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PRESS RELEASE

Sprouts Farmers Market, Inc. Reports Third Quarter 2020 F

Company Release - 10/28/2020

PHOENIX, Oct. 28, 2020 (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 $1.6 billion; a 9.5% increase from the same period in 2019
- Comparable store sales growth of 4.2% and two-year comparable store sales growth of 5.7%
- Net income of $60 million and adjusted net income[(1)] of $62 million; compared to net income and adjusted net income of $26 million from the same
- Diluted earnings per share of $0.51 and adjusted diluted earnings per share[(1)] of $0.52; compared to $0.22 diluted and adjusted diluted earnings pe in 2019

“Sprouts continues to prioritize the wellbeing of our team members and customers through our safe store operations and the wholesome foods we offer, executive officer of Sprouts Farmers Market. “Our strong financial performance in the third quarter was driven by our curation of healthy offerings, couple changes. With each passing quarter, the progression of our strategy strengthens our conviction in our long-term growth and our ability to provide excepti come.”

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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-(section of this release for additional information about these items.

Third Quarter 2020 Financial Results

Net sales for the third quarter of 2020 were $1.6 billion, a 9.5% increase compared to the same period in 2019. Net sales growth was driven by continued pandemic, contributing to a 4.2% increase in comparable store sales and strong performance in new stores opened.

Gross profit for the quarter increased 23% to $585 million, resulting in a gross profit margin of 37.1%, an increase of 400 basis points compared to the sar of sustainable strategic changes contributed to this increase, from promotional activities to shrink initiatives, partially accelerated by the COVID-19 landsc leverage from additional sales.

Selling, general and administrative expenses (“SG&A”) for the quarter increased $71 million to $475 million, or 30.1% of sales, a deleverage of 200 basis pc period in 2019. Increased team member bonuses and store operational expenses from COVID-19 were approximately $34 million for the third quarter, dr Additionally, with our elevated ecommerce sales, we realized increased ecommerce fees, which were offset by other efficiencies and leveraging fixed cost

Depreciation and amortization for the quarter increased 1.0% to $31 million, or 2.0% of sales, a decrease of 10 basis points compared to the same period

Store closure and other costs, net for the quarter were $0.3 million compared to $2.1 million in the same period of 2019.

Net income for the quarter was $60 million and diluted earnings per share (“EPS”) was $0.51, compared with $26 million and $0.22, respectively, in 2019. E items, adjusted net income was $62 million and adjusted diluted EPS was $0.52; an increase of 136% from the same period in 2019 (see “Non-GAAP Finan

Unit Growth and Development

During the third quarter of 2020, Sprouts opened six new stores, resulting in a total of 356 stores in 23 states as of September 27, 2020.

Leverage and Liquidity

Sprouts generated cash from operations of $410 million year-to-date through September 27, 2020 and invested $76 million in capital expenditures net of primarily for new stores. After paying down $176 million of outstanding debt, Sprouts ended the quarter with $275 million in loans and $34 million of lette its revolving credit facility, and $138 million in cash and cash equivalents.

Fourth Quarter 2020 and Full Year 2021 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 additional company expenses. For the fourth quarter we expect our comparable store sales to be in the low single digits and inclusive of the 53rd week, a between $0.36 to $0.40, which translates into a full-year adjusted diluted EPS range of $2.26 to $2.30, on a 53-week basis.

“We remain confident in executing our long-term unit growth plans, winning with our target customer, maintaining our strong balance sheet and deliverin returns,” said Denise Paulonis, chief financial officer of Sprouts Farmers Market. “As we build out our 2021 plans, we are more focused than ever on maint have captured in 2020, giving us confidence that our earnings before interest and taxes in 2021 will be in the range of $285 to $305 million.”

Third 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, October 28, 2020, during which Sprouts e third 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: 877-398-9481
- International Participants: +1-408-337-0130

- Conference ID: 5589871

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 is the place where goodness grows. True to its farm-stand heritage, Sprouts offers a unique grocery experience featuring an open layout with fres store. Sprouts inspires wellness naturally with a carefully curated assortment of better-for-you products paired with purpose-driven people. The healthy gr latest in wholesome, innovative products made with lifestyle-friendly ingredients such as organic, plant-based and gluten-free. Headquartered in Phoenix, growing retailers in the country, Sprouts employs approximately 35,000 team members and operates more than 350 stores in 23 states nationwide. To lea the good it brings communities, visit about.sprouts.com.

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

	Thirteen Weeks Ended September 27, 2020	Thirteen Weeks Ended September 29, 2019	Thirty-nine Weeks Ended September 27, 2020
Net sales	$ 1,577,598	$ 1,440,222	$ 4,866,92
Cost of sales	992,829	963,497	3,075,66
Gross profit	584,769	476,725	1,791,26
Selling, general and administrative expenses	475,053	404,285	1,400,23
Depreciation and amortization (exclusive of depreciation included in cost of sales)	31,067	30,764	92,63
Store closure and other costs, net	268	2,119	(34
Income from operations	78,381	39,557	298,73
Interest expense, net	3,117	5,557	11,68
Income before income taxes	75,264	34,000	287,05
Income tax provision	15,023	7,740	67,99
Net income	$ 60,241	$ 26,260	$ 219,05
Net income per share:			
Basic	$ 0.51	$ 0.22	$ 1.8
Diluted	$ 0.51	$ 0.22	$ 1.8
Weighted average shares outstanding:			
Basic	117,947	118,029	117,77
Diluted	118,450	118,174	118,15

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

	September 27, 2020
ASSETS	
Current assets:	
Cash and cash equivalents	$ 137,51

Accounts receivable, net		24,25
Inventories		257,25
Prepaid expenses and other current assets		18,94
Total current assets		437,97
Property and equipment, net of accumulated depreciation		735,67
Operating lease assets, net		1,040,32
Intangible assets, net of accumulated amortization		184,96
Goodwill		368,87
Other assets		14,40
Total assets	$	2,782,22
LIABILITIES AND STOCKHOLDERS ' EQUITY		
Current liabilities:		
Accounts payable	$	163,25
Accrued liabilities		138,99
Accrued salaries and benefits		72,15
Accrued income tax		4,08
Current portion of operating lease liabilities		130,08
Current portion of finance lease liabilities		99
Total current liabilities		509,58
Long-term operating lease liabilities		1,074,26
Long-term debt and finance lease liabilities		285,70
Other long-term liabilities		50,14
Deferred income tax liability		54,58
Total liabilities		1,974,27
Commitments and contingencies (Note 6)		
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, 117,950,276 shares issued and outstanding, September 27, 2020; 117,543,668 shares issued and outstanding, December 29, 2019		11
Additional paid-in capital		682,70
Accumulated other comprehensive income (loss)		(9,48
Retained earnings (Accumulated deficit)		134,60
Total stockholders' equity		807,94
Total liabilities and stockholders' equity	$	2,782,22

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

	Thirty-nine Weeks Ended September 27, 2020
Cash flows from operating activities	
Net income	$ 219,05
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization expense	94,74
Operating lease asset amortization	71,76
Store closure and other costs, net	(32
Share-based compensation	10,40
Deferred income taxes	22
Other non-cash items	1,99
Changes in operating assets and liabilities:	
Accounts receivable	7,37
Inventories	18,72
Prepaid expenses and other current assets	(8,93
Other assets	(2,57
Accounts payable	45,80
Accrued liabilities	(
Accrued salaries and benefits	23,57
Accrued income tax	2,08
Operating lease liabilities	(79,60
Other long-term liabilities	5,95
Cash flows from operating activities	410,26
Cash flows used in investing activities	
Purchases of property and equipment	(95,87
Cash flows used in investing activities	(95,87

Cash flows used in financing activities	
Proceeds from revolving credit facilities	–
Payments on revolving credit facilities	(263,00(
Payments on finance lease obligations	(47
Repurchase of common stock	–
Proceeds from exercise of stock options	1,34
Other	–
Cash flows used in financing activities	(262,13
Increase in cash, cash equivalents, and restricted cash	52,25
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	$ 139,04

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 term 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 thirty-nine weeks ended September 27, 2020 and Septem reconciliation of EBIT, net income and diluted earnings per share to adjusted EBIT, adjusted net income and adjusted diluted earnings per share for the th ended September 27, 2020 and September 29, 2019:

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

	Thirteen Weeks Ended September 27, 2020	Thirteen Weeks Ended September 29, 2019	Thirty-nine Weeks Ended September 27, 2020
Net income	$ 60,241	$ 26,260	$ 219,053
Income tax provision	15,023	7,740	67,999
Interest expense, net	3,117	5,557	11,681
Earnings before interest and taxes (EBIT)	78,381	39,557	298,733
Special items:			
Strategic initiatives [1]	2,416	—	7,033
Store closures [2]	—	—	—
Adjusted EBIT	80,797	39,557	305,766
Depreciation, amortization and accretion	31,647	31,335	94,428
Adjusted EBITDA	$ 112,444	$ 70,892	$ 400,194
Net income	$ 60,241	$ 26,260	$ 219,053
Special Items:			
Strategic initiatives, net of tax [1]	1,795	—	5,226
Store closures, net of tax [2]	—	—	—
Adjusted Net income	$ 62,036	$ 26,260	$ 224,279
Diluted earnings per share	$ 0.51	$ 0.22	$ 1.85
Adjusted diluted earnings per share	$ 0.52	$ 0.22	$ 1.90
Diluted weighted average shares outstanding	118,450	118,174	118,157

(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
10/28/20

Source: Sprouts Farmers Market

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