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PRESS RELEASE

Sprouts Farmers Market, Inc. Reports Second Quarter 202 and July Update

Company Release - 7/29/2020

PHOENIX, July 29, 2020 (GLOBE NEWSWIRE) -- Sprouts Farmers Market, Inc. (Nasdaq: SFM) today reported results for the 13-week second quarter ended Ju July results.

Second Quarter Highlights:

- Net sales of $1.6 billion; a 16% increase from the same period in 2019
- Comparable store sales growth of 9.1% and two-year comparable store sales growth of 9.2%
- Net income of $67 million and adjusted net income[(1)] of $70 million; compared to net income and adjusted net income of $35 million from the sam
- Diluted earnings per share of $0.57 and adjusted diluted earnings per share[(1)] of $0.59; compared to $0.30 diluted and adjusted diluted earnings pe in 2019

"I am proud of how our Sprouts team members have navigated these unprecedented circumstances we live in today. Our culture rooted in respect, inclus another has shone through in everything our team members do for our customers and for each other," said Jack Sinclair, chief executive officer of Sprouts second quarter performance was driven by the strategic changes we have begun to implement across our business and the continued positive impact on pandemic. As we head into the second half of the year, our early strategic wins give me confidence in our long-term direction, and our team members' de continue to provide our communities and customers healthy food for their families."

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[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.

Second Quarter 2020 Financial Results

Net sales for the second quarter of 2020 were $1.6 billion, a 16% increase compared to the same period in 2019. Net sales growth was driven by continue pandemic, contributing to a 9.1% increase in comparable store sales and strong performance in new stores opened.

Gross profit for the quarter increased 32% to $613 million, resulting in a gross profit margin of 37.3%, an increase of 450 basis points compared to the sar increase was driven by strategic changes in our promotional activities, partially accelerated by the COVID-19 environment, coupled with cycling deep prom well as outsized shrink improvement from operational efficiencies and positive leverage from additional sales.

Selling, general and administrative expenses ("SG&A") for the quarter increased $106 million to $489 million, or 29.8% of sales, a deleverage of 270 basis p period in 2019. Increased team member bonuses and higher store operational expenses predominately driven by COVID-19, as well as incremental ecomı offset by lower marketing expense due to a shift from print to more digital spend. Increased costs from COVID-19 were approximately $47 million for the

Depreciation and amortization for the quarter increased 3% to $31 million, or 1.9% of sales, a decrease of 20 basis points compared to the same period in

Store closure and other costs, net for the quarter were $0.5 million compared to $0.8 million in the same period of 2019.

Net income for the quarter was $67 million and diluted earnings per share ("EPS") was $0.57, compared with $35 million and $0.30, respectively, in 2019. E items, adjusted net income was $70 million and adjusted diluted EPS was $0.59; an increase of 97% from the same period in 2019 (see "Non-GAAP Financi

Unit Growth and Development

During the second quarter of 2020, Sprouts opened 6 new stores, resulting in a total of 350 stores in 23 states as of June 28, 2020.

Leverage and Liquidity

Sprouts generated cash from operations of $393 million year-to-date through June 28, 2020 and invested $48 million in capital expenditures net of landlo for new stores. Sprouts ended the quarter with $451 million in loans and $34 million of letters of credit outstanding under its revolving credit facility, and equivalents. Subsequent to the end of the second quarter, we paid down $76 million of our revolving credit facility.

Update on Current Performance and 2020 Outlook

As customers continue to consume much of their food at home due to the COVID-19 pandemic, grocery spend and ecommerce penetration have remaine month of July, our comparable store sales are estimated to increase approximately 9% compared to the same period last year, and ecommerce sales are approximately 11% of our net sales.

"The trajectory of the COVID-19 situation remains uncertain, clouding the impact to the food retail industry over the coming quarters," said Denise Paulon Sprouts Farmers Market. "While our sales continue at elevated levels, so do additional costs associated with our team members and stores. Predicting spe difficult, and accordingly we are not stating a new outlook range. We remain confident in the financial strength of our business and our new long-term gr quarter."

Second Quarter 2020 Conference Call

Sprouts will hold a conference call at 2 p.m. Pacific Daylight Time (5 p.m. Eastern Daylight Time) on Wednesday, July 29, 2020, during which Sprouts execut second quarter 2020 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: 888-869-1189
- International Participants: 706-643-5902
- Conference ID: 9096884

Investors dialing by phone are encouraged to pre-register for the conference call using the following link: http://www.directeventreg.com/registration/eve register will be given a phone number and unique PIN to bypass the live operator and gain immediate access to the call. Participants may pre-register at a after the call start time.

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, opportunities and long-term strategy. These statements involve certain risks and uncertainties that may cause actual results to expectations as of the date of this release. These risks and uncertainties include, without limitation, risks associated with the impact of the COVID-19 panc execute on its long-term strategy; the company’s ability to successfully compete in its intensely competitive industry; the company’s ability to successfully company’s ability to manage its growth; the company’s ability to maintain or improve its operating margins; the company’s ability to identify and react to t preferences; product supply disruptions; general economic conditions; accounting standard changes; and other factors as set forth from time to time in th Exchange Commission filings, including, without limitation, the company’s Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. The compan looking statements to speak only as of the time of this release and does not undertake to update or revise them as more information becomes available,

Corporate Profile

Sprouts Farmers Market, Inc., one of the fastest-growing retailers in the country, has made healthy living accessible to shoppers for nearly two decades by 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 35,000 team members and operates more than 350 stores in 23 states from coast to coast. Visit about.sprouts.com for

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

	Thirteen Weeks Ended June 28, 2020	Thirteen Weeks Ended June 30, 2019	Twenty-six Weeks Ended June 28, 2020
Net sales	$ 1,642,788	$ 1,415,736	$ 3,289
Cost of sales	1,030,129	950,954	2,082
Gross profit	612,659	464,782	1,206
Selling, general and administrative expenses	488,877	383,116	925
Depreciation and amortization (exclusive of depreciation included in cost of sales)	30,549	29,565	61
Store closure and other costs, net	470	769	
Income from operations	92,763	51,332	220
Interest expense, net	3,737	5,438	8
Income before income taxes	89,026	45,894	211
Income tax provision	22,024	10,551	52
Net income	$ 67,002	$ 35,343	$ 158
Net income per share:			
Basic	$ 0.57	$ 0.30	$
Diluted	$ 0.57	$ 0.30	$
Weighted average shares outstanding:			
Basic	117,832	118,251	117
Diluted	118,189	118,436	117

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	June 28, 2020
ASSETS	
Current assets:	
Cash and cash equivalents	$ 328,11
Accounts receivable, net	14,74
Inventories	255,35
Prepaid expenses and other current assets	14,64
Total current assets	612,85
Property and equipment, net of accumulated depreciation	740,07
Operating lease assets, net	1,041,70
Intangible assets, net of accumulated amortization	184,96
Goodwill	368,87
Other assets	14,71
Total assets	$ 2,963,18
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 168,83
Accrued liabilities	155,53
Accrued salaries and benefits	75,83
Accrued income tax	49,23
Current portion of operating lease liabilities	122,40
Current portion of finance lease liabilities	91
Total current liabilities	572,75
Long-term operating lease liabilities	1,082,71
Long-term debt and finance lease liabilities	461,94
Other long-term liabilities	47,34
Deferred income tax liability	55,14
Total liabilities	2,219,91
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, 117,944,450 shares issued and outstanding, June 28, 2020; 117,543,668 shares issued and outstanding, December 29, 2019	11
Additional paid-in capital	679,03
Accumulated other comprehensive income (loss)	(10,23
Retained earnings (Accumulated deficit)	74,36
Total stockholders' equity	743,27
Total liabilities and stockholders' equity	$ 2,963,18

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

	Twenty-six Weeks Ended June 28, 2020
Cash flows from operating activities	
Net income	$ 158,81
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization expense	62,92
Operating lease asset amortization	47,07
Store closure and other costs, net	(32
Share-based compensation	6,72
Deferred income taxes	78
Other non-cash items	1,28
Changes in operating assets and liabilities:	
Accounts receivable	14,42
Inventories	20,62
Prepaid expenses and other current assets	(8,31
Other assets	(1,87
Accounts payable	46,55
Accrued liabilities	18,24
Accrued salaries and benefits	27,25
Accrued income tax	47,23
Operating lease liabilities	(52,06

Other long-term liabilities	3,97(
Cash flows from operating activities	393,34
Cash flows used in investing activities	
Purchases of property and equipment	(64,57
Cash flows used in investing activities	(64,57
Cash flows used in financing activities	
Proceeds from revolving credit facilities	–
Payments on revolving credit facilities	(87,00(
Payments on finance lease obligations	(31
Repurchase of common stock	–
Proceeds from exercise of stock options	1,34
Other	–
Cash flows used in financing activities	(85,96
Increase in cash, cash equivalents, and restricted cash	242,80
Cash, cash equivalents, and restricted cash at beginning of the period	86,78
Cash, cash equivalents, and restricted cash at the end of the period	$ 329,59

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 EBIT, adjusted net income and adjusted diluted earnings per share. These measures are not in accordance with, and are not intended as alternat management believes that this presentation provides useful information to management, analysts and investors regarding certain additional financial and its results of operations and financial condition. In addition, management uses these measures for reviewing the financial results of the company, and cer be used as 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 EBIT, adjusted net income and adjusted diluted earnings per share by adjusting the applicable impact of 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 terms measures reported by other companies. Because of their limitations, non-GAAP measures should not be considered as a measure of discretionary cash av 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 adjusted EBITDA to net income for the thirteen and twenty-six weeks ended June 28, 2020 and June 30, 2019 net income and diluted earnings per share to adjusted EBIT, adjusted net income and adjusted diluted earnings per share for the thirteen and twenty-six and June 30, 2019:

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

	Thirteen Weeks Ended June 28, 2020	Thirteen Weeks Ended June 30, 2019	Twenty-six Weeks Ended June 28, 2020
Net income	$ 67,002	$ 35,343	$ 158,81
Income tax provision	22,024	10,551	52,97(
Interest expense, net	3,737	5,438	8,56
Earnings before interest and taxes (EBIT)	92,763	51,332	220,35
Special items:			
Strategic initiatives [1]	3,417	—	4,61
Store closures [2]	—	—	–
Adjusted EBIT	96,180	51,332	224,96
Depreciation, amortization and accretion	31,181	30,139	62,78
Adjusted EBITDA	$ 127,361	$ 81,471	$ 287,75(
Net income	$ 67,002	$ 35,343	$ 158,81
Special Items:			
Strategic initiatives, net of tax [1]	2,539	—	3,43
Store closures, net of tax [2]	—	—	–
Adjusted Net income	$ 69,541	$ 35,343	$ 162,24
Diluted earnings per share	$ 0.57	$ 0.30	$ 1.3
Adjusted diluted earnings per share	$ 0.59	$ 0.30	$ 1.3
Diluted weighted average shares outstanding	118,189	118,436	117,97

1. Includes professional fees related to our ongoing strategic initiatives. After-tax impact includes the tax benefit on the pre-tax charge.
2. Includes the direct costs associated with store closures and relocation. After-tax impact includes the tax benefit on the pre-tax charge.

Source: Sprouts Farmers Market, Inc.
Phoenix, AZ
7/29/20

Source: Sprouts Farmers Market

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