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PRESS RELEASE

Sprouts Farmers Market, Inc. Reports Third Quarter 2019 F

Company Release - 10/30/2019

PHOENIX, Oct. 30, 2019 (GLOBE NEWSWIRE) -- Sprouts Farmers Market, Inc. (Nasdaq: SFM) today reported results for the 13-week third quarter ended Sep

Third Quarter Highlights:

- Net sales of $1.4 billion; an 8% increase from the same period in 2018
- Comparable store sales growth of 1.5% and two-year comparable store sales growth of 3.0%
- Net income of $26 million, compared to $38 million from the same period in 2018
- Diluted and adjusted diluted earnings per share of $0.22; compared to diluted earnings per share of $0.29 and adjusted diluted earnings per share 2018
- Increased EPS guidance for 2019

“Reflecting on my first 100 days at Sprouts, I am even more privileged to be part of this unique brand and excited about the opportunities that lie ahead,” executive officer of Sprouts Farmers Market. “While we are in the early stages of assessing our strategy for long-term growth and value creation, I am enc from the team and their dedication to improve the performance of the business.”

Third Quarter 2019 Financial Results

Net sales for the third quarter of 2019 were $1.4 billion, an 8% increase compared to the same period in 2018. Net sales growth was driven by strong perf opened and a 1.5% increase in comparable store sales.

Gross profit for the quarter increased 8% to $477 million, resulting in a gross profit margin of 33.1%, a decrease of 25 basis points compared to the same primarily driven by increased distribution and transportation costs, along with sharper promotions early in the quarter, which was partially offset by our e promotional mix in the back half.

Selling, general and administrative expenses (“SG&A”) for the quarter increased 12% to $404 million, or 28.1% of sales, compared to 27.3% in the same pe points of this deleverage was due to the adoption of the new lease accounting standard. The remaining deleverage was due to investments in new stores, delivery program and higher healthcare costs.

Depreciation and amortization for the quarter increased 12% to $31 million, or 2.1% of sales, an increase of five basis points as compared to the same per

Store closure and other costs for the quarter increased to $2 million compared to $0.5 million in the same period in 2018, related to executive severance a

Net income for the quarter was $26 million compared to $38 million for the same period in 2018. Diluted and adjusted diluted earnings per share was $0. earnings per share $0.29 and adjusted diluted earnings per share of $0.27, for the same period in 2018. This decrease was driven primarily by the delever impact of the adoption of the new lease accounting standard in 2019. This was partially offset by fewer shares outstanding due to our repurchase prograr

Fiscal Year-to-Date Financial Results

For the 39-week period ended September 29, 2019, net sales were $4.3 billion, an 8% increase compared to the same period in 2018. Growth was driven b stores opened and a 1.0% increase in comparable store sales. Net income was $118 million compared to $146 million for the same period in 2018. Dilute earnings per share was $0.98, compared to diluted earnings per share of $1.12 and adjusted diluted earnings per share of $1.10 for the same period in 20

Growth and Development

During the third quarter of 2019, we opened 9 new stores resulting in a total of 335 stores in 21 states.

Leverage and Liquidity

We generated cash from operations of $323 million year-to-date through September 29, 2019 and invested $130 million in capital expenditures net of lan primarily for new stores. We ended the quarter with a $515 million balance on our revolving credit facility, $27 million of letters of credit outstanding unde cash and cash equivalents, and $55 million available under our current share repurchase authorization.

Q4 2019 Outlook

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

	Q4 2019 Guidance	Full
Net sales growth	6.5% to 7.5%	
Comparable store sales growth	0 to 1%	
Diluted earnings per share [1]	$0.12 to $0.15	
Effective tax rate	--	A
Capital expenditures (net of landlord reimbursements)	--	

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 approxim diluted earnings per share) for 2019.

Third Quarter 2019 Conference Call

We will hold a conference call at 2 p.m. Pacific Daylight Time (5 p.m. Eastern Daylight Time) on Wednesday, October 30, 2019, during which Sprouts execut third 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: +1-408-337-0130
- Conference ID: 3477067

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 growth; the company's ability to maintain or improve its operating r to identify and react to trends in consumer preferences; product supply disruptions; general economic conditions; the company's ability to manage its tra new CFO; accounting standard changes including the new lease accounting guidance; and other factors as set forth from time to time in the company's Se 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., one the fastest-growing retailers in the country, has made healthy living accessible to shoppers for nearly two decades by o natural and organic products. True to its farmers market heritage, Sprouts is known for pioneering its unique grocery model by offering a welcoming store produce at the center of the store, an expansive bulk foods section, and a vitamin department focused on overall wellness. Sprouts also offers a unique a products with special attributes, such as plant-based, gluten-free, keto-friendly, and grass-fed, to meet the growing and diverse needs of today's consume Ariz., Sprouts employs more than 30,000 team members and operates approximately 340 stores in 22 states from coast to coast. Visit https://about.sprou

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

	Thirteen weeks ended		T
	September 29, 2019	September 30, 2018	Septem 20
Net sales	$ 1,440,222	$ 1,329,109	$ 4
Cost of sales	963,497	885,693	2
Gross profit	476,725	443,416	1
Selling, general and administrative expenses	404,285	362,584	1
Depreciation and amortization (exclusive of depreciation included in cost of sales)	30,764	27,593	
Store closure and other costs	2,119	461	
Income from operations	39,557	52,778	
Interest expense, net	(5,557)	(7,411)	
Other income	—	-	
Income before income taxes	34,000	45,367	
Income tax provision	(7,740)	(7,867)	
Net income	$ 26,260	$ 37,500	$
Net income per share:			
Basic	$ 0.22	$ 0.30	$
Diluted	$ 0.22	$ 0.29	$
Weighted average shares outstanding:			
Basic	118,029	126,855	
Diluted	118,174	127,627	

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

	September 29, 2
ASSETS	
Current assets:	
Cash and cash equivalents	$ 79
Accounts receivable, net	14
Inventories	285
Prepaid expenses and other current assets	32
Total current assets	411
Property and equipment, net of accumulated depreciation	742
Operating lease assets	1,045
Intangible assets, net of accumulated amortization	185
Goodwill	368
Other assets	12
Total assets	$ 2,764
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 184
Accrued liabilities	158
Accrued salaries and benefits	44
Current portion of capital and financing lease obligations	
Current portion of operating lease liabilities	84
Current portion of finance lease obligations	
Total current liabilities	472
Long-term capital and financing lease obligations	
Long-term operating lease liabilities	1,107
Long-term debt and finance lease liabilities	526
Other long-term liabilities	43
Deferred income tax liability	54
Total liabilities	2,204
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, 118,138,870 shares issued and outstanding, September 29, 2019; 124,975,691 shares issued and outstanding, December 30, 2018	
Additional paid-in capital	668
Accumulated other comprehensive (loss) income	(5
Accumulated deficit	(103
Total stockholders' equity	559
Total liabilities and stockholders' equity	$ 2,764

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

	Thirty-n September 29, 2019
Cash flows from operating activities	
Net income	$ 117,9
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization expense	91,5
Operating lease asset amortization	62,2
Store closure and other costs	8
Share-based compensation	6,9
Deferred income taxes	(2
Other non-cash items	(2,8
Changes in operating assets and liabilities:	
Accounts receivable	28,9
Inventories	(21,3
Prepaid expenses and other current assets	(2,3
Other assets	(7
Accounts payable and other accrued liabilities	100,6
Accrued salaries and benefits	(4,0
Operating lease liabilities	(52,2
Other long-term liabilities	(2,0
Cash flows from operating activities	323,3
Cash flows used in investing activities	

Purchases of property and equipment	(146,4
Cash flows used in investing activities	(146,4
Cash flows used in financing activities	
Proceeds from revolving credit facilities	187,4
Payments on revolving credit facilities	(125,4
Payments on capital and financing lease obligations	
Payments on finance lease obligations	(5
Payments of deferred financing costs	
Cash from landlords related to capital and financing lease obligations	
Repurchase of common stock	(163,3
Proceeds from exercise of stock options	4,4
Other	(3
Cash flows used in financing activities	(97,6
Increase in cash, cash equivalents, and restricted cash	79,1
Cash, cash equivalents, and restricted cash at beginning of the period	2,2
Cash, cash equivalents, and restricted cash at the end of the period	$ 81,3

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 thirty-nine weeks ended September 29, 201 a reconciliation of net income and diluted earnings per share to adjusted net income and adjusted diluted earnings per share for the thirteen and thirty-n 29, 2019 and September 30, 2018:

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

	Thirteen weeks ended		Thirty-n
	September 29, 2019	September 30, 2018	September 29, 2019
Net income	$ 26,260	$ 37,500	$ 117,9
Income tax provision [1]	7,740	7,867	36,4
Interest expense, net	5,557	7,411	15,9
Earnings before interest and taxes (EBIT)	39,557	52,778	170,4
Depreciation, amortization and accretion	31,335	28,202	91,5
Earnings before interest, taxes, depreciation and amortization (EBITDA)	$ 70,892	$ 80,980	$ 261,9
Special Items:			
Store closures [2]	—	—	5
Total Special Items - pre-tax	—	—	5
Adjusted EBITDA	$ 70,892	$ 80,980	$ 262,4

Net income	$ 26,260	$ 37,500	$ 117,9
Special Items:			
Store closures, net of tax [2]	—	—	3
One time tax benefit [3]	—	(2,573)	
Adjusted Net income	$ 26,260	$ 34,927	$ 118,3
Diluted earnings per share	$ 0.22	$ 0.29	$ 0
Adjusted diluted earnings per share	$ 0.22	$ 0.27	$ 0
Diluted weighted average shares outstanding	118,174	127,627	120,2

(1) Income tax provision includes approximately a $12 million (or $0.09 per diluted share) benefit during the thirty-nine weeks ended September 30, 2018 for 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.

(3) During the quarter ended September 30, 2018, the Company adopted a tax calculation method change for the accelerated deduction of certain items, benefit of $3 million that was recognized in the third quarter of 2018.

Source: Sprouts Farmers Market, Inc.
Phoenix, AZ
10/30/2019

Investor Contact:
Susannah Livingston
(602) 682-1584
susannahlivingston@sprouts.com

Media Contact:
Diego Romero
(602) 682-3173
media@sprouts.com

Source: Sprouts Farmers Market

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