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PRESS RELEASE

Sprouts Farmers Market, Inc. Reports Fourth Quarter and 2018 Results

Company Release - 2/21/2019

PHOENIX, Feb. 21, 2019 (GLOBE NEWSWIRE) -- Sprouts Farmers Market, Inc. (Nasdaq: SFM) today reported results for the 13-week fourth quarter and 52-v 30, 2018.

Fourth Quarter Highlights:

- Net sales of $1.3 billion; an 11% increase from the same period in 2017
- Comparable store sales growth of 2.3% and two-year comparable store sales growth of 6.9%
- Net income of $13 million, compared to $40 million from the same period in 2017
- Adjusted net income[(1)] of $24 million; compared to $21 million from the same period in 2017
- Diluted earnings per share of $0.10; compared to $0.29 from the same period in 2017
- Adjusted diluted earnings per share[(1)] of $0.19; compared to $0.16 from the same period in 2017

Fiscal Year 2018 Highlights:

- Net sales of $5.2 billion; a 12% increase from 2017
- Comparable store sales growth of 2.1% and two-year comparable store sales growth of 5.0%
- Net income of $159 million; compared to $158 million in 2017
- Adjusted net income[(1)] of $168 million; compared to $140 million in 2017
- Diluted earnings per share of $1.22; compared to $1.15 in 2017
- Adjusted diluted earnings per share[(1)] of $1.29; compared to $1.01 in 2017
- Repurchased 11.1 million common shares in fiscal 2018 for a total investment of $258 million

“Sprouts delivered 12% net sales growth for the year in a competitive and evolving industry, demonstrating the strength of our differentiated model and b interim co-chief executive officer and chief financial officer of Sprouts Farmers Market. “Through our solid operating cash flows, we continue to self-fund c strategic initiatives and, in keeping with our capital structure strategy, returned more than $250 million to our shareholders through share repurchases in

“Our focus on health, value, selection and service continues to produce solid financial returns, supporting our ongoing expansion that allows Sprouts to re markets, positioning us well for long-term growth,” said Jim Nielsen, interim co-chief executive officer, president and chief operating officer of Sprouts Far focused on building upon our strategic initiatives in people, systems and product innovation to drive continued enhancements to our experience, reinforc for health and value.”

[1] Adjusted net income and adjusted diluted earnings per share, non-GAAP financial measures, exclude the impact of certain special items. See the “Non-G section of this release for additional information about these items.

Reclassification of Certain Income Statement Items

In the fourth quarter of fiscal 2018, we made a voluntary change to our consolidated statements of income presentation as follows:

- Reclassified occupancy costs and buying costs from cost of sales to selling, general and administrative expenses (“SG&A”);
- Reclassified depreciation and amortization (exclusive of depreciation related to supply chain which continues to be included in cost of sales) to a se item; and
- Combined direct stores expense (“DSE”) and store pre-opening costs with SG&A.

These reclassifications had no impact on sales, income from operations, net income or earnings per share. We made this voluntary change in presentatio exclusion of occupancy and buying costs from cost of sales provides a more meaningful presentation of our gross margin. The changes also enhance the statements with those of many of our industry peers and align with how we internally manage and review costs and margin. These changes in presentatic applied to all periods presented in this earnings release. A table reflecting the effects of the reclassification is included at the end of this release. (see “Rec Statement Items”)

Fourth Quarter 2018 Financial Results

Net sales for the fourth quarter of 2018 were $1.3 billion, an 11% increase compared to the same period in 2017. Net sales growth was driven by a 2.3% ir sales and strong performance in new stores opened.

Gross profit for the quarter increased 11% to $421 million, resulting in a gross profit margin of 33.2%, a decrease of 15 basis points compared to the same primarily driven by promotional activity which slightly pressured margins, as well as rising distribution and transportation costs.

SG&A for the quarter increased 11% to $353 million, or 27.8% of sales, compared to 27.9% in the same period in 2017. This improvement primarily reflect expenses and a payroll tax benefit for California team members, partially offset by planned wage investments and higher occupancy and advertising costs

Depreciation and amortization for the quarter increased 11% to $28 million, or 2.2% of sales, flat compared to the same period in 2017. Store closure and
increased to $12 million compared to $0.1 million in the same period in 2017, related to noncash charges of $8 million associated with the closure of two
severance costs of $4 million associated with the resignation of our former Chief Executive Officer ("CEO").

Net income for the quarter was $13 million and diluted earnings per share was $0.10, compared with $40 million and $0.29, respectively, in 2017. Adjuste
a 16% increase compared to the same period in 2017, and adjusted diluted earnings per share was $0.19, an increase of $0.03 or 19%, as compared to the
increase in adjusted earnings per share was driven by higher sales, a lower effective tax rate, excluding special items, of 26.3% compared to 33.5% in the
fewer shares outstanding due to our repurchase program. (see "Non-GAAP Financial Measures")

Fiscal Year 2018 Financial Results

Net sales for the fiscal year 2018 were $5.2 billion, a 12% increase compared to 2017. Net sales growth was driven by a 2.1% increase in comparable store
performance in new stores opened.

Gross profit for the year increased 12% to $1.7 billion, resulting in a gross profit margin of 33.6%, flat compared to 2017. This primarily reflects the benefit
merchandising strategies offsetting the promotional environment.

SG&A for the year increased 13% to $1.4 billion, or 27.0% of sales, compared to 26.7% in 2017. This deleverage primarily reflects our planned investments
benefits, as well as increased occupancy and advertising costs.

Depreciation and amortization for the year increased 15% to $108 million, or 2.1% of sales, compared to 2.0% in 2017. This primarily reflects higher squar
costs associated with recent new store vintages. Store closure and other costs for the year increased to $12 million compared to $1 million in 2017, relate
million associated with the closure of two stores, as well as one-time severance costs of $4 million associated with the resignation of our former CEO.

Net income for the year was $159 million and diluted earnings per share was $1.22, compared with $158 million and $1.15 respectively, in 2017. Adjusted
a 20% increase compared to 2017 and adjusted diluted earnings per share was $1.29, an increase of $0.28 or 28%, as compared to 2017. The increase in a
was driven by higher sales and margins, a lower effective tax rate, excluding special items, of 19.2% compared to 32.0% in 2017, and fewer shares outstan
program. (see "Non-GAAP Financial Measures")

Growth and Development

During the fourth quarter of 2018, we opened 2 new stores, one each in Florida and Nevada. For fiscal 2018, we opened 30 new stores and closed two sto
313 stores in 19 states as of December 30, 2018.

Leverage and Liquidity

We generated cash from operations of $294 million in fiscal 2018 and invested $154 million in capital expenditures net of landlord reimbursement, prima
we repurchased 11.1 million shares of common stock for a total investment of $258 million in fiscal 2018. We ended the year with a $453 million balance
$27 million of letters of credit outstanding under the facility, $2 million in cash and cash equivalents, and $218 million available under our current share re
Subsequent to the end of the year and through February 18, 2019, we have repurchased 850 thousand shares of common stock for a total investment of

2019 Outlook

The following provides information on our guidance for 2019:

	Full-Year 2019 Current Guidance
Net sales growth	9% to 10.5%
Unit growth	Approximately 28 stor
Comparable store sales growth	1.5% to 3.0%
Diluted earnings per share[2]	$1.16 to $1.24
Effective tax rate	Approximately 26%
Capital expenditures (net of landlord reimbursements)	$170M to $175M

Footnotes

[2] We expect adoption of the new lease accounting standards will result in net incremental noncash rent expense of approximately $7 million pre-tax (or ap
in diluted earnings per share) for 2019.

Fourth Quarter 2018 Conference Call

We will hold a conference call at 8 a.m. Mountain Standard Time (10 a.m. Eastern Standard Time) on Thursday, February 21, 2019, during which Sprouts ex
our fourth quarter and fiscal year 2018 financial results.

A webcast of the conference call will be available through Sprouts' investor webpage located at investors.sprouts.com. Participants should register on the
minutes prior to the start of the webcast.

The conference call will be available via the following dial-in numbers:

- U.S. Participants: 877-398-9481
- International Participants: Dial +1-408-337-0130
- Conference ID: 1398294

The audio replay will remain available for 72 hours and can be accessed by dialing 855-859-2056 (toll-free) or 404-537-3406 (international) and entering th

Important Information Regarding Outlook

There is no guarantee that Sprouts will achieve its projected financial expectations, which are based on management estimates, currently available inform
management believes to be reasonable. These expectations are inherently subject to significant economic, competitive and other uncertainties and cont
beyond the control of management. See "Forward-Looking Statements" below.

Forward-Looking Statements

Certain statements in this press release are forward-looking as defined in the Private Securities Litigation Reform Act of 1995. Any statements contained h
of historical fact (including, but not limited to, statements to the effect that Sprouts Farmers Market or its management "anticipates," "plans," "estimates,"
the negative of these terms and other similar expressions) should be considered forward-looking statements, including, without limitation, statements reg
guidance, outlook, growth and opportunities. These statements involve certain risks and uncertainties that may cause actual results to differ materially fro
of this release. These risks and uncertainties include, without limitation, risks associated with the company's ability to successfully compete in its intensely
company's ability to successfully open new stores; the company's ability to manage its rapid growth; the company's ability to maintain or improve its opera
ability to identify and react to trends in consumer preferences; product supply disruptions; general economic conditions; the company's ability to manage
accounting standard changes including the new lease accounting guidance; and other factors as set forth from time to time in the company's Securities ar
filings, including, without limitation, the company's Annual Report on Form 10-K. The company intends these forward-looking statements to speak only as
does not undertake to update or revise them as more information becomes available, except as required by law.

Corporate Profile

Sprouts Farmers Market, Inc. specializes in fresh, natural and organic products at prices that appeal to everyday grocery shoppers. Based on the belief tha
affordable, Sprouts' welcoming environment and knowledgeable team members continue to drive its growth. Sprouts offers a complete shopping experie
fresh produce in the heart of the store, a deli with prepared entrees and side dishes, The Butcher Shop, The Fish Market, an expansive vitamins and suppl
more. Headquartered in Phoenix, Arizona, Sprouts employs more than 30,000 team members and operates in more than 300 stores in 19 states from coa
about.sprouts.com for more information.

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Thirteen Weeks Ended December 30, 2018	Thirteen Weeks Ended December 31, 2017	Fifty-tw Weeks En December 2018
Net sales	$ 1,269,338	$ 1,143,933	$ 5,2(
Cost of sales	848,369	762,816	3,4!
Gross profit	420,969	381,117	1,7⁴
Selling, general and administrative expenses	352,672	318,686	1,4(
Depreciation and amortization (exclusive of depreciation included in cost of sales)	27,966	25,213	1(
Store closure and other costs	11,579	134	'
Income from operations	28,752	37,084	2:
Interest expense, net	(7,420)	(5,730)	(:
Other income	-	237	
Income before income taxes	21,332	31,591	1!
Income tax (provision) benefit	(8,629)	8,108	(3
Net income	$ 12,703	$ 39,699	$ 1!
Net income per share:			
Basic	$ 0.10	$ 0.30	$
Diluted	$ 0.10	$ 0.29	$
Weighted average shares outstanding:			
Basic	126,574	132,408	1:
Diluted	127,398	134,795	1:

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	December 30, 2018	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,588	$
Accounts receivable, net	40,564	
Inventories	264,366	
Prepaid expenses and other current assets	27,323	
Total current assets	333,841	
Property and equipment, net of accumulated depreciation	766,429	
Intangible assets, net of accumulated amortization	194,803	
Goodwill	368,078	
Other assets	12,463	
Total assets	$ 1,675,614	$
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 253,969	$

Accrued salaries and benefits	48,603	
Current portion of capital and financing lease obligations	7,428	
Total current liabilities	310,000	
Long-term capital and financing lease obligations	119,642	
Long-term debt	453,000	
Other long-term liabilities	153,377	
Deferred income tax liability	50,399	
Total liabilities	1,086,418	
Commitments and contingencies		
Stockholders' equity:		
Undesignated preferred stock; $0.001 par value; 10,000,000 shares authorized, no shares issued and outstanding	—	
Common stock, $0.001 par value; 200,000,000 shares authorized, 124,975,691 shares issued and outstanding, December 30, 2018; 132,823,981 shares issued and outstanding, December 31, 2017	124	
Additional paid-in capital	657,140	
Accumulated other comprehensive income (loss)	1,134	
(Accumulated deficit) retained earnings	(69,202)	
Total stockholders' equity	589,196	
Total liabilities and stockholders' equity	$ 1,675,614	$

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Fifty-two Weeks Ended December 30, 2018	
Cash flows from operating activities		
Net income	$ 158,536	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	110,749	
Amortization of financing fees and debt issuance costs	799	
Loss on disposal of property and equipment	683	
Store closure and other costs	4,115	
Share-based compensation	14,512	
Deferred income taxes	23,333	
Changes in operating assets and liabilities:		
Accounts receivable	(7,666)	
Inventories	(34,824)	
Prepaid expenses and other current assets	(2,908)	
Other assets	(5,086)	
Accounts payable and other accrued liabilities	4,366	
Accrued salaries and benefits	3,039	
Other long-term liabilities	24,731	
Cash flows from operating activities	294,379	
Cash flows used in investing activities		
Purchases of property and equipment	(177,083)	
Proceeds from sale of property and equipment	1	
Cash flows used in investing activities	(177,082)	
Cash flows used in financing activities		
Proceeds from revolving credit facilities	233,000	
Payments on revolving credit facilities	(128,000)	
Payments on capital and financing lease obligations	(4,517)	
Payments of deferred financing costs	(2,131)	
Cash from landlords related to capital and financing lease obligations	3,643	
Repurchase of common stock	(258,307)	
Proceeds from exercise of stock options	21,843	
Other	(59)	
Cash flows used in financing activities	(134,528)	
(Decrease) increase in cash, cash equivalents, and restricted cash	(17,231)	
Cash, cash equivalents, and restricted cash at beginning of the period	19,479	
Cash, cash equivalents, and restricted cash at the end of the period	$ 2,248	$

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- Combined direct stores expense (“DSE”) and store pre-opening costs with SG&A.

These reclassifications had no impact on sales, income from operations, net income or earnings per share. We made this voluntary change in presentatio exclusion of occupancy and buying costs from cost of sales provides a more meaningful presentation of our gross margin. The changes also enhance the statements with those of many of our industry peers and align with how we internally manage and review costs and margin. The following table shows th that have been retrospectively applied to all periods presented in this earnings release.

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(IN THOUSANDS)

	Thirty-nine Weeks Ended September 30, 2018	Thirteen Weeks Ended September 30, 2018	Thirteen Weeks Ended July 1, 2018
As previously reported			
Cost of sales, buying and occupancy	$ 2,788,167	$ 946,742	$ 941,2
Gross profit	1,149,831	382,367	380,4
Gross profit margin	29.2 %	28.8 %	28
Direct store expenses	816,933	281,365	272,9
Selling, general and administrative expenses	128,828	43,944	43,4
Store pre-opening costs	9,414	3,819	2,2
Depreciation and amortization	—	—	
As revised			
Cost of sales	$ 2,611,492	$ 885,693	$ 883,2
Gross profit	1,326,506	443,416	438,4
Gross profit margin	33.7 %	33.4 %	33
Direct store expenses	—	—	
Selling, general and administrative expenses	1,051,771	362,584	350,4
Store pre-opening costs	—	—	
Depreciation and amortization [1]	80,079	27,593	26,3

	Fifty-two Weeks Ended December 31, 2017	Thirteen Weeks Ended December 31, 2017	Thirteen Weeks Ended October 1, 2017	Thirteen Weeks Ended July 2, 2017
As previously reported				
Cost of sales, buying and occupancy	$ 3,314,487	$ 819,489	$ 859,650	$ 841,9
Gross profit	1,350,125	324,444	346,409	341,9
Gross profit margin	28.9 %	28.4 %	28.7 %	28
Direct store expenses	962,894	247,558	250,191	236,0
Selling, general and administrative expenses	148,408	38,096	39,955	38,1
Store pre-opening costs	11,627	1,572	2,456	4,1
Depreciation and amortization	—	—	—	
As revised				
Cost of sales	$ 3,097,582	$ 762,816	$ 803,695	$ 789,0
Gross profit	1,567,030	381,117	402,364	394,9
Gross profit margin	33.6 %	33.3 %	33.4 %	33
Direct store expenses	—	—	—	
Selling, general and administrative expenses	1,245,640	318,686	324,443	308,4
Store pre-opening costs	—	—	—	
Depreciation and amortization [1]	94,194	25,213	24,114	22,9

[1] Exclusive of depreciation included in cost of sales

Non-GAAP Financial Measures

In addition to reporting financial results in accordance with accounting principles generally accepted in the United States (“GAAP”), the company presents adjusted net income and adjusted diluted earnings per share. These measures are not in accordance with, and are not intended as alternatives to, GAAP. believes that this presentation provides useful information to management, analysts and investors regarding certain additional financial and business tre operations and financial condition. In addition, management uses these measures for reviewing the financial results of the company, and certain of these components of incentive compensation.

The company defines EBITDA as net income before interest expense, provision for income tax, and depreciation, amortization and accretion and adjusted the impact of special items. The company defines adjusted net income and adjusted diluted earnings per share by adjusting the applicable GAAP measure special items.

Non-GAAP measures are intended to provide additional information only and do not have any standard meanings prescribed by GAAP. Use of these term measures reported by other companies. Because of their limitations, non-GAAP measures should not be considered as a measure of discretionary cash a the growth of the company's business, or as a measure of cash that will be available to meet the company's obligations. Each non-GAAP measure has its li and you should not consider them in isolation or as a substitute for analysis of the company's results as reported under GAAP.

The following table shows a reconciliation of EBITDA and adjusted EBITDA to net income for the thirteen and fifty-two weeks ended December 30, 2018 ar reconciliation of net income and diluted earnings per share to adjusted net income and adjusted diluted earnings per share for the thirteen and fifty-two 2018 and December 31, 2017:

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES

NON-GAAP MEASURE RECONCILIATION

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Thirteen Weeks Ended December 30, 2018	Thirteen Weeks Ended December 31, 2017	Fifty-two Weeks Ended December 30, 2018
Net income	$ 12,703	$ 39,699	$ 158,5
Income tax provision (benefit) [1]	8,629	(8,108)	37,2
Interest expense, net	7,420	5,729	27,4
Earnings before interest and taxes (EBIT)	28,752	37,320	223,2
Depreciation, amortization and accretion	28,571	25,944	110,7
Earnings before interest, taxes, depreciation and amortization (EBITDA)	$ 57,323	$ 63,264	$ 333,9
Special Items:			
Executive compensation [2]	$ 3,618	$ —	$ 3,6
Store closures [3]	7,961	—	7,9
Total Special Items - pre-tax	11,579	—	11,5
Adjusted EBITDA	$ 68,902	$ 63,264	$ 345,5
Net income	$ 12,703	$ 39,699	$ 158,5
Special Items:			
Executive compensation, net of tax [2]	5,652	—	5,6
Store closures, net of tax [3]	5,921	—	5,9
Adjusted Net income before one-time tax benefits	$ 24,276	$ 39,699	$ 170,1
Income tax benefit related to Tax Act and other one-time tax benefits [4]	—	(18,692)	(2,5
Adjusted Net income	$ 24,276	$ 21,007	$ 167,5
Diluted earnings per share	$ 0.10	$ 0.29	$ 1
Adjusted diluted earnings per share	$ 0.19	$ 0.16	$ 1
Diluted weighted average shares outstanding	127,398	134,795	129,7

(1) Income tax provision (benefit) includes approximately $12 million (or $0.10 per diluted share) during the fifty-two weeks ended December 30, 2018 and diluted share) during the fifty-two weeks ended December 31, 2017, in excess federal and state tax benefits for share-based compensation primarily asso expiring pre-IPO options.

(2) During the thirteen and fifty-two weeks ended December 30, 2018, the company recorded one-time pre-tax compensation charges of $4 million associ the former CEO. The after-tax impact includes incremental tax expense associated with certain nondeductible executive compensation costs.

(3) During the thirteen and fifty-two weeks ended December 30, 2018, in connection with the closure of two stores, the company recorded one-time non-c million primarily related to the estimated fair value of the lease termination obligations and asset impairments. After-tax impact includes the tax benefit o

(4) During the fifty-two weeks ended December 30, 2018, the company adopted a tax calculation method change for the accelerated deduction of certain tax benefit of $3 million. During the thirteen and fifty-two weeks ended December 31, 2017, the company recorded a one-time benefit associated with the Cuts and Jobs Act.

Source: Sprouts Farmers Market, Inc.
Phoenix, AZ
2/21/19

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Source: Sprouts Farmers Market

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