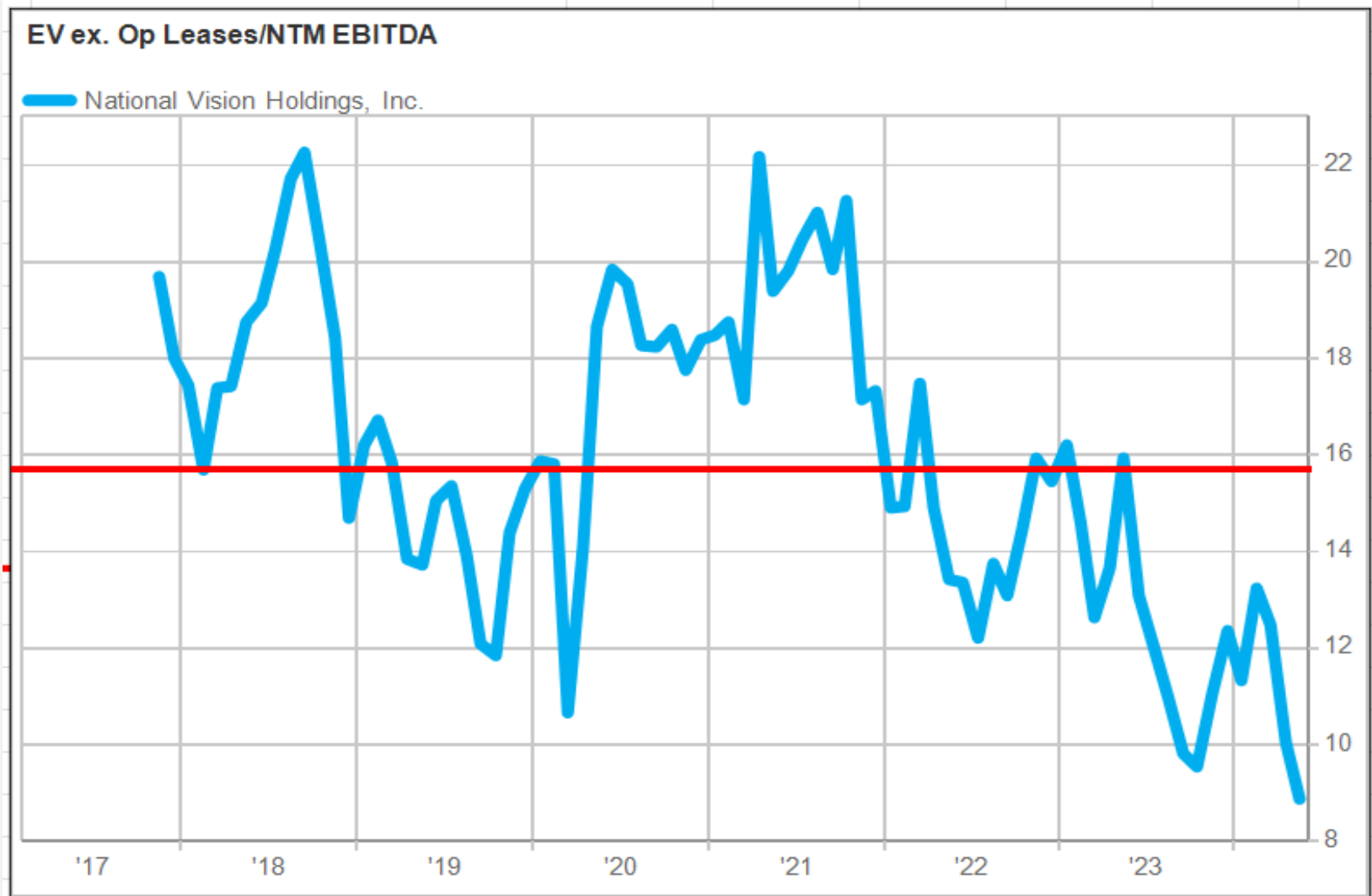
- Retailer of corrective glasses with 1,200 U.S. locations.
- Price: \$13; Market Cap \$1.1B.
- B/S: \$150M cash, \$450M LT debt including \$302M 2.5% convertible notes.
- FCF: 2024E \$64M (\$0.81/ share)
- Unit growth: 60-70 gross (5-6%)
- Margins: EBIT averaged 6.7% 5-Yrs Pre-Covid



Not a good look; EYE shs since '17 IPO

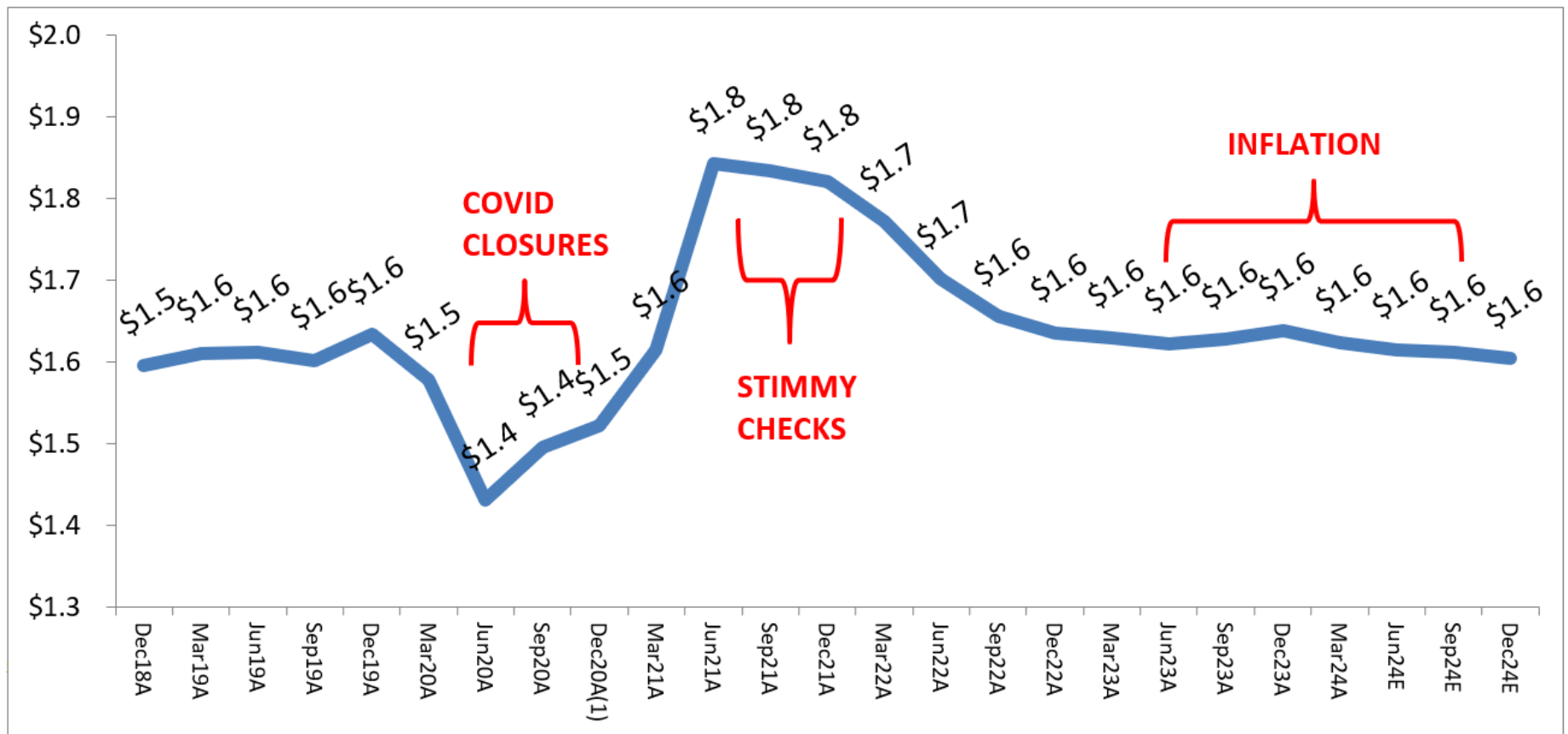


Avg. multiple 16x, now 8x -- lowest ever



Why the opportunity exists: recent same-store sales not growing

EYE TTM SALES PER AVERAGE STORE \$M 2018-2024E



Source: Company reports, Quo Vadis Capital, Inc. estimates



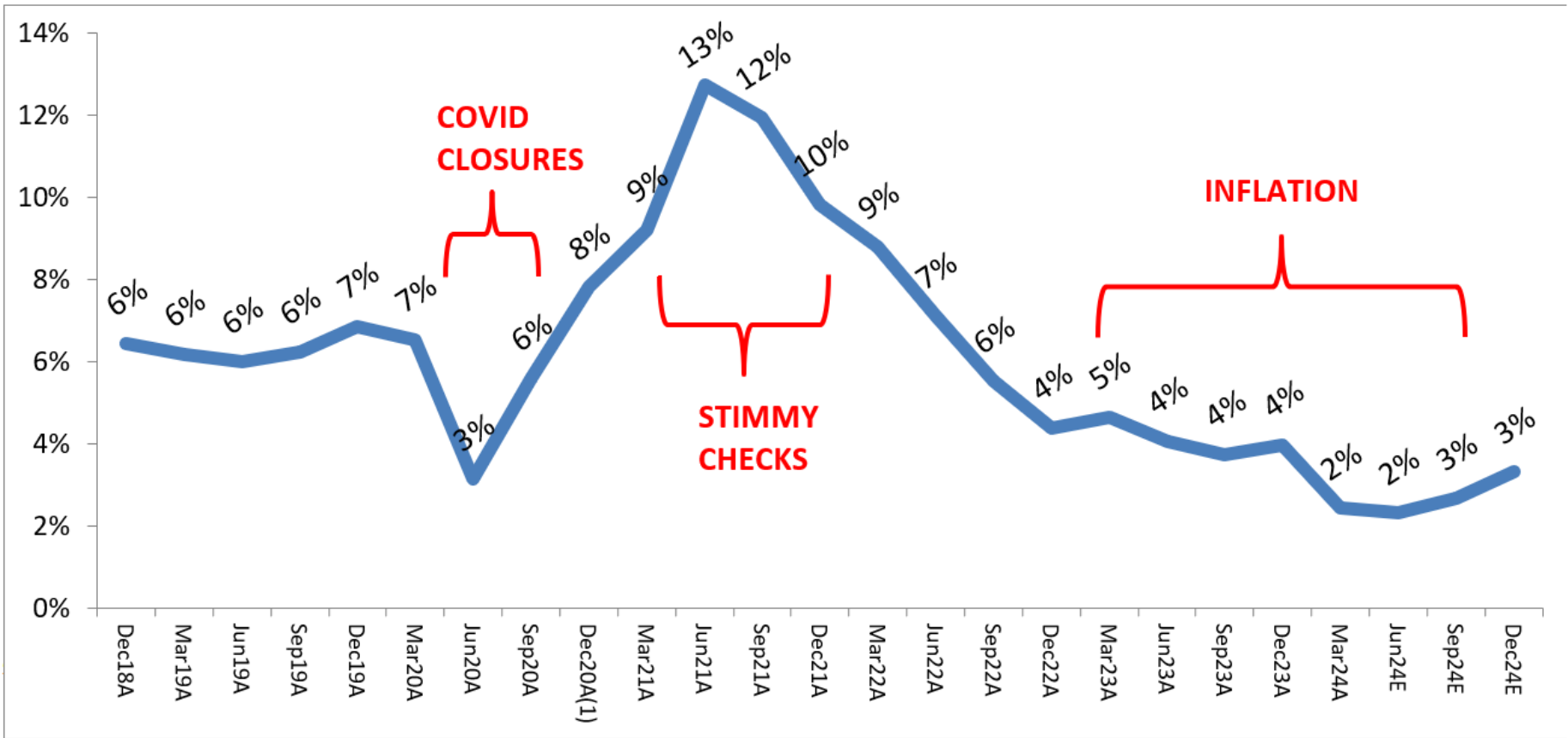
ALSO:

1. Shortage of optometrists
2. Closure of Walmart stores & AC Lens business creates complexity



Which gets us this: profitability well below historical levels

EYE TTM EBIT MARGIN 2018-2024E



Source: Company reports, Quo Vadis Capital, Inc. estimates



Investment thesis: How we can win

Shares are discounting a return to historical same-store sales, margins, as well as contribution from expected unit growth.

We believe comps will slowly improve as (1) replacement cycle revs up, (2) remote medicine initiative adds capacity and (3) maturation from recent store openings.



Investment thesis: margin of safety

Timing of comp recovery is unknown BUT unit growth is reliable.

Based on our estimates, we believe investors are getting the unit growth for free.

Assuming modestly better comps & margins AND holding all-time low multiple offers ~40% one-year gains & ~90% 4-year upside.



How we estimate value of unit growth vs. what the market is paying

1. We calculate cash flow from existing business & assign no-growth multiple
2. We subtract this from market value to derive market's value of "growth option"
3. We estimate value of unit growth via new unit DCF & compare to "growth option"



EYE screens 2nd cheapest of 21 names

SORT: Largest to Least % of Value related to the Growth Option

Stock	Recent Price	FY24E EBIT (M) (Consensus)	After tax CF/ share from existing biz	Multiple (12% CF yield)	Market EV (\$M)	Implied market value of growth option	% of current market value related to growth
1 KRUS	\$83	\$2	\$ 0.79	8.3x	\$1,165	\$1,091	93.7%
2 CAVA	\$90	\$17	\$ 0.67	8.3x	\$6,779	\$6,146	90.7%
3 BROS	\$38	\$79	\$ 0.71	8.3x	\$6,705	\$5,663	84.5%
4 CMG	\$3,272	\$1,937	\$ 62.12	8.3x	\$84,182	\$69,939	83.1%
5 SHAK	\$89	\$30	\$ 2.62	8.3x	\$3,863	\$2,905	75.2%
6 DOL-TSE	\$124	\$1,573	\$ 5.03	8.3x	\$32,591	\$20,830	63.9%
7 TSCO	\$280	\$1,493	\$ 13.01	8.3x	\$29,957	\$18,240	60.9%
8 TXRH	\$167	\$451	\$ 7.89	8.3x	\$10,376	\$5,981	57.6%
9 LKNCY	\$22	\$219	\$ 1.04	8.3x	\$6,370	\$3,627	56.9%
10 OLLI	\$88	\$247	\$ 3.61	8.3x	\$4,210	\$2,356	55.9%
11 SFM	\$76	\$404	\$ 3.73	8.3x	\$6,583	\$3,415	51.9%
12 DG	\$126	\$2,398	\$ 11.02	8.3x	\$37,799	\$17,685	46.8%
13 BOOT	\$126	\$212	\$ 6.75	8.3x	\$3,144	\$1,426	45.4%
14 FIVE	\$113	\$428	\$ 7.57	8.3x	\$5,789	\$2,311	39.9%
15 ULTA	\$391	\$1,666	\$ 28.72	8.3x	\$18,928	\$7,296	38.5%
16 GO	\$21	\$106	\$ 1.89	8.3x	\$2,312	\$750	32.4%
17 PTLO	\$10	\$62	\$ 1.52	8.3x	\$1,035	\$297	28.7%
18 LTH	\$18	\$293	\$ 2.14	8.3x	\$4,655	\$1,037	22.3%
19 YUMC	\$34	\$1,206	\$ 2.98	8.3x	\$13,046	\$2,786	21.4%
20 EYE	\$13	\$66	\$ 1.78	8.3x	\$1,406	\$244	17.4%
21 ASO	\$52	\$681	\$ 7.78	8.3x	\$4,535	(\$376)	-8.3%

Source: FactSet, Quo Vadis Capital, Inc. estimates, DOL-TSE figures in \$CAD, LKNCY estimates are Quo Vadis forecasts



value of new units exceeds growth option

SORT: Largest to Least Market Premium to Estimated Value of Unit Growth

Stock	Recent Price	Current Number of Stores	Estimated Foreseeable Store Growth (5 yrs.)	Value of after tax CF from to-be Opened Stores \$M	Market Premium (Discount) to Estimated Value of Growth	Total Unit Growth 5 Years
DOL-TSE	\$123	1,551	429	\$ 1,680	11.4x	28%
CMG	\$3,378	3,437	1,731	\$ 7,415	8.4x	50%
CAVA	\$94	320	476	\$ 794	6.7x	149%
BOOT	\$130	397	272	\$ 230	5.2x	69%
TXRH	\$171	682	209	\$ 989	5.0x	31%
TSCO	\$288	2,414	523	\$ 3,241	4.6x	22%
SHAK	\$93	295	298	\$ 1,016	2.0x	101%
ULTA	\$388	1,385	221	\$ 2,449	2.0x	16%
SFM	\$79	407	135	\$ 1,143	2.0x	33%
DG	\$127	19,986	4,920	\$ 7,104	1.5x	25%
KRUS	\$83	50	97	\$ 429	1.5x	193%
OLLI	\$96	512	294	\$ 1,253	0.9x	57%
BROS	\$39	600	1,231	\$ 2,543	1.3x	205%
LTH	\$19	171	47	\$ 825	0.3x	28%
GO	\$21	468	269	\$ 1,110	(0.3x)	57%
FIVE	\$114	1,544	1,429	\$ 3,295	(0.3x)	93%
PTLO	\$10	84	51	\$ 435	(0.3x)	61%
EYE	\$13	1,200	368	\$ 437	(0.4x)	31%
LKNCY	\$23	10,628	21,806	\$ 13,084	(0.7x)	205%
YUMC	\$34	12,500	7,178	\$ 6,145	(0.5x)	57%
ASO	\$54	282	120	\$ 966	(1.4x)	43%

Source: FactSet, Quo Vadis Capital, Inc. estimates, DOL-TSE figures in \$CAD, LKNCY estimates are Quo Vadis forecasts



VALUATION:

What could EYE be worth in the future?



Our model: How it is Conservative

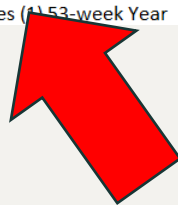
1. Assumed 3-4% comps vs. M-HSD historical
2. Assumed 5.3% EBIT margin vs. 6.7% historical
3. Assumed 55% new unit productivity
4. Assumed \$302M 2.5% convert replaced in after 2025 with 5.75% debt
5. Assumed no increase in unit growth



Our model: How it is Conservative

	PRE-COVID PERFORMANCE					COVID + POST COVID					FUTURE BUSINESS PROFILE			
	2015A	2016A	2017A	2018A	2019A	2020A(1)	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
Total sales	\$ 1,063	\$ 1,196	\$ 1,375	\$ 1,537	\$ 1,724	\$ 1,712	\$ 2,080	\$ 2,005	\$ 2,126	\$ 1,852	\$ 2,006	\$ 2,138	\$ 2,275	\$ 2,419
% change		12.6%	15.0%	11.7%	12.2%	-0.7%	21.5%	-3.6%	6.0%	-12.9%	8.3%	6.6%	6.4%	6.3%
EBITDA	112.6	133.6	156.6	168.9	196.8	218.0	294.3	180.2	176.7	161.8	187.5	210.1	235.2	258.8
EBITDA margin	10.6%	11.2%	11.4%	11.0%	11.4%	12.7%	14.2%	9.0%	8.3%	8.7%	9.3%	9.8%	10.3%	10.7%
Operating income (EBIT)	\$ 68.5	\$ 81.6	\$ 95.5	\$ 99.4	\$ 118.3	\$ 133.8	\$ 204.7	\$ 86.4	\$ 84.0	\$ 61.8	\$ 81.6	\$ 96.2	\$ 113.3	\$ 128.9
% change		19.1%	17.0%	4.1%	19.0%	13.2%	52.9%	-57.8%	-2.8%	-26.5%	32.0%	18.0%	17.7%	13.8%
EBIT MARGIN	6.4%	6.8%	6.9%	6.5%	6.9%	7.8%	9.8%	4.3%	3.9%	3.3%	4.1%	4.5%	5.0%	5.3%
Diluted EPS	\$0.47	\$0.58	\$0.53	\$0.61	\$0.75	\$0.91	\$1.53	\$0.59	\$0.74	\$0.52	\$0.70	\$0.74	\$0.93	\$1.09
Total stores	858	943	1,013	1,082	1,151	1,205	1,278	1,354	1,413	1,271	1,336	1,401	1,466	1,531
% chg in SSS	11.3%	6.9%	8.4%	7.1%	6.9%	-5.6%	22.4%	-7.5%	3.1%	1.1%	3.0%	4.0%	4.0%	4.0%
Free cash flow			\$ (3.0)	\$ 2	\$ 64	\$ 158	\$ 163	\$ 6	\$ 58	\$ 64	\$ 51	\$ 49	\$ 73	\$ 95
FCF/SHARE	\$0.11	\$0.13	(\$0.05)	\$0.03	\$0.78	\$1.91	\$1.76	\$0.07	\$0.71	\$0.81	\$0.65	\$0.64	\$0.95	\$1.25

Source: Company data, Quo Vadis Capital, Inc. estimates (1) 53-week Year



OUR ASSUMPTIONS WELL BELOW HISTORICAL PRE-COVID PERFORMANCE



Valuation

1. Based on modest comp recovery and MSD EBIT (consistent low end of guide) an 8x EV/ EBITDA multiple gets 1-yr ~40% return.
2. Over 3 years, we estimate ~90% return.
3. However, if the multiple even modestly re-rates (e.g. to 10x vs. historical average of 16x) a 3-year return could be >140%.
4. A downside scenario where 2025 is below guide and EV/ EBITDA is 6.5x = 14% Loss



Return matrix: upside vs downside

Year	Guidance + Our Model		Near-term		Long-term		Downside Scenario	
	2024E		2026E		2028E		2025E	
Revs \$M	\$	1,852	\$	2,138	\$	2,419	\$	1,906
D&A	\$	100	\$	114	\$	130	\$	106
EBIT	\$	62	\$	96	\$	129	\$	77
EBIT margin		3.3%		4.5%		5.3%		4.0%
EPS		\$0.52		\$0.74		\$1.09		\$0.65
Net Cash \$M (one year prior)			\$	(303)	\$	(214)	\$	(321)
Shs out		78.7		76.5		75.8		77.6
5 6.5x EV/ EBITDA			\$	14	\$	19	\$	11
7 7x EV/ EBITDA			\$	15	\$	21	\$	12
8 8X EV / EBITDA			\$	18	\$	24	\$	15
9 9X EV / EBITDA			\$	21	\$	28	\$	17
0 10X EV / EBITDA			\$	23	\$	31	\$	19
2 12X EV / EBITDA			\$	29	\$	38	\$	24
Absolute Return Potential				1-Year		3-Year		1-Year
6.5x EV/ EBITDA				7%		49%		-14%
7x EV/ EBITDA				18%		62%		-5%
8X EV / EBITDA				39%		89%		13%
9X EV / EBITDA				60%		115%		31%
10X EV / EBITDA				81%		141%		49%
12X EV / EBITDA				123%		194%		86%

Source: FactSet, Company Reports, Quo Vadis Capital, Inc. estimates



Summary

- \$1B retailer of non-discretionary product trading at lowest-ever price and multiple.
- Opportunity is due to Covid and post-Covid disruption
- Win if replacement cycle resumes normal cadence
- BUT also can win just on new unit growth adding sales and cash flow
- Assuming some margin improvement but keeping trough multiple suggests 1 year return ~40%; a 10x EV/ EBITDA (vs. 16x hist. avg) could produce a three-year return of >140%; Downside scenario yielding less than 15% loss.



Risks

1. Current business is soft and recovery-guidance will probably be cut and/ or pushed out.
2. Structural change due to inflation and labor dynamics mean margin recovery won't happen or will be disappointing.
3. 2/3 of customers are uninsured. This customer group may simply extend replacement cycle leading to lower comp growth.
4. Future store openings may underperform.



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Fun fact:

Nearly 70% of adult Americans require some kind of vision correction.

Only 0.2% of the U.S. pop opt for laser corrective surgery per year.

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