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PRESS RELEASE

Sprouts Farmers Market, Inc. Reports Second Quarter 201

Company Release - 8/1/2019

PHOENIX, Aug. 01, 2019 (GLOBE NEWSWIRE) -- Sprouts Farmers Market, Inc. (Nasdaq: SFM) today reported results for the 13-week second quarter ended J

Second Quarter Highlights:

- Net sales of $1.4 billion; a 7% increase from the same period in 2018
- Comparable store sales growth of 0.1% and two-year comparable store sales growth of 2.1%
- Net income of $35 million, compared to $42 million from the same period in 2018
- Diluted earnings per share of $0.30; compared to $0.32 from the same period in 2018

"We are grateful to have Jack Sinclair join the Sprouts team as our new chief executive officer and are confident his insightful grocery experience makes hi strategically advance Sprouts' unique model and improve its performance as the brand expands its footprint," said Chip Molloy, interim chief financial offi Sprouts Farmers Market.

Second Quarter 2019 Financial Results

Net sales for the second quarter of 2019 were $1.4 billion, a 7% increase compared to the same period in 2018. Net sales growth was driven by strong per opened and a 0.1% increase in comparable store sales.

Gross profit for the quarter increased 6% to $465 million, resulting in a gross profit margin of 32.8%, a decrease of 35 basis points compared to the same primarily driven by product cost inflation not fully reflected in retail pricing and slightly higher distribution and transportation costs.

Selling, general and administrative expenses ("SG&A") for the quarter increased 9% to $383 million, or 27.1% of sales, compared to 26.5% in the same peri basis point impact of the adoption of the new lease accounting standard that went into effect at the beginning of 2019, SG&A deleveraged 20 basis points investments in new stores, increased interchange fees and increased costs associated with the expansion of the company's home delivery program.

Depreciation and amortization for the quarter increased 12% to $30 million, or 2.1% of sales, compared to 2.0% of sales in the same period in 2018.

Net income for the quarter was $35 million and diluted earnings per share was $0.30, compared with $42 million and $0.32, respectively, in 2018. This de impact of the adoption of the new lease accounting standard in 2019 and a challenging sales environment. This was partially offset by fewer shares outsta program.

Fiscal Year-to-Date Financial Results

For the 26-week period ended June 30, 2019, net sales were $2.8 billion, an 8% increase compared to the same period in 2018. Growth was driven by stro opened and a 0.8% increase in comparable store sales. Net income was $92 million compared to $108 million for the same period in 2018. Diluted earnir decrease of $0.06 or 7%, compared to diluted earnings per share of $0.82 for the same period in 2018.

Growth and Development

During the second quarter of 2019, we opened six new stores, including one each in the new states of Louisiana and New Jersey. As we planned, one lease quarter and was not renewed. Five additional stores have been opened in the third quarter to date, resulting in a total of 331 stores in 21 states as of Aug

Leverage and Liquidity

We generated cash from operations of $249 million year-to-date through June 30, 2019 and invested $84 million in capital expenditures net of landlord re new stores. In addition, we repurchased 2.4 million shares of common stock for a total year-to-date investment of $163 million. We ended the quarter wit our revolving credit facility, $27 million of letters of credit outstanding under the facility, $59 million in cash and cash equivalents, and $55 million available repurchase authorization.

2019 Outlook

We have adjusted our 2019 guidance, reflecting our year-to-date performance and our expectation for the remainder of the year. The following provides i for 2019:

	Full-Y Curren
Net sales growth	7%
Unit growth	Approxima
Comparable store sales growth	
Diluted earnings per share [1]	$1.05
Effective tax rate	Approxi
Capital expenditures (net of landlord reimbursements)	$170M

Footnotes

[1] The adoption of the new lease accounting standard will result in net incremental noncash rent expense of approximately $7 million pre-tax (or approxi diluted earnings per share) for 2019.

Second Quarter 2019 Conference Call

We will hold a conference call at 7 a.m. Pacific Daylight Time (10 a.m. Eastern Daylight Time) on Thursday, August 1, 2019, during which Sprouts executives second quarter 2019 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: 9091469

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 oper ability to identify and react to trends in consumer preferences; product supply disruptions; general economic conditions; the company's ability to manage and a new CFO; accounting standard changes including the new lease accounting guidance; and other factors as set forth from time to time in the compar Commission filings, including, without limitation, the company's Annual Report on Form 10-K. The company intends these forward-looking statements to s this release and 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 325 stores in 21 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 June 30, 2019	Thirteen weeks ended July 1, 2018	Twenty-six weeks ended June 30, 201
Net sales	$ 1,415,736	$ 1,321,693	$ 2,82
Cost of sales	950,954	883,212	1,88
Gross profit	464,782	438,481	94
Selling, general and administrative expenses	383,116	350,413	75
Depreciation and amortization (exclusive of depreciation included in cost of sales)	29,565	26,341	5
Store closure and other costs	769	26	1
Income from operations	51,332	61,701	13
Interest expense, net	(5,438)	(6,544)	(1
Other income	—	117	
Income before income taxes	45,894	55,274	12
Income tax provision	(10,551)	(13,565)	(2
Net income	$ 35,343	$ 41,709	$ 9
Net income per share:			
Basic	$ 0.30	$ 0.32	$
Diluted	$ 0.30	$ 0.32	$
Weighted average shares outstanding:			
Basic	118,251	129,423	12
Diluted	118,436	130,012	12

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

	June 30, 2019

ASSETS		
Current assets:		
Cash and cash equivalents	$	58,639
Accounts receivable, net		13,170
Inventories		269,463
Prepaid expenses and other current assets		38,776
Total current assets		380,048
Property and equipment, net of accumulated depreciation		728,441
Operating lease assets		1,018,301
Intangible assets, net of accumulated amortization		185,485
Goodwill		368,078
Other assets		12,138
Total assets	$	2,692,491
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	$	331,299
Accrued salaries and benefits		41,996
Current portion of capital and financing lease obligations		—
Current portion of operating lease liabilities		75,700
Current portion of finance lease obligations		610
Total current liabilities		449,605
Long-term capital and financing lease obligations		—
Long-term operating lease liabilities		1,078,513
Long-term debt and finance lease liabilities		526,861
Other long-term liabilities		40,601
Deferred income tax liability		65,262
Total liabilities		2,160,842
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, 120,436,879 shares issued and outstanding, March 31, 2019; 124,975,691 shares issued and outstanding, December 30, 2018		118
Additional paid-in capital		665,454
Accumulated other comprehensive (loss) income		(4,579)
Accumulated deficit		(129,344)
Total stockholders' equity		531,649
Total liabilities and stockholders' equity	$	2,692,491

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Twenty-six weeks ended June 30, 2019
Cash flows from operating activities	
Net income	$ 91,735
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization expense	60,211
Operating lease asset amortization	40,477
Store closure and other costs	824
Share-based compensation	4,191
Deferred income taxes	10,691
Other non-cash items	32
Changes in operating assets and liabilities:	
Accounts receivable	20,378
Inventories	(5,096)
Prepaid expenses and other current assets	(9,644)
Other assets	(451)
Accounts payable and other accrued liabilities	86,007
Accrued salaries and benefits	(6,288)
Operating lease liabilities	(40,297)
Other long-term liabilities	(3,585)
Cash flows from operating activities	249,185
Cash flows used in investing activities	
Purchases of property and equipment	(93,414)

Cash flows used in investing activities		(93,414)
Cash flows used in financing activities		
Proceeds from revolving credit facilities		122,860
Payments on revolving credit facilities		(60,860)
Payments on capital and financing lease obligations		—
Payments on finance lease obligations		(325)
Payments of deferred financing costs		—
Cash from landlords related to capital and financing lease obligations		—
Repurchase of common stock		(163,310)
Proceeds from exercise of stock options		4,118
Other		(319)
Cash flows used in financing activities		(97,836)
Increase in cash, cash equivalents, and restricted cash		57,935
Cash, cash equivalents, and restricted cash at beginning of the period		2,248
Cash, cash equivalents, and restricted cash at the end of the period	$	60,183

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. Prior years amounts have be change. Updated financials for the five years prior have been posted on investors.sprouts.com.

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 twenty-six weeks ended June 30, 2019 and Ju of net income and diluted earnings per share to adjusted net income and adjusted diluted earnings per share for the thirteen and twenty-six weeks ende 2018:

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES
NON-GAAP MEASURE RECONCILIATION
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Thirteen weeks ended June 30, 2019	Thirteen weeks ended July 1, 2018	Twenty-six weeks ende June 30, 201
Net income	$ 35,343	$ 41,709	$ 91
Income tax provision [1]	10,551	13,565	28
Interest expense, net	5,438	6,540	10
Earnings before interest and taxes (EBIT)	51,332	61,814	130
Depreciation, amortization and accretion	30,139	27,087	60
Earnings before interest, taxes, depreciation and amortization (EBITDA)	$ 81,471	$ 88,901	$ 191
Special Items:			
Store closures [2]	—	—	
Total Special Items - pre-tax	—	—	
Adjusted EBITDA	$ 81,471	$ 88,901	$ 191
Net income	$ 35,343	$ 41,709	$ 91
Special Items:			

Store closures, net of tax [2]	—	—	
Adjusted Net income	$ 35,343	$ 41,709	$ 92
Diluted earnings per share	$ 0.30	$ 0.32	$
Adjusted diluted earnings per share	$ 0.30	$ 0.32	$
Diluted weighted average shares outstanding	118,436	130,012	121

(1) Income tax provision includes approximately an $11 million (or $0.08 per diluted share) benefit during the twenty-six weeks ended July 1, 2018 in exces share based compensation primarily associated with the exercise of expiring pre-IPO options.
(2) Special items include the direct costs associated with store closures or relocations. After-tax impact includes the tax benefit on the pre-tax charge.

Source: Sprouts Farmers Market, Inc.

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Source: Sprouts Farmers Market

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