

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

SFM.OQ - Q2 2025 Sprouts Farmers Market Inc Earnings Call

EVENT DATE/TIME: JULY 30, 2025 / 9:00PM GMT

## CORPORATE PARTICIPANTS

**Susannah Livingston** *Sprouts Farmers Market Inc - Vice President - Investor Relations and Treasury*

**Jack Sinclair** *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

**Curtis Valentine** *Sprouts Farmers Market Inc - Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Leah Jordan** *Goldman Sachs Group Inc - Analyst*

**Edward Kelly** *Wells Fargo Securities LLC - Senior Analyst*

**Michael Montani** *Evercore Inc - Analyst*

**Rupesh Parikh** *Oppenheimer & Co Inc - Analyst*

**Robert Ohmes** *Bank of America - Analyst*

**Mark Carden** *UBS AG - Analyst*

**Kelly Bania** *BMO Capital Markets - Analyst*

**Scott Marks** *Jefferies LLC - Equity Analyst*

**Chuck Cerankosky** *Northcoast Research - Analyst*

**Scott Mushkin** *R5 Capital LLC - Equity Analyst*

**John Heinbockel** *Guggenheim Securities LLC - Equity Analyst*

## PRESENTATION

### Operator

Good day and thank you for standing by. Welcome to the Sprouts Farmers Market second quarter 2025 earnings conference call. (Operator Instructions)

I would not like to hand the conference over to your speaker today, Susannah Livingston, Vice President of Investor Relations and Treasury.

---

**Susannah Livingston** - *Sprouts Farmers Market Inc - Vice President - Investor Relations and Treasury*

Thank you, and good afternoon, everyone. We are pleased you are joining Sprouts on our first quarter 2025 earnings call. Jack Sinclair, Chief Executive Officer; Curtis Valentine, Chief Financial Officer are with me today. Nick Konat, our President and Chief Operating Officer, had a family commitment and not be joining us for this quarter.

The earnings release announcing our second quarter 2025 results. The webcast of this call and financial slides can be accessed through the Investor Relations section of our website at [investors.sprouts.com](https://investors.sprouts.com). During this call, management may make certain forward-looking statements, including statements regarding our expectations for 2025 and beyond.

These statements involve several risks and uncertainties that could cause results to differ materially from those described in the forward-looking statements. For more information, please refer to the risk factors discussed in our SEC filings and the commentary on forward-looking statements at the end of our earnings release. Our remarks today include references to non-GAAP financial measures. Please see the tables in our earnings release to reconcile our non-GAAP financial measures to the comparable GAAP figures.

With that, let me hand it over to Jack.

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Thanks Susanna, and good afternoon, everyone. At Sprouts, we remain committed to our purpose, to help people live and eat better, in an environment where consumers are becoming more mindful about what they eat and where it comes from, Sprouts stands apart. Our focus on fresh, local, and innovative natural and organic products, along with our knowledgeable team members and approachable stores continues to resonate with our target customer.

In the second quarter, we delivered strong results driven by our strategy to market to our target customers with a differentiated assortment, disciplined operations, an advantaged supply chain, and ongoing store growth. Our sales increased 17%, supported by comparable store sales of 10.2% and robust new store performance. Our diluted earnings per share reached \$1.35 reflecting a 44% increase compared to the same period last year.

We're proud of how our team continues to execute, focusing on our customers, which in turn continues to deliver strong results. Today we'll walk you through our performance highlights, update you on our strategic initiatives and share how we're positioning Sprouts for continued success in the second half of the year and beyond. We're excited about our progress and remain focused on delivering innovative, fresh and healthy foods that meets the evolving needs of our health conscious consumers. I want to thank the team for their ongoing commitment to supporting our customers on their health journey.

For now, I'll hand it to Curtis to review our second quarter financial results, as well as our updated 2025 outlook. Curtis?

**Curtis Valentine** - *Sprouts Farmers Market Inc - Chief Financial Officer*

Thanks, Jack, and good afternoon everyone. In the second quarter, total sales were \$2.2 billion, up \$327 million or 17% compared to the same period last year. This growth was driven by a 10.2% increase in comparable store sales and the strong results from our new stores. The performance of our comps across categories, channels, and geography remains balanced, supported by new stores entering the comp base.

Traffic was strong and accounted for the majority of our comp. As anticipated, it slightly moderated from the first quarter, which is not surprising given traffic was the main driver of last year's acceleration. Our e-commerce sales grew 27%, representing approximately 15% of our total sales for the quarter with good performance from all partners.

Additionally, Sprout's brand contributed 24% to our total sales for the quarter. Our second quarter gross margin was 38.8%, an increase of 91 basis points compared to the same period last year. This increase was primarily due to leveraging our inventory and category management improvements as well as leverage from our sales performance.

SG&A for the quarter totaled \$645 million an increase of \$89 million and 33 basis points of leverage compared to the same period last year. Our strong comp performance led to leverage mainly in labor and occupancy.

Store closure and other costs totaled approximately \$2 million for the quarter. These are primarily due to costs associated with exiting leases related to our 2023 store closures. Depreciation and amortization, excluding depreciation included in the cost of sales, was \$37 million.

For the second quarter, our earnings before interest and taxes were \$179 million. Interest income was approximately \$431,000 and our effective tax rate was 26%. Net income was \$134 million and diluted earnings per share were \$1.35 an increase of 44% compared to the same period last year.

During the second quarter, we opened 12 new stores, ending the quarter with 455 stores across 24 states. A strong and healthy balance sheet has underpinned our financial performance. Year-to-date, we generated \$410 million in operating cash flow, which allowed us to self-fund our investments of \$138 million in capital expenditures net of landlord reimbursement to grow our business.

We have also returned \$292 million to our shareholders by repurchasing 2 million shares. We have \$158 million remaining under our current share repurchase authorization. We ended the second quarter with \$261 million in cash and cash equivalents, and \$23 million of outstanding letters of credit.

As you probably saw on July 25, we closed the \$600 million revolving credit facility, which replaced our previously existing \$700 million revolver. The terms and conditions are substantially similar to our previous agreement with the new expiration date of July 2030.

While we plan to fund our operations and unit growth through our robust cash flow generation, this facility provides Sprouts with financial flexibility as we grow. An increasing number of customers are emphasizing the importance of quality, healthy food options, and this positive trend, along with continued new store performance is inspiring our plans to expand into new markets.

Looking ahead to the remainder of 2025, we are dedicated to achieving significant earnings growth while capitalizing on these emerging opportunities. For 2025 we expect total sales growth to be 14.5% to 16% and comp sales in the range of 7.5% to 9%. We still anticipate comp sales to moderate as we cycle the higher comps from late 2024.

We plan to open at least 35 new stores, earnings before interest and taxes are expected to be between \$675 million and \$690 million and earnings per share are expected to be between \$5.20 and \$5.32 assuming no additional share repurchases. That said, we do expect to continue to repurchase shares opportunistically. We also expect our corporate tax rate to be approximately 24%.

During the year, we expect capital expenditures net of landlord reimbursements to be between \$230 million and \$250 million. For the third quarter, we expect comp sales to be in the range of 6% to 8% and earnings per share to be between \$1.12 and \$1.16.

As we have begun to lap last year's comp step changes, we continue to see consistent two year stack performance of approximately 15%. In the second quarter, we also benefited from some external tailwinds that pushed the two year stack above our run rate in May and June. While those tailwinds come and go, the approximately 15% two year stack remains consistent and gives us confidence in our increased comp guidance.

Year over year margin rate in both gross margin and SG&A are expected to start normalizing in the third quarter as we compare to last year's improved shrink performance, and we work to de-risk our supply chain, providing more flexibility and capacity. We anticipate continued EBIT margin expansion of approximately 40 basis points to 50 basis points year-over-year. For the rest of 2025, we are confident in our strong financial foundation and successful execution of our strategic initiatives, which position us to deliver strong earnings growth in the second half.

And with that, I'll turn it back to Jack.

---

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Thanks, Curtis. We leveraged our strategic initiatives in the second quarter, which delivered excellent results and set us up for an exciting future. We keep reinvesting in our business by developing innovative products and enhancing our operations both in stores and across the supply chain.

Additionally, we're driving engagement with our customers through targeted service strategies and carefully chosen store locations. We also continue to prioritize investing in our team members who play a vital role in driving these results.

Customers are increasingly drawn to Sprouts due to our strengths in identifying trendy offerings, providing fresh and quality food, and launching innovative products rich in health-driven attributes. Innovation is a cornerstone of our strategy, and our consistent launch of new products keeps our selection fresh and exciting.

Our innovation center continues to grow in sales with baskets that contain innovation items being more than double the size of our overall company basket. We remain focused on the categories that matter to our target customers. The Sprouts brand continues to excel with plans to release over 350 new products this year alone. Our success is driven by our strong emphasis on attributes, high quality items, and the discovery of products through seasonally themed events.

Growth in organic products is on the rise, now accounting for nearly a third of our total sales and over 50% of our produce sales, thanks to our organic-first merchandise initiative. Additionally, we continue to expand our SKU count in trending categories such as no seed oils and high protein items. We now offer more than 3,700 high protein products with 450 new items set to be released this year.

Our focus on attribute-driven products is resulting in increased sales that surpass the rest of the business and outpace overall grocery industry growth. These efforts reinforce and strengthen Sprout's leadership in the better-for-you segment, allowing us to capitalize quickly on key market trends.

As you know we've been building an advantage supply chain that is a strategic priority, enabling scalable growth for the future. Fresh is the most important category for us. We've been building capacity over the years to take on more self-distribution. This includes expanding capacity in existing markets such as our Northern California, DC in early 2026 and building new capacity in our expansion markets.

By taking control of key product categories such as meat and seafood, we are taking critical steps towards self-sufficiency. This approach allows us more control over our supply chain while minimizing operational and supply chain risk. Although there's significant work to do, we will begin insourcing fresh meat and seafood this quarter in Orlando and continue the work through the second quarter of 2026. We will continue to focus on new DC expansion in the next three to five years to support our continued growth.

The Sprout reward loyalty program launched in Arizona this month, marking an important step in our Sprouts customer engagement and personalization journey. The results of our test and pilot programs have boosted our confidence in the program's potential, showing that loyalty members are shopping more frequently, growing at a faster rate, and spending more.

Our teams are excited and prepared to support the full rollout, which remains on track for the end of this year. This initiative presents a significant opportunity for us to better understand and serve our target customers, ultimately using these insights across our business to enhance the customer experience and create long term value.

Currently we are seeing strong customer acquisition and an increase in share of wallet. Our customer experience is improving across all channels. In-store performance has strengthened due to better in-stocks, fresher products, and superior service. Additionally, our e-commerce platform continues to grow, with shop.sprouts.com experiencing the fastest increase in penetration.

It has been exciting to witness the evolution of our marketing approach, which has transitioned from paper to digital to targeted marketing and now to genuinely personalized outreach, leveraging customer data to foster more meaningful and engaging customer experiences.

Building great stores remains the foundation of our growth strategy, and we're on track to open 35 locations this year. New stores this year are opening with solid top and bottom line results, and last year's vintage is entering the comp based strong, reinforcing the effectiveness of our model.

We continue to expand our footprint to enhance accessibility for more customers across the country, with a robust pipeline of over 130 approved locations, including recent approvals in the Midwest and the Northeast. We are poised for continued momentum. From sea to shining sea, new stores are delivering strong performance, underscoring the strength of our brand and the scalability of our format.

The great results and strong execution of our initiatives are possible because of our team members across the business. At the heart of our culture, our team believes in our purpose and values, which serves as the basis for long-term success. To support our future growth, we have developed a robust talent engine that focuses on our team members recruitment, development, and engagement.

Key initiatives include the Fast Track program to develop future store managers, the Assistant Store Manager University, and our robust onboarding process. We have also implemented monthly talent planning reviews for our field to ensure we remain ahead of our needs and opportunities.

As a result of these intentional culture building and training efforts, we have significantly reduced turnover, creating a more stable, engaged and high performing team. I want to express my gratitude to our 35,000 team members for their hard work, which continues to deliver outstanding results.

As we look ahead, we remain confident in our strategic direction and Sprout's unique position within the specialty food retail landscape. Our journey is not just about growing stores or improving margins. It's about deepening our connection with customers who seek real food, fresh quality ingredients, and innovative products that meet their unique needs.

We've been making progress, but we know there's much more to do, whether it's expanding our footprint, strengthening our supply chain, or continuing to innovate. We're committed to building a resilient, purpose-driven company that delivers long term value to our shareholders and positively impacts the communities we serve. Thank you for joining us today. We look forward to sharing more of this journey in the quarters to come.

With that, I'd like to turn it over to the operator for questions.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Leah Jordan, Goldman Sachs.

---

### Leah Jordan - Goldman Sachs Group Inc - Analyst

Thank you. Hi, Jack and Curtis, great job to you and the team on the quarter. Just wanted to see if you could provide some more detail on the loyalty program. I know it's been rolling out across the country still more to go, but I guess what has surprised you so far as you've rolled it out to more regions and then, maybe what have you adapted now in your approach and any learnings over the past few months as it's been in some of your initial locations for longer?

---

### Jack Sinclair - Sprouts Farmers Market Inc - Chief Executive Officer, Director

Yeah. Well, Leah, the first iteration of this is it was in 35 stores. Last week we rolled out all of our stores in Arizona, so we're now up to close to 70 stores or 75 stores in terms of across. So we're still on the rollout across the nation. We've been learning.

The encouraging thing is the number of people who are signing up and the way the consumers are scanning is ahead of what our expectations were, so we're encouraged by that. We're encouraged by the way it's working for -- we spent a lot of time and money making sure, the execution and the experience for the customer was good and worked well and we're comfortable that, that's we've learned a lot about how to make sure there isn't any clunkiness in the signing off and the making it work.

We're very confident in where we're at. We're going to roll this -- will all be rolled out by the end of October, so we're feeling like the program's ready to roll out, and we think it'll bring us some big benefits next year. So I think the learning's been about execution and making it work effectively. And with the data that we're getting and the information, we're going to be in a very good position to evolve all aspects of our communication aspects of our merchandizing, aspects of where we should put store. So we're going to learn a lot from it going forward, and we're excited by the journey we're in the middle of Leah.

---

### Leah Jordan - Goldman Sachs Group Inc - Analyst

That's very helpful. Thank you, and we'll look forward to hear more on that. I guess for a follow up I just wanted to switch over to digital. It continues to be very strong for you guys. Just more color on the trends there and also curious how engagement maybe is different for each of your partners and is there any divergence as they mature at different rates?

And then on your comments and the prepared remarks you talked about Sprouts.com being the fastest increase in penetration. So curious what you're doing differently there that's driving that. Thank you.

---

**Curtis Valentine** - *Sprouts Farmers Market Inc - Chief Financial Officer*

Sure. I think it's been pretty -- hi, Leah, this is Curtis. It's been pretty kind of consistent and balanced, the same story continues to play out as we go from quarter to quarter. Three really good partners all growing. All growing well. I think our team on the shop.sprouts.com front just continues to learn about how to engage the customer there and work with our partners to do that well and so they continue to make good solid progress and that was probably the channel that was coming from the lowest space and so they continue to see really strong growth.

And I think the only real difference is, I think we've talked about it before, but Instacart -- the Instacart basket tends to be about 2x. The Brick & Mortar basket's a little bit bigger, and the Uber Eats and DoorDash baskets are a little bit more convenience-based, kind of what's for dinner tonight, milk, eggs, bread, staples.

But outside of that, the mix is pretty consistent up and down the different categories. And again they're all growing really well and providing good service to the customer and good partners for us.

---

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

We're encouraged by the shop.sprouts.com evolution and development because it gives us some confidence that the customers are navigating directly to the Sprouts brand as part of that context, and that's something that the team have been working on for a number of years now, and it's really beginning to come together and we think that'll build more loyalty going forward.

---

**Leah Jordan** - *Goldman Sachs Group Inc - Analyst*

That's very helpful. Thank you.

---

**Operator**

Edward Kelly, Wells Fargo.

---

**Edward Kelly** - *Wells Fargo Securities LLC - Senior Analyst*

Hi, good afternoon, everyone. Nice quarter. I wanted to ask you about the comp and the cadence and momentum. So you talked about a stable sort of 15 percentage, two year before a May and June acceleration. So I was hoping you could speak to that acceleration, curious if it was related to the disruption, across the industry, with UNFI.

And then I'm curious what you've seen so far in July, and that kind of dovetails into guidance because, the guidance for 6% to 8% in Q3, 6% is 15%, right? So you've got it the midpoint, a little bit better than that. I'm just kind of curious about sustainability of current trend and how you were thinking about it all with guidance.

---

**Curtis Valentine** - *Sprouts Farmers Market Inc - Chief Financial Officer*

Sure. Thanks. This is Curtis. Yeah, two things really in May and June, really the biggest driver was we had a really strong produce season. So we've seen some really good organic crops and availability, yeah, and so the team again has done a great job. We're well positioned. They work really closely with the growers. We're focused on local. They're focused on organic first.

And so when we have a good season, particularly in organic, they're able to capitalize on it. And that's what we really saw through May and June as the seasons evolved, that's kind of normalized a bit, but in May and June we saw a nice pop in the produce business.

And then the second piece, sure. There was quite a significant disruption in the natural organic space, and we had a limited impact there just because we have a smaller portion of our business there. And so that was a helper too. We had some people come our way when they couldn't find things elsewhere and that also boosted them, that's a little bit more of the June, but the May, June story in total was a little bit better than that 15%.

And then as far as how that's all quarter to date, both of those things have kind of settled and normalized a bit and so we're kind of back into that 15% to your stack run rate and really quarter to date through July, it's right at the midpoint from a two year stack perspective and so that's what gives us the confidence and the guide.

It's been -- since we jumped up last September, it's been 7 of the 11 periods have been in that 15% range with just a few periods where we've seen some external factors that we've capitalized and seen stronger numbers. And so just the consistency of what we've seen, I think gives us the confidence to guide where we guide it.

---

**Edward Kelly** - Wells Fargo Securities LLC - Senior Analyst

Great, thank you. That's a good color. And then just a quick follow up on the gross margin, another strong quarter. You talked about trends of normalizing, kind of from here into the back half, but self-distribution and meat and seafood is rolling in, and I'm curious as to how that impacts gross margin and then loyalty is also ramping. And I'm not sure if there is some investment that takes place as that rolls out too. So if you could just maybe speak to the outlook for the gross margin and how those things might impact it.

---

**Jack Sinclair** - Sprouts Farmers Market Inc - Chief Executive Officer, Director

With regard to self-distribution, there's -- we're going through a transition period, so we will get long term benefit on the margin, but that's not going to come through this year to the extent that it will in the future. So that's something that as we manage the transition, we've got some issues that we're trying to deal with and dealing with effectively in terms of how we're managing the margin.

And loyalty will take a -- we're given points in the loyalty. So there will be some element of cost around the loyalty that we've taken into account in all the margin forecasts for going forward. But ultimately loyalty will be about driving the top line, and we think the margin in due course as we get support for the initiatives will enable us to neutralize any margin impact from loyalty going forward.

Curtis, you maybe talk about there.

---

**Curtis Valentine** - Sprouts Farmers Market Inc - Chief Financial Officer

Yeah. Just kind of cadence. I mean, it's kind of playing out as we expected, Ed. I mean, the first half was a little bit better. Certainly the supply disruptions that we've seen in both quarters helps on the shrink line a little bit as we talked about last quarter.

We're expecting that to stabilize and normalize here in the second half, and then the comps for us normalize, so a little less supply chain leverage. We've got the distribution investments and then we're up against the tougher compares and shrink and so. Those are the kind of key factors, but really it's playing out as we'd expected.

---

**Edward Kelly** - Wells Fargo Securities LLC - Senior Analyst

Great. Thanks, guys.



---

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Thanks, Ed.

---

**Operator**

Mike Montani, Evercore ISI.

---

**Michael Montani** - *Evercore Inc - Analyst*

Yes, hey. Thanks for taking the questions. Just wanted to ask if I could on the margin front first, could you discuss if there was any kind of impact either on the COGS front or even in SG&A due to some of the UNFI issues that they had in the supply chain and then similarly from the loyalty program.

---

**Curtis Valentine** - *Sprouts Farmers Market Inc - Chief Financial Officer*

Yeah. So, no, royalties just rolling out here in the third quarter, so no impact there. We had the same 30 -- low 30 stores that were on the pilot that they were on as of Q1. So no change in the loyalty story for Q2. On the disruption front, first off, it was great. Partnership with UNFI was really great. It was a difficult, challenging period, but they worked really closely with the teams.

We were able to flow product through the entirety of it, albeit manually. So it was helpful to be able to do that and so it was pretty minimally disruptive to us. It's a small portion of our business, again, just the product flow a little bit challenging. We didn't promote as much in the second quarter as a result. So some of those types of issues arose, but largely we're able to mitigate through it and we're kind of on the other side of it.

---

**Michael Montani** - *Evercore Inc - Analyst*

Got it. And then --

---

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

There was no margin impact. There was no margin impact from the disruption.

---

**Michael Montani** - *Evercore Inc - Analyst*

Okay. And then just to follow up was on the new stores, if you could talk about what you're seeing in terms of new store performance and obviously how to think about the opening cadence for the rest of the year.

---

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Well, we're committed to the 35 stores for the rest of the year, and we opened 12 very successful stores. We're absolutely delighted with the way the new store format's working. I think we're up to 100 of our V6 format, now, in terms of we've opened all the -- all the stores have been opened in the new format, and that's given us some consistency in terms of execution and rollout.

We're feeling confident in the number of stores for the rest of the year. I think the encouraging thing, Mike, for us is we're seeing a strong performance in what has traditionally been markets that were not that well known. We've been very encouraged by the progress we're making in the mid-Atlantic.

The Florida stores really coming alive now in terms of the new stores that are opening, and by and large we're hitting -- we're hitting -- what's the baseball expression? We're heading close to 100 on our new stores at the moment.

---

**Curtis Valentine** - *Sprouts Farmers Market Inc - Chief Financial Officer*

Yeah. And cadence wise, Mike, it's -- we had 12 in the second quarter, 9 in the third quarter, 11 in the fourth quarter is kind of where we are. And then there's always this time of year, just the weather, and any kind of impacts from that will be the only thing that would change that.

---

**Michael Montani** - *Evercore Inc - Analyst*

Got it. Thank you and good luck.

---

**Curtis Valentine** - *Sprouts Farmers Market Inc - Chief Financial Officer*

Thanks, Mike.

---

**Operator**

Rupesh Parikh, Oppenheimer.

---

**Rupesh Parikh** - *Oppenheimer & Co Inc - Analyst*

Good afternoon. Thanks for taking my question. Also, congrats on a nice quarter. I guess I'll start with maybe just -- I'll just kick it off with two macro questions. So just on inflation, just curious what you guys are seeing in the business and expectations going forward. And on the consumer front, your business continues to perform quite well. Just curious, if you're seeing any changes in dynamics around the consumer.

---

**Curtis Valentine** - *Sprouts Farmers Market Inc - Chief Financial Officer*

On the inflation front, it's been pretty consistent from quarter to quarter. So we're seeing a similar, we're tracking CPI in line with the way we typically do. Obviously our fresh business is a little more volatile. But it's tracking in line with that. And then we've got some kind of mixed helpers as we move to organic and we work some of the value pack type things. So similar story to Q1 on the inflation and AUR front.

---

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

In terms of the customer side of things, what we're seeing -- our customers seems to be being pretty resilient. There's still a lot of uncertainty going forward that we're not quite sure about, but if we look at the numbers and we look at how our customers are reacting. I think we've always said that our customer base is pretty focused on what they eat and how they eat and how they -- so I think we've got some resilience almost irrespective of what happens in the macroeconomy.

I think there's some uncertainty going forward. We're not seeing a lot of dynamics in our -- in the other grocery retailers in terms of changing things too much, and our business is proven pretty resilient, as you can see from the numbers.

---

**Rupesh Parikh** - *Oppenheimer & Co Inc - Analyst*

Great. Thank you. I'll pass it along.

---

**Curtis Valentine** - *Sprouts Farmers Market Inc - Chief Financial Officer*

Thanks, Rupesh.

---

**Operator**

John Heinbockel, Guggenheim.

John, your line is now open.

Robbie Ohmes, Bank of America.

---

**Robert Ohmes** - *Bank of America - Analyst*

Thanks for taking my question. Jack, I was hoping you could talk about the new product flow outlook. It sounds like it continues to go great, but I mean -- how do you keep that same person of newness, and I was curious if are you seeing any competitors kind of moving faster to get in stock in some of the newer items you bring in. And also, relate to that on organic pricing, have you seen any increased competition or anybody trying to do anything there, like whole foods to make it tougher to keep the spread on the organic produce pricing.

---

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Well, Robbie, as you can imagine, we watch our competitors all the time in terms of what they're doing in terms of product launches and pricing and things like that. The context we're for -- our energy is all about how do we bring new innovative entrepreneur driven products into the marketplace and the foraging team that we've talked a lot about are doing a fantastic job attending conferences, traveling around the world, as I think I've said in the past, they've got the best job in the world as far as I can see. It's the one I would like sometimes.

And the opportunities they're getting out there and really understanding where the opportunities are, and I think we're creating a reputation with the young entrepreneurial, people that are bringing new products to the marketplace, and we're hoping that they're coming to us first. We certainly see from -- we have a portal where people put new ideas into it. We get tens of thousands of applications into the portal every year, and we're looking almost our challenge is how do we bring more of them in. But there's plenty of opportunity for us to do it.

And I think we're seen as a place that committed to it because we've got an innovation center and we create space and give young entrepreneurs the opportunity to get started. So we're pushing very hard on that agenda. At the same time, we're pushing very hard on our Sprouts brand, and Sprouts brand that's innovative and different and based on attributes, no seed oils and vegetarian and vegan, and the process that we're going through in terms of bringing differentiation from our Sprouts brand, we think gives us a little bit even more of a moat in terms of the comp -- linking to what the competition might or might not do.

We watch them, and they're clearly that our sector health focused, innovative, attribute based products are going to be more important in the future than they are less important. But we think we're at the leading edge of that, and we're watching it pretty hard.

Organic pricing, we've been pretty assertive, as you know about our organic pricing and forcing differentiation. We're working very hard at long-term contracts with our produce supply. To give us the opportunity to create this pricing position where the customer gets a good deal, we get a good deal and the farmer gets a good deal, and those long term plans are something that I think give us a point of difference in terms of the context of the marketplace, and we haven't seen too much from our competitors, either ups or downs in terms of what's happening on organic produce or anything else for that matter. But they're good questions, Robbie, thanks.

**Robert Ohmes** - Bank of America - Analyst

No, thank you. And just a quick follow up. I apologize if I missed this, but the KeHE agreement and delays there and everything, can you talk about the status of that and what issues might or might not be there?

---

**Curtis Valentine** - Sprouts Farmers Market Inc - Chief Financial Officer

Yeah. KeHE been a good partner for us. We'll continue to be a good partner for us. We're just working through the details as you can imagine with the long term deal. There's a lot to cover. So we're working through the details and we're planning for a long term extension here soon.

---

**Robert Ohmes** - Bank of America - Analyst

All right, great. Thank you.

---

**Jack Sinclair** - Sprouts Farmers Market Inc - Chief Executive Officer, Director

Thanks.

---

**Operator**

Mark Carden. UBS.

---

**Mark Carden** - UBS AG - Analyst

Good afternoon. Thanks so much for taking the questions. So to start, we've seen a few strikes at two of your largest conventional competitors over the past few months. Obviously some differences in structure, but have you seen these events lead to any pressure just in a broader underlying wage environment, or has it been pretty steady in your view? Thanks.

---

**Jack Sinclair** - Sprouts Farmers Market Inc - Chief Executive Officer, Director

We work very hard to look after our team members, but I think we're the only retailer that gives the opportunity for every team member in the store to earn a bonus. We play pretty good, we look very hard about our wages and benefits relative to the other people. And we pay above the average in every market which we're operating in.

So we're feeling -- and the HR team do a terrific job managing this regionally and locally to make sure we're in the right place and we're taking care of our people. We haven't seen any major change in terms of how people are thinking about, that kind of initiative around our space. And I think it's incumbent on us to look after our people appropriately and we're working very hard at that.

---

**Mark Carden** - UBS AG - Analyst

That's great. And then, we've seen restaurant traffic continue decline over the past three months, a bit more moderate pace versus earlier in the year. I know in the past you guys have talked about some potential trade-in from food away from home. Do you believe you're seeing any more of a tailwind there and are you seeing any lifts in your prepared food sales?

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

We're working very hard on prepared foods. We've got a new salad program out there, a new meals program out there, so we're working hard at it, and the team are putting some really -- the deli team are doing some really good work in that space. I'm encouraged by that, and it might be helping us a little bit as you go through that, going forward. It's something that we'll continue to invest in.

---

**Mark Carden** - *UBS AG - Analyst*

Great. Thanks so much. And good luck guys.

---

**Curtis Valentine** - *Sprouts Farmers Market Inc - Chief Financial Officer*

Thanks.

---

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Thanks, Mark.

---

**Operator**

Kelly Bania, BMO Capital Markets.

---

**Kelly Bania** - *BMO Capital Markets - Analyst*

Hi, this is Kelly Bania from BMO. Thanks for taking our questions. Wanted to go back to the topic of the loyalty program and just more color on kind of the timing of when you would expect the Bennetts to accrue from that program. Is that something that is pretty immediate, or does that take more time to build as you build out the capabilities and the communication with your loyalty members?

And just trying to get a sense, if we should expect that this is a comp driver for 2026 as that gets rolled out by the end of the year, or if you could shed any light on how those kind of initial 30 -- or maybe 30 or 40 stores are comping relative to the existing store base.

---

**Curtis Valentine** - *Sprouts Farmers Market Inc - Chief Financial Officer*

Hey, Kelly, this is Curtis. Yeah, I think we'll -- we would certainly expect it to impact comps in 2026. We've been working hard at it for quite a while and we're really excited to get rolled out here. The team members are fired up, especially here in Arizona, where we just launched and so far so good on that front.

And so I think it'll be a little bit different for us, and that's what we're interested to see as we do get rolled out, certainly as a secondary shop, our frequency isn't the same as a traditional conventional grocer and so it should take us a little bit longer to build our database and build our customer data just from that perspective.

And then again, how it plays out from frequency to basket to retention, the key markers that we're going to be watching, will be a little bit different for us than a traditional program. And so, we'll know a lot more obviously we'll be rolled out here in the middle of Q4 and we'll be learning every day as we continue to roll out.

So we'll have better insight into that in the next call, but I think for now we're excited about it. It's certainly going to drive comp in '26, and then the question is just kind of pace and timing on when that comes in. It should start to help a little bit in Q4, but really we're thinking about it as a 2026 and forward type impact.

---

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

And it takes a little while for it all to work through, given the frequency of shop to our stores. So it's going to take a little bit of time for us to really understand the exact numbers, but we're really -- as Curtis said, the team members are really pumped up about this, and the customers -- the feedback I've had for some customers is it's about time. Why have you not done it before now? So we're kind of excited about it and as we see it, the numbers will come through in 2026.

---

**Kelly Bania** - *BMO Capital Markets - Analyst*

And just to follow up, is that -- should we expect the opportunity is bigger on the units per basket or the traffic or maybe a little bit of both?

---

**Curtis Valentine** - *Sprouts Farmers Market Inc - Chief Financial Officer*

Well, I think that's the other part that we're interested to see. We certainly expect it to help on frequency and traffic, and we'd expect it to help basket, and we'd expect it to help retention. The mix of how that plays out and the pace at which it impacts those three buckets, I think will be the piece that we'll learn as we go a little bit, just given the different nature of our shop.

---

**Kelly Bania** - *BMO Capital Markets - Analyst*

Thank you.

---

**Curtis Valentine** - *Sprouts Farmers Market Inc - Chief Financial Officer*

Thanks, Kelly.

---

**Operator**

Scott Marks, Jefferies.

---

**Scott Marks** - *Jefferies LLC - Equity Analyst*

Hey, good afternoon. Thanks guys for taking our questions. First one I wanted to ask about is we've heard a lot, I would say from more traditional branded food suppliers and food retailers about increasing attribute-based options, notably protein. So wondering, one how your team has been kind of approaching that and how you think it may be impacting your business, if at all.

---

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Yeah. Protein's going to be a really important part. If you go around some of the shows and the exhibitions, protein's one of the biggest and most clear driver of attributes and change in diets as people push that. We're very well placed in the number of protein products that we've got in our business, and we continue to expand it. And we're excited about it and we'll be talking a lot more about it going forward.

I think what they're saying is the right trend that's an important trend, and we want to be the leading edge of these kind of trends, and I think our assortment and a number of SKUs we've got in our stores reflects that. And we'll start talking a little bit more assertively about it both in signage and store and externally about how -- why people should come to us for protein, but it is going to be a competitive dynamic going forward.

---

**Scott Marks** - Jefferies LLC - Equity Analyst

Got it. Thank you for that. And then second question from me, maybe a bit more of a longer term question I guess as we think about the store expansion into areas like the Mid-Atlantic and the Northeast, how are you thinking about maintaining maybe produce, especially freshness in some of those regions, especially as we get through winter months or times of year or maybe it's a little more difficult to kind of get things as quickly form to store. Just wondering how you're thinking about maintaining the freshness of those products.

---

**Jack Sinclair** - Sprouts Farmers Market Inc - Chief Executive Officer, Director

Yeah. It's a good question, Scott. Our distribution philosophy has always been to try and get our stores within 250 miles of the distribution center. So -- and then we in each of the distribution centers, we will have a local sourcing team who will try their best to get all everything local that they possibly can. If they can't get it local, they'll get it regionally, and if they can't get it regionally, they'll get it nationally.

And so in a place like Colorado where we've got a distribution center, we've got a team of people there that have done a terrific job the last few months in terms of when it's appropriate in Colorado, have Colorado peaches and have Colorado melons and have the Colorado products that are relevant to that local community, and that will apply when we go to the Mid-Atlantic, when you look at Jersey tomatoes, when you look at those kind of dynamics, there's certain times of the year in New York apples, we've got to have the right products in store, and we want to be right and in pace with that.

And our distribution center program, when we get to the Midwest, we'll be thinking about what are the appropriate things to buy locally at the right time of year. Clearly, as you go North, things are a little bit different. And the process of getting product from the growing regions to the distribution center will also be doubling down on how we can do that faster and as fast as we possibly can.

But inevitably you have to bring things from California at certain times of the year that travel a long way, and we'd hope to be managing our inventory so well that the freshness and the rotation allows us to maintain the freshness on those kinds of products. But as you can imagine, it's a really important part of our business. We think a lot about it region by region, market by market, distribution center by distribution center, and we have got really good plans in place as we expand into the Midwest and the Northeast.

---

**Curtis Valentine** - Sprouts Farmers Market Inc - Chief Financial Officer

But it's a great question.

---

**Scott Marks** - Jefferies LLC - Equity Analyst

Yeah. I appreciate the thorough response. Thank you.

---

**Jack Sinclair** - Sprouts Farmers Market Inc - Chief Executive Officer, Director

Thanks, Scott.

---

**Operator**

Chuck Cerankosky, Northcoast Research.

---

**Chuck Cerankosky** - Northcoast Research - Analyst

Good afternoon everyone. Great quarter, again. Curtis, I have a question for you. It doesn't involve merchandizing, but I noticed the 26% tax rate and you're talking about 24% later in the year or for the full year. Anything that Sprouts can do to get that tax rate down, to maybe even a long term number that's below 24%.

---

**Curtis Valentine** - Sprouts Farmers Market Inc - Chief Financial Officer

Yeah. Good question, Chuck. I wasn't counting on that one. I think our tax team does a really good job, small but mighty team, and they're always looking at opportunities and how we leverage, tax credits, specifically around our food waste and how we can divert that and do good things with that and take advantage of that.

So they're looking at those things always, and I think we'll continue to work on that, but I think that 25% to 26% kind of has been pretty consistent for us other than maybe the first quarter when we see some of the stock price impacts, so.

---

**Chuck Cerankosky** - Northcoast Research - Analyst

All right. Thank you. Good luck for the rest of the year.

---

**Jack Sinclair** - Sprouts Farmers Market Inc - Chief Executive Officer, Director

Thank you.

---

**Curtis Valentine** - Sprouts Farmers Market Inc - Chief Financial Officer

Thanks.

---

**Operator**

Scott Mushkin, R5 Capital.

---

**Scott Mushkin** - R5 Capital LLC - Equity Analyst

Hey guys, thanks for taking my question. So my first one, and it's just about the fourth quarter, thinking about Curtis, what you said about kind of a 15% to 16%, I guess stacked comp that implies a pretty low comp for the fourth quarter.

And I was just -- stacks are good until they're not good, and I was just wondering how you guys are thinking about the fourth quarter. I mean, it seems like as the business is running right now, 4% comp, even though it would get you a stack in the same place, just doesn't seem realistic.

---



**Curtis Valentine** - *Sprouts Farmers Market Inc - Chief Financial Officer*

Yeah. I think -- Scott, I think what we'll be watching, we've talked kind of for the year, the three big things, right, as we comp the comp, two big step changes last year and we've cycled through the first one in May. The next big one's in September. And so we'll get a read on kind of your question, could it be a little better in the fourth quarter from a two year stack perspective, we'll have that answer when we get through September here later this quarter.

The second piece was the new stores and particularly the comp impact from the 24 vintage. I think about a quarter of the 24 vintage stores are now in the comp base, so that's still largely ahead of us. And then loyalty will be some upside if it takes off a little bit quicker than we think or has a bigger impact early than we think it might, that's a piece that we've been watching as well, but is largely in front of us.

And so I think we still have some questions to answer there and certainly we're going to go try to drive it higher and hope that it will be better, but for now I think it's prudent to kind of stick to the 15% that we've been seeing pretty consistently for several months now.

---

**Scott Mushkin** - *R5 Capital LLC - Equity Analyst*

Yeah. It makes sense. But it's interesting -- it's going to be interesting to see, especially with all your initiatives. So my second question is actually also on comp, but more long term. So if you think about the industry growth rate, most things that we look at would say 5% to 6%, through the end of the decade, you look at your guidance initiatives, new store growth, maybe some cannibalization, but that would suggest at least a seven comp over the next three years of growth rates in the industry hold up. Where am I wrong on that?

---

**Curtis Valentine** - *Sprouts Farmers Market Inc - Chief Financial Officer*

Yeah. I don't know that you're wrong, Scott. I think, we continue to look at things and again, the key markers that we've been looking at, the ones I just mentioned we'll have a really good clarity on that. Obviously seeing the third quarter guide, we're building our confidence in that storyline.

Certainly as we sit here today at August 1, we'd be looking for a stronger comp than our algorithm 2% to 4% as we think about 2026. And so we're excited to kind of see those key markers play out and maybe answer that question a little bit more directly when we get to kind of February 2026 guidance and beyond.

---

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

And without changing guidance or talking about numbers, I think it's -- we certainly recognize there's a tailwind to this category. This healthy eating, people caring about where their food is growing, how their food's produced, people caring about what's in their food. So I think that's a tailwind trend that I think we'll begin to see and we've got a low share of wall of our customer base.

So there should -- we're certainly ambitious to grow going forward, but what we're not going to do is put numbers down that put pressure on our SG&A, to be honest going forward, and we're very conscious of that.

---

**Scott Mushkin** - *R5 Capital LLC - Equity Analyst*

,Okay guys. Great. Thanks for the answers.

---

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Thanks Scott.

---

**Operator**

(Operator Instructions)

John Heinbockel, Guggenheim.

---

**John Heinbockel** - *Guggenheim Securities LLC - Equity Analyst*

Hey guys. Wanted to sort of follow up on that one. Jack, can you talk to wallet share right, where you think you are today and is 20%, an ambitious number to get to, it wouldn't seem to be. And if you were to do that, where do you think the biggest opportunities are, is it in prepared foods?

---

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Well, I think prepared foods is standing one of them, but I think it's as people switch their diets is the biggest thing, switch into what we sell, products that are more attribute-based, products that have got more health benefits to them and cleaner. That whole as people switch, which I think people will switch. You'll start to see us growing from the 13% that we talk about, whether it'll get to 20%. I'm not so sure, but we certainly think we can make a significant dent in the gap between 30% and 20%, partly because the people will trend towards it.

And yes, we will develop better meals opportunities in terms of what people can get in that space and vitamins and supplements is another category that we talk a lot about that's going to, I think lead to -- I think more people are going to get into that going forward. So I think that will help us in terms of category growth. So there's a number of initiatives that I think will encourage us to believe that we can get a share of wallet growth from 13% to somewhere north of that.

---

**John Heinbockel** - *Guggenheim Securities LLC - Equity Analyst*

All right. And then sort of a follow up, right? So AUV is probably going to end up for a lot of reasons, right? Market growth and then your initiatives higher than perhaps you had thought at the same time you've reduced the size of the box. How do you think about capacity, right, within a typical box and is the answer is not bigger stores. The answer is more density, and then what -- which is fine, and what does that inevitably raise the cannibalization number within the comp?

---

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Yeah. That's certainly think, that we're not going to change the size of the box. We're going to work harder at making the box more efficient, and the team are doing a really nice job on that. The team working in the operations space in terms of how we're utilizing the space behind the scenes in our stores, in terms of how we manage inventory, how we manage receiving, how we manage the flow of goods through the back room into the store.

So there's a lot of work there that gives us some opportunities to expand capacity, even within the boxes that we have. And we continue to look at what are the right -- certainly we're not going to build bigger stores, so shall we build stores closer and closer, and as our volumes grow, it gets more and more attractive for us to cannibalize a little bit in terms of take some pressure off the stores that are doing well. So it's your observation's appropriate. We've not quite got there yet in terms of the worry on it. I'm looking forward to worrying that the stores are so busy that we have to build other ones next door to them.

---

**John Heinbockel** - *Guggenheim Securities LLC - Equity Analyst*

Thank you.

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Thanks.

**Curtis Valentine** - *Sprouts Farmers Market Inc - Chief Financial Officer*

Thank you very much, John.

**Operator**

Thank you. I would not like to turn the call back over to, Jack Sinclair for any closing remarks.

**Jack Sinclair** - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Yeah. Thanks everyone for your attention. We really appreciate your interest in our business and we look forward to updating you in the future months to come. Thank you very much for your attention.

**Operator**

Thank you. This concludes the conference. Thank you for your participation. You may not disconnect.

#### DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2025, Refinitiv. All Rights Reserved.