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PRESS RELEASE

Sprouts Farmers Market, Inc. Reports Fourth Quarter and 2020 Results

Company Release - 2/25/2021

PHOENIX, Ariz., Feb. 25, 2021 (GLOBE NEWSWIRE) -- Sprouts Farmers Market, Inc. (Nasdaq: SFM) today reported results for the 14-week fourth quarter an 3, 2021. Period-over-period increases stated herein reflect the comparison of 14 and 53 weeks in fourth quarter and fiscal year 2020 to 13 and 52 weeks year 2019, respectively, unless otherwise noted.

Fourth Quarter Highlights:

- Net sales of $1.6 billion; a 17% increase from the same period in 2019
- Comparable store sales growth of 3.7% and two-year comparable store sales growth of 5.2%, both on a 13-week basis
- Net income of $68 million and adjusted net income[(1)] of $70 million; compared to net income and adjusted net income of $32 million from the sam income increased 119% from the same period in 2019
- Diluted earnings per share of $0.58 and adjusted diluted earnings per share[(1)] of $0.59; compared to diluted and adjusted diluted earnings of $0.27 period in 2019
- Adjusted diluted earnings per share of $0.49, estimated on a 13-week basis, an 81% increase from the same period in 2019

Fiscal Year 2020 Highlights:

- Net sales of $6.5 billion; a 15% increase from 2019
- Comparable store sales growth of 6.9% and two-year comparable store sales growth of 8.0%, both on a 52-week basis
- Net income of $287 million and adjusted net income[(1)] of $294 million; compared to net income and adjusted net income of $150 million from 2019 increased 96% from 2019
- Diluted earnings per share of $2.43 and adjusted diluted earnings per share[(1)] of $2.49; compared to diluted and adjusted diluted earnings per shar
- Adjusted diluted earnings per share of $2.39, estimated on a 52-week basis, a 91% increase from 2019

“In 2020, we generated record earnings and cash flow from a 15% increase in sales while absorbing costs associated with a 340% increase in ecommerce s to our frontline team members, and opening 22 new stores,” said Jack Sinclair, chief executive officer of Sprouts Farmers Market. “Executing our strategic pace than we originally planned is fueling these encouraging results and establishing a solid base from which we can invest and grow. I want to thank not members at Sprouts, but also our supply chain partners, vendors, farmers and growers, who worked collectively to make healthy food accessible to our cu year.”

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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.

Fourth Quarter 2020 Financial Results

Net sales for the fourth quarter 2020 were $1.6 billion, a 17% increase compared to the same period in 2019. On a 13-week comparable basis, net sales in sales growth was driven by a 3.7% increase in comparable store sales, the 53rd week in 2020, continued demand from the COVID-19 pandemic, as well as stores opened.

Gross profit for the quarter increased 25% to $588 million, resulting in a gross profit margin of 36.7%, an increase of 235 basis points compared to the sar sustainable strategic changes contributed to this increase, from promotional activities started in the fourth quarter of 2019 to shrink initiatives, as well as additional sales, partially accelerated by the COVID-19 landscape. The impact of the 53rd week on gross profit margin was insignificant.

Selling, general and administrative expenses (“SG&A”) for the quarter increased $76 million to $464 million, or 28.9% of sales, a deleverage of 56 basis poi period in 2019. This deleverage was primarily driven by increased ecommerce fees and higher quarterly store performance bonuses, partially offset by lev increased sales and the 53rd week in 2020. Store operational expenses from COVID-19 were approximately $36 million for the fourth quarter.

Depreciation and amortization for the quarter increased 2.6% to $31 million, or 2.0% of sales, a decrease of 30 basis points compared to the same period

Net income for the quarter was $68 million and diluted earnings per share (“EPS”) was $0.58, compared with $32 million and $0.27 respectively, in 2019. E items, adjusted net income was $70 million and adjusted diluted EPS was $0.59; an increase of 119% compared to the same period in 2019 (see “Non-GAA estimated 13-week comparable basis, adjusted diluted earnings per share increased 81% to $0.49.

Fiscal Year 2020 Financial Results

Net sales for fiscal year 2020 were $6.5 billion, a 15% increase compared to 2019. On a 52-week comparable basis, net sales increased 13% to $6.3 billion. by demand from the COVID-19 pandemic, contributing to a 6.9% increase in comparable store sales, strong performance in new stores opened as well as

Gross profit for the year increased 26% to $2.4 billion, resulting in a gross profit margin of 36.8%, an increase of 315 basis points compared to 2019. A nur changes contributed to this increase, from promotional activities to shrink initiatives, as well as positive leverage from additional sales, partially accelerate The impact of the 53rd week on gross profit margin was insignificant.

SG&A for the year increased $314 million to $1.9 billion, or 28.8% of sales, a deleverage of 130 basis points compared to 2019. Increased operational expe approximately $176 million for the year, driving the majority of the deleverage. Additionally, we realized increased ecommerce fees from higher online sal leveraging fixed costs. The impact of the 53rd week on the SG&A rate was insignificant.

Depreciation and amortization for the year increased 3.0% to $124 million, or 1.9% of sales, a decrease of 20 basis points compared to 2019.

Store closure and other costs, net for the year were a credit of $0.4 million compared to a cost of $7.3 million in 2019.

Net income for the year was $287 million and diluted EPS was $2.43, compared with $150 million and $1.25, respectively, in 2019. Excluding the impact of income was $294 million and adjusted diluted EPS was $2.49; an increase of 99% compared to 2019 (see “Non-GAAP Financial Measures”). On an estimate adjusted diluted earnings per share increased 91% to $2.39.

Unit Growth and Development

During the fourth quarter of 2020, Sprouts opened six new stores, resulting in a total of 362 stores in 23 states as of January 3, 2021.

Leverage and Liquidity

Sprouts generated cash from operations of $494 million in fiscal 2020 and invested $96 million in capital expenditures net of landlord reimbursements, pr fiscal year 2020, we paid down $288 million of outstanding debt. We ended the year with $250 million in loans and $34 million of letters of credit under ou well as $170 million in cash and cash equivalents.

Full Year 2021 Outlook

The impact that the COVID-19 pandemic will have on the U.S. economy and the Company’s fiscal 2021 results remain uncertain. Given the evolving nature food at home demand and consumer spending, the Company is planning for fiscal 2021 based on a range of potential outcomes. The following provides ir outlook for 2021:

	Full-year 2021 Guidance 52-week to 52-week
Net sales growth	Flat to up slightly
Unit growth	Approximately 20 new stores
Comparable store sales growth	Down low to mid-single digits
Adjusted EBIT	$295M to $315M
Adjusted diluted earnings per share	$1.78 to $1.91
Effective tax rate	Approximately 26%
Capital expenditures (net of landlord reimbursements)	$140M to $160M

The company’s adjusted diluted earnings per share and adjusted EBIT outlook for the year do not include charges and costs which are expected to be sim excluded from adjusted diluted earnings per share and adjusted EBIT in prior periods. Please see the explanation and reconciliation of these non-GAAP m GAAP measures for the 14 and 53 weeks ended January 3, 2021 and the 13 and 52 weeks ended December 29, 2019 in the tables included below.

Fourth Quarter and Full Year 2020 Conference Call

Sprouts will hold a conference call at 3 p.m. Mountain Standard Time (5 p.m. Eastern Standard Time) on Thursday, February 25, 2021, during which Sprout discuss fourth quarter and fiscal year 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: 1285113

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 contir 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 outlook, growth, opportunities and long-term strategy. These statements involve certain risks and uncertainties that may cause actual results to differ ma of the date of this release. These risks and uncertainties include, without limitation, risks associated with the impact of the COVID-19 pandemic; the comp long-term strategy; the company’s ability to successfully compete in its competitive industry; the company’s ability to successfully open new stores; the co growth; the company’s ability to maintain or improve its operating margins; the company’s ability to identify and react to trends in consumer preferences; general economic conditions; accounting standard changes; and other factors as set forth from time to time in the company’s Securities and Exchange Co without limitation, the company’s Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. The company intends these forward-looking stateme time of this release and does not undertake to update or revise them as more information becomes available, except as required by law.

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 g 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 360 stores in 23 states nationwide. To le the good it brings communities, visit about.sprouts.com.

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

	Fourteen weeks ended	Thirteen weeks ended	Fifty-three weel ended
	January 3, 2021	December 29, 2019	January 3, 2021
Net sales	$ 1,601,834	$ 1,364,991	$ 6,468,75
Cost of sales	1,013,805	896,028	4,089,47
Gross profit	588,029	468,963	2,379,28
Selling, general and administrative expenses	463,635	387,481	1,863,86
Depreciation and amortization (exclusive of depreciation included in cost of sales)	31,487	30,703	124,12
Store closure and other costs, net	(25)	3,864	(36
Income from operations	92,932	46,915	391,66
Interest expense, net	3,106	5,195	14,78
Income before income taxes	89,826	41,720	376,87
Income tax provision	21,429	10,086	89,42
Net income	$ 68,397	$ 31,634	$ 287,45
Net income per share:			
Basic	$ 0.58	$ 0.27	$ 2.4
Diluted	$ 0.58	$ 0.27	$ 2.4
Weighted average shares outstanding:			
Basic	117,951	117,934	117,82
Diluted	118,315	118,219	118,22

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

	January 3, 2021
ASSETS	
Current assets:	
Cash and cash equivalents	$ 169,697
Accounts receivable, net	14,815
Inventories	254,224
Prepaid expenses and other current assets	27,224
Total current assets	465,960
Property and equipment, net of accumulated depreciation	726,500
Operating lease assets, net	1,045,408
Intangible assets, net of accumulated amortization	184,960
Goodwill	368,878
Other assets	14,698
Total assets	$ 2,806,404

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$	139,337
Accrued liabilities		143,402
Accrued salaries and benefits		76,695
Accrued income tax		—
Current portion of operating lease liabilities		135,739
Current portion of finance lease liabilities		959
Total current liabilities		496,132
Long-term operating lease liabilities		1,069,535
Long-term debt and finance lease liabilities		260,459
Other long-term liabilities		40,912
Deferred income tax liability		58,073
Total liabilities		1,925,111
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, 117,953,435 shares issued and outstanding, January 3, 2021; 117,543,668 shares issued and outstanding, December 29, 2019		118
Additional paid-in capital		686,648
Accumulated other comprehensive loss		(8,474)
Retained earnings (Accumulated deficit)		203,001
Total stockholders' equity		881,293
Total liabilities and stockholders' equity	$	2,806,404

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

	Fifty-three weeks ended January 3, 2021
Cash flows from operating activities	
Net income	$ 287,450
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization expense	126,507
Operating lease asset amortization	99,276
Store closure and other costs, net	(321)
Share-based compensation	14,339
Deferred income taxes	3,717
Other non-cash items	3,683
Changes in operating assets and liabilities:	
Accounts receivable	25,977
Inventories	21,754
Prepaid expenses and other current assets	(14,970)
Other assets	(5,461)
Accounts payable	20,184
Accrued liabilities	4,296
Accrued salaries and benefits	28,116
Accrued income tax	(2,005)
Operating lease liabilities	(120,085)
Other long-term liabilities	1,578
Cash flows from operating activities	494,035
Cash flows used in investing activities	
Purchases of property and equipment	(121,968)

Cash flows used in investing activities	(121,968)
Cash flows used in financing activities	
Proceeds from revolving credit facilities	—
Payments on revolving credit facilities	(288,000)
Payments on finance lease obligations	(754)
Repurchase of common stock	—
Proceeds from exercise of stock options	1,343
Other	—
Cash flows used in financing activities	(287,411)
Increase in cash, cash equivalents, and restricted cash	84,656
Cash, cash equivalents, and restricted cash at beginning of the period	86,785
Cash, cash equivalents, and restricted cash at the end of the period	$ 171,441

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 they should not be considered 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 fourteen and fifty-three weeks ended January 3, 2021 and for the thirt ended December 29, 2019 and a reconciliation of EBIT, net income and diluted earnings per share to adjusted EBIT, adjusted net income and adjusted dilu the fourteen and fifty-three weeks ended January 3, 2021 and for the thirteen and fifty-two weeks ended December 29, 2019:

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

	Fourteen weeks ended January 3, 2021	Thirteen weeks ended December 29, 2019	Fifty-three weeks ended January 3, 2021
Net income	$ 68,397	$ 31,634	$ 287,45
Income tax provision	21,429	10,086	89,42
Interest expense, net	3,106	5,195	14,78
Earnings before interest and taxes (EBIT)	92,932	46,915	391,66
Special Items:			
Strategic initiatives [1]	1,802	—	8,83
Store closures [2]	—	—	-
Adjusted EBIT	94,734	46,915	400,50
Depreciation, amortization and accretion	32,080	31,258	126,50
Adjusted EBITDA	$ 126,814	$ 78,173	$ 527,00
Net income	68,397	31,634	287,45
Special Items:			
Strategic initiatives, net of tax [1]	1,339	—	6,56
Store closures, net of tax [2]	—	—	-
Adjusted Net income	$ 69,736	$ 31,634	$ 294,01
Diluted earnings per share	$ 0.58	$ 0.27	$ 2.4
Adjusted diluted earnings per share	$ 0.59	$ 0.27	$ 2.4
Diluted weighted average shares outstanding	118,315	118,219	118,22

(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
2/25/2021

SPROUTS FARMERS MARKET

Source: Sprouts Farmers Market

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