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EDITED TRANSCRIPT

SFM.OQ - Q4 2025 Sprouts Farmers Market Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 19, 2026 / 10:00PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, everyone, and welcome to Sprouts' fourth-quarter and full year 2025 earnings call. (Operator Instructions) Please note, this conference is being recorded.

Now it's my pleasure to turn the call over to the Vice President of Investor Relations, Susannah Livingston. Please proceed.

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 fourth-quarter and full year 2025 earnings call. Jack Sinclair, Chief Executive Officer; Curtis Valentine, Chief Financial Officer; and Nick Konat, President and Chief Operating Officer, are with me today.

The earnings release announcing our fourth-quarter and full year 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.

During this call, management may make certain forward-looking statements, including statements regarding our expectations for 2026 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.

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Our remarks today include references to non-GAAP financial measures. Please see the tables in our earnings release for a reconciliation of 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, Susannah. Good afternoon, everyone. In 2025, Sprouts delivered over 7% comp sales growth and achieved more than 40% earnings per share growth, reflecting the strength of our strategy. These strong results are a testament to the team's focus on our target customers and Sprouts' positioning to capitalize on the ongoing trends in healthy living. These are outstanding full year results.

However, we are not happy with how the year finished as our comp momentum slowed. In 2025, we made progress on a number of key initiatives. New stores exceeded expectations. We launched our loyalty program and our expanded self-distribution supported both service levels and freshness. We introduced more than 7,000 new items including more than 600 new products under the Sprouts brand.

In addition, disciplined cost management and our continued system enhancement helped us build a margin profile that has seen significant expansion. This performance builds on what has been a remarkable multiyear journey for the business. Over that time, we've driven strong new customer growth, reinforced our business foundation, and made meaningful progress towards our purpose of helping people live and eat better.

At the same time, the macro environment remains uneven and consumers are increasingly value focused. Against this backdrop, the health and wellness landscape continues to evolve. What began as a focus on natural and fresh has expanded into more targeted outcome-driven solutions with customers becoming more discerning, seeking innovation, quality, and transparency while also being highly value conscious. We believe our purpose and strategy position us well to address affordability and access, two of the most important challenges in healthy living today.

While our conviction in the long-term algorithm remains strong, 2026 will be a challenging year as we lap some big numbers. We are very pleased with our new stores, our investments in self-distribution, our growing depth of customer data, and the continued advancement of our differentiated assortment.

At the same time, we are disappointed with transactions and still learning how we can shape customer behavior through loyalty and personalization. In 2026, we are investing in the capabilities needed to fully exploit our loyalty data. We know we can do more.

We also have the capacity in our P&L to help address the affordability challenges that many of our customers are facing. The team remains excited and confident in our ability to support our health enthusiast customers and drive growth in the years ahead.

In a moment, I'll talk more about our plans for 2026, but for now, I'll hand it to Curtis to review our fourth-quarter and full year financial results as well as our 2026 outlook. Curtis?

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

Thanks, Jack, and good afternoon, everyone. In the fourth quarter, total sales were $2.1 billion, up $152 million or 8% compared to the same period last year. This growth was driven by a 1.6% increase in comparable store sales and the strong results from new stores. Our key points of differentiation continued to drive our sales with attribute forward products growing faster than our core business.

E-commerce sales grew 15%, representing approximately 15.5% of our total sales for the quarter. Additionally, Sprouts brand continues to resonate, now making up nearly 26% of our total sales for the quarter. Basket drove our comp with traffic ending slightly negative after a disappointing holiday season and finish to the quarter. We effectively managed costs and margins against this backdrop.

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Gross margin for the fourth quarter was 38.0%, a decrease of 10 basis points compared to the same period last year, primarily due to shrink, partially offset by the benefits from our move to self-distribution in meat. In addition, the rapid adoption of our loyalty program did put some pressure on gross margins. We look forward to utilizing this data to further engage our target customers and drive sales behavior.

SG&A for the quarter totaled $653 million, an increase of $38 million and 41 basis points of leverage compared to the same period last year. This improvement was largely driven by lower incentive compensation expense and effective cost management.

Depreciation and amortization, excluding depreciation included in the cost of sales was $39 million. For the fourth quarter, our earnings before interest and taxes were $123 million. Interest income was approximately $581,000 and our effective tax rate was 27%. Net income was $90 million and diluted earnings per share were $0.92, an increase of 16% compared to the same period last year.

For fiscal year 2025, total sales increased nearly 14% to $8.8 billion, driven by comparable store sales growth of 7.3% and strong new store performance. Our focus on innovation and differentiation resonated well with our target customers, driving overall sales. Additionally, we were happy to see that our new stores exceeded our expectations for the second consecutive year.

Gross margin was 38.8%, an increase of 70 basis points compared to gross margin in the prior year. This was predominantly driven by improvements in shrink and our investments in inventory management over the last couple of years as well as leverage from increased sales early in the year.

SG&A expenses for the year totaled $2.6 billion, an increase of $283 million or 45 basis points of leverage compared to SG&A last year. This leverage is mainly attributable to sales leverage from strong comp performance early in the year. Store closures and other costs totaled $5.6 million due to ongoing occupancy costs from our 2023 store closures and disaster recovery costs. Depreciation and amortization, excluding depreciation included in the cost of sales was $150 million.

For 2025, our earnings before interest and taxes were $686 million. Interest income was $2.6 million, and our effective tax rate was approximately 24%. Net income was $524 million and diluted earnings per share were $5.31, an increase of 42% compared to the prior year's diluted earnings per share.

Sprouts ended the year with 477 stores across 24 states. Looking ahead, there are over 140 approved new stores and more than 95 executed leases in our pipeline. A strong and healthy balance sheet has underpinned our financial performance. For the year, we generated $716 million in operating cash flow which enabled self-funding of investments and capital expenditures of $224 million, net of landlord reimbursement.

We also returned $472 million to our shareholders by repurchasing 4 million shares and have $836 million remaining under our new $1 billion share repurchase authorization. The year ended with $257 million in cash and cash equivalents and $23 million of outstanding letters of credit.

We have been encouraged by our strong sales and customer growth in recent years. However, the challenge of lapping this growth has been more difficult than anticipated, particularly with our lower engaged customers who are visiting less often and purchasing fewer items as they navigate economic challenges. We are encouraged to see our loyalty members increasing their frequency and spend but know that there is still significant opportunity ahead.

Our customer engagement and personalization capabilities are still maturing, and our customer is telling us they need greater support in making healthy living more affordable. We are well positioned to do more for our customers as we look ahead to 2026.

As for our outlook, it's important to note that fiscal year 2026 will be a 53-week year, with the extra week falling at the end of the fourth quarter. We estimate the impact from the 53rd week to be approximately $200 million in sales, $28 million in income before interest and taxes and $0.21 in diluted earnings per share. For the full year, on a 52-week basis, we expect total sales growth to be between 4.5% and 6.5% and comp sales to be between negative 1% and positive 1%.

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We plan to open at least 40 stores in 2026. Earnings before interest and taxes are expected to be between $675 million and $695 million, and earnings per share are expected to be between $5.28, and $5.44, which includes some share repurchases. With our strong cash generation, we plan to utilize our free cash flow to repurchase our shares and would expect to spend at least $300 million on this program in 2026, which is included in our EPS outlook.

Year to date, we have already deployed $100 million towards share repurchase, and we'll continue to take a disciplined, opportunistic approach when we see a disconnect between our share price and our long-term fundamentals.

We also expect our corporate tax rate to be approximately 25.5%. During the year, we expect capital expenditures, net of landlord reimbursements, to be between $280 million and $310 million. For the first quarter, we expect comp sales to be in the range of negative 3% to negative 1% and earnings per share to be between $1.66 and $1.70, which includes the impact of a higher tax rate due to year-over-year share price changes and the related stock-based compensation tax impacts.

In the first quarter, we expect EBIT margin pressure of approximately 85 basis points due to fixed cost deleverage and the impact of our loyalty program.

To add some additional color to the full year guide, we expect the first half of the year to be challenging as we lap double-digit comp comparisons. We anticipate sequential comp improvement thereafter as we rebuild towards our long-term financial algorithm late in the year.

EBIT margins are expected to face some early year headwinds due to fixed cost deleverage and higher-than-expected sign-ups for our loyalty program. We expect that this will stabilize later in the year as we leverage our investments in self-distribution and anniversary the loyalty rollout while still experiencing modest new store growth pressure in the second half as our pipeline is weighted more heavily to Q3 and Q4.

While we expect to experience short-term growth headwinds as we stabilize our business after two years of significant growth, we remain confident in our strategy and our ability to return to our long-term growth algorithm.

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

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

Thanks, Curtis. While we're not happy with our current business performance and our 2026 outlook, we believe strongly in the long-term potential of Sprouts and our ability to take the necessary steps to reaccelerate growth.

Over the years, Sprouts has built a strong foundation for sustainable long-term value creation. As always, we recognize the future is more important than the past. The exceptional growth we've seen over the last two years was supported in part by the broad expansion of the US health and wellness movement where Sprouts is uniquely positioned with the right products and customer experience to serve as a top destination for healthy discovery.

Growing from this elevated base of new customers now requires sharper execution, deeper customer engagement, and better affordability for our customers. In 2026, we are focused on preparing for our next phase of growth by leveraging our operational strengths and advancing our foraging, customer engagement, real estate and supply chain initiatives along with targeted investments in talent, technology, and affordability that reinforce our unique value proposition.

We are positioning Sprouts for long-term success. Our top priority is serving the needs of our target customer. Launched last year, our loyalty program exceeded sign-up expectation and significantly broadened our customer insights. We expect the program to deliver a behavioral shift over time.

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We are pleased to see our most engaged customers increasing their frequency and to see some customers join our rewards program and significantly increase both frequency and spend at Sprouts. Yet we see opportunities to deepen engagement further, whether by driving additional frequency, expanding participation across more categories or encouraging trial of innovative new items.

Beginning in 2026, we've enhanced our loyalty program to provide more value and are investing in our personalization capabilities to increase program effectiveness. As we have spoken about many times, our customers come to us for a variety of solutions to support their healthy living journey. Better understanding these customer cohorts and personalizing how we engage with their needs remains a critical growth lever.

In 2026, we're adding new talent with deep expertise in data analytics and customer engagement to fully unlock this potential. Health and wellness continues to provide tailwinds in the marketplace, and we will stay ahead by offering more unique products. The foraging team continues to source products from around the world and is leading in evolving trends.

We've established ourselves as the retailer of choice for launching new health and wellness products, supported by our commitment to nurturing and growing emerging brands as they scale. We'd like to thank all our vendors for their partnership especially those who have trusted us to launch their trending products. Their innovation, combined with our customers' growing appetite for discovery in health and wellness continues to be a key driver of our success.

By the end of 2025, our organic sales mix grew to more than 30% of our total sales, and this trend remains a key focus for us. On the docket for 2026 are more products with on-trend attributes such as no seed oils, gut health, and longevity. Also, you will see organic grass-fed whey protein, functional hydration beverages such as Tractor's modern take on the haymaker,and products like Elevate Organics, formulated to heal the body and the planet through regenerative farming practices.

These are just a few examples of what this team is delivering to our customers.

Sprouts brands have now surpassed $2 billion, continuing to outperform overall company performance. Rather than replicating national brands, our goal is to offer customers products that complement their favorites while delivering something distinctly Sprouts, high-quality innovation at a great value.

The team has developed a robust three-year innovation pipeline designed to meet the evolving needs of our health-orientated customers, focusing on products they trust and actively seek out. The launch of our new Wellness Bowls is a terrific example of the intersection of health and affordability. The success of this new offering shows that customers respond when we deliver both in a compelling way.

Next week, customers will see our new Sweet Heat seasonal event come to life across our stores with an exciting set of limited time products only found at Sprouts. We continue to drive market-leading healthy innovation and our stores help bring it to life for our customers. Our teams remain focused on delivering our unique customer experience, educating shoppers, and showcasing our differentiated assortment. I continue to be so proud of how our teams execute in stores for our customers.

New stores continue to perform well. This strong performance reinforces our confidence in our growth path. Our robust new store pipeline now includes over 140 approved locations and plans to open 40-plus new stores in 2026. We are also excited to have entered a new state earlier this year with the addition of our first New York store, expanding our presence in the Northeast.

While nearly all of our 2026 openings will be in our existing footprint, the team is also looking forward to 2027 and beyond. And we are approving sites in both the Midwest and the Northeast to lay the foundation for further future growth.

On the supply chain front, the transition to self-distribution for fresh meat is progressing very well, strengthening our control over our fresh categories. Today, 75% of our stores are serviced with fresh meat from our distribution centers. Our Northern California facility is on track to be fully operational by early in the second quarter, completing our self-distribution rollout.

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Stores are already benefiting from increased delivery frequency with fresh meat products now arriving alongside daily produce shipments. We're also continuing to invest in our forecasting and replenishment capability that we expect will enable Sprouts to scale and grow. We believe the cost efficiencies from these initiatives and other investments will allow us to support our customers with a more affordable, healthy living journey while also maintaining our strong margin profile in the long term.

Lastly, the Sprouts team remains the heart of the organization, with ongoing investments in their development to drive the business and key initiatives forward. We continue to invest in our talent engine pipeline to support our future growth. Our ongoing investments in our team have helped maintain a low turnover, and that stability is reflected in the consistently exceptional customer experience scores we receive, many of whom tell us time and again, I love Sprouts.

We extend our gratitude to our more than 36,000 team members for their commitment to serving customers every day. I also want to thank Scott Neal and wish him the very best in his retirement. As our Chief Merchant, Scott has driven outstanding growth in our business while furthering our strategy of differentiation.

As well, we welcome both Don Clark, our Chief Merchandising Officer; and Mandy Rassi, our new Chief Customer Officer. We look forward to their contributions as we scale our business for continued growth.

In summary, while the near-term backdrop is challenging, the steps we are taking today are strengthening the business and reinforcing our ability to grow our $290 billion total addressable health and wellness market. It's amazing to reflect on our growth from a single store in Chandler, Arizona in 2002 to more than 500 stores by the year-end, serving over 14 million customers walking through our doors every quarter.

The health and wellness movement remains strong, and Sprout's unique positioning continues to set us apart. By managing costs with discipline and investing behind the capabilities that differentiate us, we are confident in our ability to create long-term growth and value for our shareholders. We appreciate your continued interest in Sprouts and look forward to keeping you updated on our progress throughout the year.

And with that, I'd like to turn it over to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ed Kelly, Wells Fargo.

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

I guess I wanted to start with current comp momentum. You talked about some slowdown into holiday disappointing into the year, and it seems like that's continued into Q1. I was hoping maybe you could unpack what you think is driving that additional stepdown, where you are running currently versus the comp guidance that you've given for the quarter?

And then as part of this, Jack, you have mentioned the idea of maybe investing in some value for your customers. And I think that's an idea that maybe price and promo, you've kind of resisted that idea historically. Just curious as to how deep of an investment do you think you will be making there?

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

I'll let Curtis talk specifically on the numbers, Ed. First and foremost, what's happening, there's an uncertain macro environment. There's clearly some tough lapping that we're going. And the toughest lapping does actually come in Q1 in terms of the numbers that we got last year for a variety of kind of -- a variety of reasons that are not going to be repeated this quarter. So that's one of the reasons for it.

And the other context of it in this affordability, the affordability issue, our customers are saying to us, look, we really love your business. We really love what you do. But can you help us a little bit on this affordability? Can you help us just a little bit on what you're doing? And it's caused us to take a really good look at what are the options in terms of pricing, what are the options in terms of promotions.

And the great thing about the business today from where it's been over the years is we've got the capacity to invest going forward if we need to invest to support the customer in the particular circumstances that are existing at the moment. So we just got more capacity to do, we got more options in terms of how we think about it. And Nick and the team are thinking really hard about how we can pick the right actions to support the customer and this affordability issue.

And some of it will be promotions. Some will be about personalization. Some of it will be about pricing. So we're looking at it in a bit of detail across the board, and we'll be taking some action and we can -- we've got the capacity to do that.

Do you want to talk numbers, Curtis?

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

Yes. On the stepdown at -- really, the primary thing is that customer lapping issue as we kind of look back, it's a low engaged customer that we really brought in with new customers, with reactivated customers at the New Year last year, in the fourth quarter last year. And there were some of those viral moments and eggs and things like that, that were driving customers our way.

So as we get up against it, it's just been challenging. And I don't think the macro helps in that respect. It makes it more challenging. And the combination of factors has made it difficult. Year to date, we are right at the midpoint of the guide. We're about a little over halfway through the quarter, and we are past the King Soopers strike lapping that we had last year. That's behind us, but we're right at the midpoint of the guide here year to date.

Operator

Leah Jordan, Goldman Sachs.

Leah Jordan - *Goldman Sachs Group Inc - Analyst*

I just wanted to ask about the comp guide. See if you can just walk through how you're thinking about traffic versus ticket as we go through the year, what have you assumed of any contribution from loyalty? And then I understand you have the difficult lap in the front half, but at the end of the day, natural and organic category is still growing pretty nicely across grocery.

So I guess, why do you think you've been more challenged in this current backdrop? And has anything changed in the competitive landscape? Or just more detail on what gives you the confidence that you can get back to that positive growth in the back half?

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

Yes. Leah, it's Curtis. On the guide front, from a traffic basket perspective, we'll see on the full year guide, slight pressure on traffic should get sequentially better as the year progresses. The first half will be challenged and then we'll see sequential improvement as the compares soften a bit. And then the basket will be just the flip of that, slightly up and offsetting to the flat midpoint in the guidance.

As far as the confidence to get back to where we've been before, it's really just we have good strength in pieces of our strategy right now. New stores are performing really well, attribute-based SKUs are performing really well. We continue to be pleased with the innovation and forging piece and the partnership with emerging brands and vendors. Those are all still going strong for us.

We've had two great years of growth, we had two really strong years of sequential improvement prior to that, too. And so we feel like those are the building blocks for how we'll get back to where we need to go. As we mentioned earlier, we need to do a little bit more for the customer in this moment. We're going to be working on our personalization and customer engagement capabilities throughout the year and accelerating some resource there.

Those are the pieces that should help us get back. And yes, we're expecting to be a part of that sequential improvement. The things that we're doing, we're assuming will help us get back to where we want to be and embedded in the guide. And then there's obviously just a lot of uncertainty in a long year ahead of us as it relates to the consumer pressure in our customer lapping conversations. So a balance of those things embedded in the guidance.

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

So with regard to the competitive scenario, Leah, that you're referring to, I think the great thing about our company is it's all in our own hands. We've got the capacity to do what it needs to do in the marketplace. We're not seeing anything really dramatic coming at us from different -- we think this is a kind of lapping challenge and an affordability challenge that everybody is having to look at carefully and the consumer uncertainty that's come from the affordability, it's not really reflected itself in a huge competitive space.

We are watching really closely whether the products that we have, the differentiated products that we have are priced appropriately within the market. But it's not about what other people are pricing because they don't sell these things. And it's about how do we get the right balance of the assortment, the right balance of price points, the right balance, and that's what we think we've got to do in the context of this affordability.

Inflation has clearly driven some significant increases on pricing on coffee, on meat. It's affected some of the less -- the customer who doesn't come that as often. It's clearly affected in some of those categories, and we're watching that closely, and we'll take the action that we need to take. But the great thing is it's all in our own hands.

Leah Jordan - *Goldman Sachs Group Inc - Analyst*

Okay. That's very helpful. So I mean, it sounds like the lap is a big issue here. So that kind of leads to my next question around the right margin profile for this business. So you've had some really nice expansion over the last couple of years. And I think when we talked before is, hey, we wouldn't really be giving that back. But today's guide is implying a notable margin decline.

We're hearing more about investing in value in the last question and in the prepared remarks. So I guess assuming you look back on algo in the back half, what is the right margin profile for this business? How do you think about the ongoing level of investment that's needed here?

And just kind of the pressures that you're seeing today, what is temporary investment versus deleverage? Just kind of how do we think about the long-term margin profile?

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

Leah, it's Curtis. Yes, so I think, yes, the midpoint of the guide, there's a pressure on EBIT margins. That's primarily, if we look at the full year fixed cost deleverage, occupancy depreciation deleverage as we think about the full year. Around that, still fairly stable. And obviously, there'll be a shape of it from first half and second half.

But we've made investments in the business over the last few years to create some space in inventory management, self-distribution. We've talked a lot about those. And then as we look ahead, we also feel like there's plenty of things left for us to go after and levers to pull in the longer term. And so continued improvement, inventory management, category management, additional self-distribution down the line.

There's lots of opportunity for us to go. And in fact, the challenges we've seen the business go up and then the business come back down. And that just highlights that there's still room and maturity for us to go get in the business and inefficiencies for us to capture.

So in the medium and long term, we still think there's investments to be made that can drive profitability that we can use to address affordability and take care of our customer. And that's how we're thinking about it.

Operator

Rupesh Parikh, Oppenheimer.

Rupesh Parikh - *Oppenheimer & Co Inc - Analyst*

Just going to store openings and new store productivity. Just curious how they continue to perform as you got into Q4? And then new store productivity does look a little lighter in Q4. Just curious if it's timing or if there's anything else to discuss there?

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

Rupesh, it's Curtis. Yes, really pleased with the new stores. The performance continues to be strong there. The '25 vintage outperformed our box economics expectations, not quite as strong as the '24 vintage, but still really strong. The performance has been consistent with our expectations as it relates to established markets, non-established markets, kind of East Coast, West Coast.

It's been pretty consistent, and we're really pleased to see the response we're getting when we when we bring this to new communities. And it really reinforces for us the confidence in the long term and our ability to return to our algorithm.

And then the new store productivity, that does get a little bit bouncy from quarter-to-quarter mix of stores and where we're opening them and year-over-year comparisons. But overall, really pleased with the new store performance.

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

And the fact that we're consistently now building all the new V6 that we started a little while ago. We've now got more than 100 of those. We can start to make them even more efficient going forward as the team are working on learning how to do, how to build them a little bit cheaper how to execute them a little bit faster and how we can operate them a little bit more effective.

So there's a lot of really good work going on behind. And when you've got the customers responding well to the new stores, it gives us a lot of scope to improve the efficiencies.

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Operator

Michael Montani, Evercore ISI.

Michael Montani - *Evercore Inc - Analyst*

I had a two-parter. One was, can you share the new store opening cadence by quarter for the year? And then the other question was, if you look at 4Q, can you just parse out what you saw in terms of inflation versus transaction counts? And is the 300 bps softening you've had sequentially so far, is that basically all transaction counts?

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

Yes, Mike, it's Curtis. I'll take them in reverse order there on the softening. It's primarily traffic in the fourth quarter at a little bit of units. We are starting to see some unit pressure again, back to that affordability concept and some of the challenges from inflation that we're seeing.

Inflation kind of continues to play out the way we've expected. It's low single digits in line with CPI and then you have -- we've got our mix towards premium products, that's driving up our AUR in organic and things like that, that drive it up a bit and some of the value pack stuff that we've done over time.

And then you do have some categories like coffee and meat that are inflationary that also drive that up a bit. And then, yes, so we're seeing the unit pressure a little bit across the board for all customers. And then the traffic challenges is primarily that lower engage customer that we've seen.

On the new store opening cadence, backloaded again, as I mentioned in the script, six here in the first quarter, should be nine in the second quarter and then pretty balanced in Q2 and Q3 to get us to our 40 for the year. And 2027 is shaping up pretty strong, and that should be a more balanced kind of quarterly spread of new store openings, but one more back-weighted vintage here in 2026.

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

And we try and avoid -- I think we're going to avoid really having anything in November and December after the -- certainly after Thanksgiving, trying to avoid those. And that's something that we're pretty confident we'll do this year.

Operator

Mark Carden, UBS.

Mark Carden - *UBS AG - Analyst*

So just building on the topic of affordability, you guys have mentioned in the past that you tend to be more of a secondary or a tertiary shop for customers. I know your assortment is largely unique, but do you believe you see much in the way of wallet share shift on some of the categories where you might overlap with the Costco or another grocer where they tend to shop?

I know you called out eggs perhaps in the lap, but does anything else jump out? Or do you think it's more just a function of consumers controlling their own shrink, so to speak, as conditions remain challenging?

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

I'll let Nick have a go at that one, Mark.

Nicholas Konat - *Sprouts Farmers Market Inc - President, Chief Operating Officer*

Mark, it's Nick. So what we're seeing on the customer side, from a share of wallet standpoint, our share of wallet is holding pretty flat. We saw just a little tiny bit of a loss in Q4 in share of wallet, but overall holding strong, which means if you think about our innovation and differentiation continues to win and we're not seeing significant any kind of real share of wallet declines to some of the more conventional channels that you would expect or maybe allude to in your question.

So we're holding our own there. We are certainly seeing the consumer navigate towards value, which is part of what you hear from us on how do we meet our customers where they are and provide the value that we can do to help them. I think it's important to note it's not just about price. I know I think that's a place people go. But for us, it starts with what we're great at, which is our innovation and differentiation.

And what we're seeing in our business is when we can provide health board products at a really strong value like our (inaudible) program under $10, our Sprouts brand organic program, our $5 sandwiches, we're seeing a really, really strong purchase from customers.

We just need to innovate more in that space at this given point in time, in addition to leaving on things like personalization and loyalty, our always sharp produce pricing and offering, and as Jack mentioned, being smart about how we price and promote to continue to maintain and grow share in this time.

Operator

Tom Palmer, JPMorgan.

Thomas Palmer - *JPMorgan Chase & Co - Analyst*

I wanted to ask on shrink. It was not mentioned as one of the potential margin headwinds for this year. I know last year, it was called out as a pretty substantial tailwind, especially in the first couple of quarters of the year. And I think there was a little bit of a question of how much of that was double-digit comps driving shrink lower versus all your work with inventory management.

So now as you lap that, I guess, any update on what you're seeing with shrink and maybe how much of it you're holding on to versus your expectation?

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

Tom, it's Curtis. Yes, it was a little bit of pressure on shrink or a favorability last year as we had strong comps. We are up against that certainly in the fourth quarter. That's part of the story. And then in the first and second quarter, we'll be up against that a little bit. But we do feel like we've made sequential improvement there over the years and that the team has prepared for that.

I think where it really gets challenging is when you get those whipsaws in sales, right? The big acceleration that we saw and now the bit of the deceleration that we've seen as the business is settled and moderated, that's where it's really challenging. I think we've got a good handle on where we are here as we're sitting here in the first quarter, and the teams are continuing to put work and investment into that to prepare us for later in the year.

And so on the balance for the year, we do expect shrink to be fairly stable, and it will just be a little bit choppy quarter to quarter.

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Operator

Robbie Ohmes, Bank of America.

Robert Ohmes - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Curtis, I was hoping you could give a little more color on the gross margin assumptions you guys have in the guidance for 2026? I would love to see if you could give us a little more on -- should we just think about it as occupancy deleverage in the weaker comp quarters and some more pressure on gross margin? Or can you give us some help on how much merchandise margin might change or go down in 2026?

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

Yes. Sure, Robbie. The first half will be a bit pressured. I'll talk about it in terms of EBIT margins and the drivers there, and you'll get a little bit of color on both sides underneath that. But yes, the fixed cost deleverage certainly pressured with the negative comp here in the first half. That will be challenging, primarily occupancy and depreciation.

There's lots of moving parts. We've got cost work that we've done that will help and other new store growth pressure and things like that. But net-net, it's really a fixed cost story.

On top of that, we've got the loyalty program that we saw a good adoption and uptake in people opting into the program that puts a little bit of pressure on the rewards and the points that we're absorbing there. So there'll be a little bit of pressure there that falls into the gross margin in the first half. And then as we get later in the year, we'll be leveraging those investments in self-distribution.

We'll be anniversary-ing the loyalty program and that compare will get a little easier. And we'll get back to kind of a more stable EBIT margin as we think about the second half.

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

Robbie, as I said in the script, I think there's real capacity in our organization to make sure we can deliver the algorithm long term in terms of the net margin going forward. So we're feeling pretty confident about that in the future.

Operator

Kelly Bania, BMO Capital Markets.

Kelly Bania - *Bank of Montreal - Analyst*

I guess just to be frank, the outlook for '26 kind of earnings -- or at least EPS flattish, maybe up low single digit, I guess it doesn't really signal to me a major or even small investment in affordability for your customers. So I was just wondering if you can talk about what's really planned there, whether it be pricing promos? I know loyalty continues to roll out, and you made some tweaks there. But is that something that could evolve?

Are you still kind of analyzing what kind of investment and affordability you want to make for your customers? And I guess, do you think that removing -- do you think that some more affordable prices could remove the volatility that we're seeing in your comps and maybe insulate you more from the macro pressures that you are seeing?

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

We certainly think that from a customer point of view that they're asking us to do a little bit more to help them, as I said in one of the other questions. The customers are very positive about our assortment and this -- the service they get in stores and the type of stores that they're going into. So there's confidence in that.

The customer is seeing in this challenging environment, we do a little bit more for them. And we're going through a number of tests to try and figure this out. So to that point, I'll pass you on to Nick to just talk a little bit more about what we're thinking about doing, but it's not fixed yet, and we're doing some tests to see where it goes.

Nicholas Konat - *Sprouts Farmers Market Inc - President, Chief Operating Officer*

Kelly, it's Nick. To answer your question, affordability, there's multiple prongs there to get there. I think the biggest one is leaning into our strength and looking at our assortment and the offering we provide to the customer and making some changes. Candidly, I think you could argue, we might have gotten a little bit further on the premium spectrum over the last couple of years on our offering. And there's a lot of innovation and access to our healthy products that are a little bit more on the value side of the equation.

And that's just some good assortment work to make sure we have good balance across our categories and the teams are already working on that as we speak just to give access at every price point to every one of our customers. So that's a big piece of it. As I mentioned, we're seeing that work in things like what we do with our deli meals and bowls program and so on.

You're going to continue to see us stand tall with produce pricing. I think we're in a really good place there, and that strategy will continue. And then as Jack mentioned, I think there are some of the things that we carry that have a little bit of overlap. And the important thing for us is that we're competitive. We're never going to win on price. We're always going to win at assortment and innovation and differentiation.

But there's probably a handful of products that we want to be sure that we're right every day to just continue to maintain our trust. But we've got a lot of levers to pull to help support that. So we don't think we need to make any kind of massive investment to do that, which is what I think you're seeing reflected in our financials.

And obviously, the last piece of this is as we continue to improve our personalization capabilities. It's a great way to drive value for the customer and then the access to the things you're looking for.

Operator

Chuck Cerankosky, Northcoast Research.

Chuck Cerankosky - *Northcoast Research - Managing Director*

When you're looking at the loyalty program, how has the vendor participation been? And I'm looking at as an offset to the strong sign-ups from customers. And is that something that is less than expected? And perhaps, is there any conflict with the vendors as they look to Sprouts' own brands product introductions as part of the loyalty program?

Nicholas Konat - *Sprouts Farmers Market Inc - President, Chief Operating Officer*

Chuck, it's Nick. To be honest with you, we are just starting to unlock vendor participation in the loyalty and personalization program in the beginning of this year. '26 or '25 was focused on launching the capability, building it out, starting to get some -- the data, the testing, the learnings. And this year, it really is a great opportunity for us to start to unlock more value for it.

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And so we're just starting into the fiscal year with getting vendor participation. The good news is this is a win-win for our vendors and for us. Our vendors, especially the emerging players are looking to find their target audience, customers who might fit the key attributes, whether they're in the organic space or a gluten-free space. And so we can provide great access to those customers that are really strong ROI that helps them get trial for their products.

And for us, obviously, certainly introducing these products to our customers who tell us they want newness from us and driving value and long-term value. So we're in the early innings, so to speak, Chuck, on that effort. And I think we'll continue to see ways to unlock value for our vendors and us through the course of this year.

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

Nick, I would probably say that the idea that we're much -- there's no real conflict going on with the vendors about Sprouts brand. It's the opposite of that, Chuck. I think we've got ourselves in a place where we're kind of the place that people want to come to bring innovation and differentiation, and we're working really hard at that.

The foraging team are doing really well. We're launching a lot of products. And we're giving people opportunity and a starting point for their brands. And so as I said, we're not having any cut, it's the exact opposite.

Operator

Scott Marks, Jefferies.

Scott Marks - *Jefferies LLC - Equity Analyst*

I wanted to just follow up on this notion of some pressure on units, some of those comments earlier. Are you seeing maybe more impact on certain categories or departments or even attribute-based items than others? And wondering how that impacts margin mix.

And then obviously, as you work through kind of the ways to create value, how does that inform your thinking about changes across different parts of the store, let's say?

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

We are seeing some differences across different categories. We're referring to coffee and meat where you're seeing significant inflation. You're seeing unit effects in that space. Produce business, I think people being careful with their shrink, buying a little bit less units in our produce business in what has been a volatile pricing environment in produce.

So yes, we're seeing it and watching it pretty closely in terms of how that works. And part of our job is to make sure that we minimize the impact of categories that are seeing a lot of inflation. And we certainly see that as something that -- that's our job to try and take care of our customers when they're saying to us, look, this is costing a lot of money.

So yes, we're seeing different things by different categories. And the unit -- we've got an elasticity model. And if things don't sell as well, we can take a really good look at the pricing. And that's kind of the way we're thinking about it.

Nicholas Konat - *Sprouts Farmers Market Inc - President, Chief Operating Officer*

Scott, the only thing I would just add to your question, I think there's not really any mix pressure based on how the sales are moving. So there's not a pressure on the mix driven by our sales. I think the only other thing I'd add to Jack's comment is, for us, the biggest unit challenge

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is, there's some category piece but just in that less engaged customer. It's the customer we gained last year that are putting less units in the basket for that group is where we're seeing it more so than, say, our core customer.

Operator

John Heinbockel, Guggenheim Securities.

John Heinbockel - *Guggenheim Securities LLC - Equity Analyst*

Jack, so to follow up on that last one. How are your target or core cohorts performing behaviorally, right? And their view on affordability. And then is affordability more an issue is in reality or perception and how you think about maybe altering marketing, the marketing message beyond personalization to address affordability?

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

Well, we're certainly taking a good look at our marketing messaging and being -- focusing in on that. We think there's some real affordability issues rather than it being for the customers. And what we found is our loyalty data has given this really clearly. Those loyal customers to us are spending a little bit more money with us.

It's the less engaged customers that Curtis outlined, I think, in the script, which is specifically, those are the customers that are drifting from us, coming less often and spending a little bit less from us. And the feedback we're getting from them is that's an affordability crisis in terms of -- or the affordability crisis that exists in the marketplace is affecting them more so than our loyal customers.

Operator

Krisztina Katai, Deutsche Bank.

Krisztina Katai - *Deutsche Bank AG - Analyst*

So I wanted to follow up on attribute-based products that continue to perform well for you guys. Can you talk about planned SKU launches for 2026? And then within that, how are you thinking about the price points where you want to add more products or you maybe double down a little bit to further deliver on the value that the customer is looking for?

Or just maybe just talk about how you see the current assortment within the stores. And just to what degree do you think that some of these assortment changes need to happen? I would love to get your thoughts there.

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

Yes. That's a great question. Nick just touched on it, so I'll let Nick expand on how to explain what we're doing there.

Nicholas Konat - *Sprouts Farmers Market Inc - President, Chief Operating Officer*

Krisztina, I think as a starting point, I actually feel really good about our assortment mix across the key health attributes. Think about protein, fiber, grass-fed, gluten-free, organic. I mean, that is who we are is offering breadth and depth across those attributes in not just one part of the assortment in store but all over. So I actually feel we're really well positioned.

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To my earlier comment, I think where we can improve is how do we make sure access to some of those attributes and some of those offerings are available at more price points. And so making sure that you have that at more entry-level price points in our category, the right opportunities for organic and gluten-free I think there's some opportunities for us to get just better balance for where the customer is right now, what they're asking for from us.

So you'll see us spend more time on innovation and launches that continue to have balance and -- but continue to be focused on attributes. We're not going to make any changes and change what we carry. We're going to continue to lean into the health and wellness attributes that help us stand out.

And then to those launches, I mean, you're going to see us continue to launch close to 6,000, 7,000 new items this year. You're going to see us continue to grow Sprouts brand. And as a reminder, Sprouts brand is focused in areas where our customers telling us they want innovation. We're not looking to do a national brand compared to a program. That's not our strategy.

So we'll continue to see hundreds of new items in Sprouts brand, both across our fresh businesses and our nonperishable. And I think you're going to see us also launch even stronger. We're really happy with what's happened with our partnership with the Haymaker product and Tractor and Elevate. And when we really line up behind some of these key brands, we're seeing really outstanding uptake with the customer. And I think you'll see our marketing and merchandising teams double down on some even bigger launches through the year as well.

Operator

Thank you. Ladies and gentlemen. This will conclude our Q&A session, and I will pass it back to Jack Sinclair for closing comments.

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

Yes. Thanks, everybody, for your attention and your interest in working with Sprouts and talking to us today. So I wish you all the very best. Take care.

Operator

And this concludes our conference. Thank you for participating. You may now disconnect.

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