UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended July 4, 2021

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-36029

Sprouts Farmers Market, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**32-0331600**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5455 East High Street, Suite 111
Phoenix, Arizona 85054
(Address of principal executive offices and zip code)

(480) 814-8016
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12 (b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, $0.001 par value	SFM	NASDAQ Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of August 3, 2021, the registrant had 114,191,196 shares of common stock, $0.001 par value per share, outstanding.

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JULY 4, 2021

TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements.	4
Consolidated Balance Sheets as of July 4, 2021 (unaudited) and January 3, 2021	4
Consolidated Statements of Income for the thirteen and twenty-six weeks ended July 4, 2021 and June 28, 2020 (unaudited)	5
Consolidated Statements of Comprehensive Income for the thirteen and twenty-six weeks ended July 4, 2021 and June 28, 2020 (unaudited)	6
Consolidated Statements of Stockholders' Equity for the thirteen and twenty-six weeks ended July 4, 2021 and June 28, 2020 (unaudited)	7
Consolidated Statements of Cash Flows for the twenty-six weeks ended July 4, 2021 and June 28, 2020 (unaudited)	9
Notes to Unaudited Consolidated Financial Statements	10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3. Quantitative and Qualitative Disclosures About Market Risk.	35
Item 4. Controls and Procedures.	36
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings.	37
Item 1A. Risk Factors.	37
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.	38
Item 6. Exhibits.	39
Signatures	40

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" that involve substantial risks and uncertainties. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (referred to as the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (referred to as the "Exchange Act"), including, but not limited to, statements regarding our expectations, beliefs, intentions, strategies, future operations, future financial position, future revenue, projected expenses, and plans and objectives of management. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "estimate," "expect," "intend," "may," "might," "plan," "project," "will," "would," "should," "could," "can," "predict," "potential," "continue," "objective," or the negative of these terms, and similar expressions intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. These forward-looking statements reflect our current views about future events and involve known risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievement to be materially different from those expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors" included in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the fiscal year ended January 3, 2021, and our other filings with the Securities and Exchange Commission. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

As used in this Quarterly Report on Form 10-Q, unless the context otherwise requires, references to the "Company," "Sprouts," "Sprouts Farmers Market," "we," "us" and "our" refer to Sprouts Farmers Market, Inc. and, where appropriate, its subsidiaries.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	July 4, 2021	January 3, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 220,909	$ 169,697
Accounts receivable, net	13,035	14,815
Inventories	274,097	254,224
Prepaid expenses and other current assets	43,338	27,224
Total current assets	551,379	465,960
Property and equipment, net of accumulated depreciation	703,571	726,500
Operating lease assets, net	1,052,851	1,045,408
Intangible assets, net of accumulated amortization	184,960	184,960
Goodwill	368,878	368,878
Other assets	16,724	14,698
Total assets	$ 2,878,363	$ 2,806,404
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 161,100	$ 139,337
Accrued liabilities	135,503	143,402
Accrued salaries and benefits	48,108	76,695
Current portion of operating lease liabilities	137,827	135,739
Current portion of finance lease liabilities	1,004	959
Total current liabilities	483,542	496,132
Long-term operating lease liabilities	1,082,136	1,069,535
Long-term debt and finance lease liabilities	260,082	260,459
Other long-term liabilities	42,487	40,912
Deferred income tax liability	60,993	58,073
Total liabilities	1,929,240	1,925,111
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, 115,180,832 shares issued and outstanding, July 4, 2021; 117,953,435 shares issued and outstanding, January 3, 2021	115	118
Additional paid-in capital	695,745	686,648
Accumulated other comprehensive loss	(6,319)	(8,474)
Retained earnings	259,582	203,001
Total stockholders' equity	949,123	881,293
Total liabilities and stockholders' equity	$ 2,878,363	$ 2,806,404

The accompanying notes are an integral part of these consolidated financial statements.

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

	Thirteen weeks ended		Twenty-six weeks ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Net sales	$ 1,521,993	$ 1,642,788	$ 3,097,440	$ 3,289,327
Cost of sales	971,912	1,030,129	1,961,185	2,082,836
Gross profit	550,081	612,659	1,136,255	1,206,491
Selling, general and administrative expenses	436,420	488,877	876,082	925,181
Depreciation and amortization (exclusive of depreciation included in cost of sales)	30,430	30,549	61,659	61,570
Store closure and other costs, net	(419)	470	1,629	(612)
Income from operations	83,650	92,763	196,885	220,352
Interest expense, net	2,938	3,737	5,929	8,564
Income before income taxes	80,712	89,026	190,956	211,788
Income tax provision	19,698	22,024	46,894	52,976
Net income	$ 61,014	$ 67,002	$ 144,062	$ 158,812
Net income per share:				
Basic	$ 0.52	$ 0.57	$ 1.22	$ 1.35
Diluted	$ 0.52	$ 0.57	$ 1.22	$ 1.35
Weighted average shares outstanding:				
Basic	117,246	117,832	117,645	117,688
Diluted	117,831	118,189	118,265	117,977

The accompanying notes are an integral part of these consolidated financial statements.

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

	Thirteen weeks ended		Twenty-six weeks ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Net income	$ 61,014	$ 67,002	$ 144,062	$ 158,812
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on cash flow hedging activities, net of income tax of $685, $248, $1,485 and ($1,533)	1,981	712	4,295	(4,436)
Reclassification of net gains (losses) on cash flow hedges to net income, net of income tax of ($370), ($288), ($740) and ($389)	(1,070)	(829)	(2,140)	(1,121)
Total other comprehensive income (loss)	911	(117)	2,155	(5,557)
Comprehensive income	$ 61,925	$ 66,885	$ 146,217	$ 153,255

The accompanying notes are an integral part of these consolidated financial statements.

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

For the thirteen and twenty-six weeks ended July 4, 2021

	Shares	Common Stock	Additional Paid In Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at April 4, 2021	118,194,576	$ 118	$ 691,142	$ 282,840	$ (7,230)	$ 966,870
Net income	—	—	—	61,014	—	61,014
Other comprehensive income (loss)	—	—	—	—	911	911
Issuance of shares under stock plans	136,905	—	365	—	—	365
Repurchase and retirement of common stock	(3,150,649)	(3)	—	(84,272)	—	(84,275)
Share-based compensation	—	—	4,238	—	—	4,238
Balances at July 4, 2021	115,180,832	$ 115	$ 695,745	$ 259,582	$ (6,319)	$ 949,123

	Shares	Common Stock	Additional Paid In Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at January 3, 2021	117,953,435	$ 118	$ 686,648	$ 203,001	$ (8,474)	881,293
Net income	—	—	—	144,062	—	144,062
Other comprehensive income (loss)	—	—	—	—	2,155	2,155
Issuance of shares under stock plans	508,014	—	1,246	—	—	1,246
Repurchase and retirement of common stock	(3,280,617)	(3)	—	(87,481)	—	(87,484)
Share-based compensation	—	—	7,851	—	—	7,851
Balances at July 4, 2021	115,180,832	$ 115	$ 695,745	$ 259,582	$ (6,319)	$ 949,123

The accompanying notes are an integral part of these consolidated financial statements.

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

For the thirteen and twenty-six weeks ended June 28, 2020

	Shares	Common Stock	Additional Paid In Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at March 29, 2020	117,786,608	$ 117	$ 673,366	$ 7,361	$ (10,122)	$ 670,722
Net income	—	—	—	67,002	—	67,002
Other comprehensive income (loss)	—	—	—	—	(117)	(117)
Issuance of shares under stock plans	157,842	—	1,343	—	—	1,343
Share-based compensation	—	—	4,327	—	—	4,327
Balances at June 28, 2020	117,944,450	$ 117	$ 679,036	$ 74,363	$ (10,239)	$ 743,277

	Shares	Common Stock	Additional Paid In Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at December 29, 2019	117,452,918	$ 117	$ 670,966	$ (84,449)	$ (4,682)	$ 581,952
Net income	—	—	—	158,812	—	158,812
Other comprehensive income (loss)	—	—	—	—	(5,557)	(5,557)
Issuance of shares under stock plans	491,532	—	1,343	—	—	1,343
Share-based compensation	—	—	6,727	—	—	6,727
Balances at June 28, 2020	117,944,450	$ 117	$ 679,036	$ 74,363	$ (10,239)	$ 743,277

The accompanying notes are an integral part of these consolidated financial statements.

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

	Twenty-six weeks ended	
	July 4, 2021	June 28, 2020
Cash flows from operating activities		
Net income	$ 144,062	$ 158,812
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	63,152	62,928
Operating lease asset amortization	52,631	47,074
Store closure and other costs, net	—	(321)
Share-based compensation	7,851	6,727
Deferred income taxes	2,920	786
Other non-cash items	740	1,286
Changes in operating assets and liabilities:		
Accounts receivable	14,685	14,423
Inventories	(19,873)	20,627
Prepaid expenses and other current assets	(13,679)	(8,311)
Other assets	(4,363)	(1,879)
Accounts payable	23,653	46,554
Accrued liabilities	(8,416)	18,240
Accrued salaries and benefits	(28,587)	27,258
Accrued income tax	—	47,231
Operating lease liabilities	(58,131)	(52,063)
Other long-term liabilities	660	3,976
Cash flows from operating activities	177,305	393,348
Cash flows from investing activities		
Purchases of property and equipment	(39,421)	(64,571)
Cash flows used in investing activities	(39,421)	(64,571)
Cash flows from financing activities		
Payments on revolving credit facilities	—	(87,000)
Payments on finance lease liabilities	(333)	(311)
Repurchase of common stock	(87,484)	—
Proceeds from exercise of stock options	1,246	1,343
Cash flows used in financing activities	(86,571)	(85,968)
Increase in cash, cash equivalents, and restricted cash	51,313	242,809
Cash, cash equivalents, and restricted cash at beginning of the period	171,441	86,785
Cash, cash equivalents, and restricted cash at the end of the period	$ 222,754	$ 329,594
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 6,128	$ 8,195
Cash paid for income taxes	49,071	3,023
Leased assets obtained in exchange for new operating lease liabilities	60,074	67,433
Supplemental disclosure of non-cash investing and financing activities		
Property and equipment in accounts payable	$ 11,771	$ 16,513

The accompanying notes are an integral part of these consolidated financial statements.

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation

Sprouts Farmers Market, Inc., a Delaware corporation, through its subsidiaries, operates as a healthy grocery store that offers a unique grocery experience featuring an open layout with fresh produce at the heart of the store. The Company continues to bring the latest in wholesome, innovative products made with lifestyle-friendly ingredients such as organic, plant-based and gluten-free. As of July 4, 2021, the Company operated 363 stores in 23 states. The “Company” is used to refer collectively to Sprouts Farmers Market, Inc. and unless the context otherwise requires, its subsidiaries.

The accompanying unaudited consolidated financial statements include the accounts of the Company in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial statements and are in the form prescribed by the Securities and Exchange Commission in instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the Company's financial position, results of operations and cash flows for the periods indicated. All material intercompany accounts and transactions have been eliminated in consolidation. Interim results are not necessarily indicative of results for any other interim period or for a full fiscal year. The information included in these consolidated financial statements and notes thereto should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations included herein and Management’s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto for the fiscal year ended January 3, 2021 (“fiscal year 2020”) included in the Company’s Annual Report on Form 10-K, filed on February 25, 2021.

The year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP.

The Company reports its results of operations on a 52- or 53-week fiscal calendar ending on the Sunday closest to December 31. The fiscal year ending January 2, 2022 (“fiscal year 2021”) is a 52-week year and fiscal year 2020 was a 53-week year. The Company reports its results of operations on a 13-week quarter, except for 53-week fiscal years.

All dollar amounts are in thousands, unless otherwise noted.

2. Summary of Significant Accounting Policies

Revenue Recognition

The Company’s performance obligations are satisfied upon the transfer of goods to the customer, which occurs at the point of sale, and payment from customers is also due at the time of sale. Proceeds from the sale of gift cards are recorded as a liability at the time of sale and recognized as sales when they are redeemed by the customer and the performance obligation is satisfied by the Company. The Company’s gift cards do not expire. Based on historical redemption rates, a small and relatively stable percentage of gift cards will never be redeemed, referred to as "breakage." Estimated breakage revenue is recognized over time in proportion to actual gift card redemptions and was not material in any period presented.

	Balance at January 3, 2021	Gift Cards Issued During Current Period but Not Redeemed[(a)]	Revenue Recognized from Beginning Liability	Balance at July 4, 2021
Gift card liability, net	$ 15,888	$ 4,353	$ (6,889)	$ 13,352

(a) net of estimated breakage

The Company does not have any material contract assets or receivables from contracts with customers, any revenue recognized in the current period from performance obligations satisfied in previous periods, or any remaining performance obligations as of July 4, 2021.

Restricted Cash

Restricted cash relates to defined benefit plan forfeitures as well as healthcare, general liability and workers' compensation restricted funds of approximately $1.8 million and $1.7 million as of July 4, 2021 and January 3, 2021, respectively. These balances are included in prepaid expenses and other current assets in the consolidated balance sheets.

Recently Adopted Accounting Pronouncements

Income Taxes – Accounting for Income Taxes

In December 2019, the FASB issued ASU no. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." Among other things, the amendment removes certain exceptions for periods with operating losses, and reduces the complexity surrounding hybrid tax regimes, step up in tax basis of goodwill in conjunction with a business combination, and timing of enacting changes in tax laws during interim periods. The Company adopted this standard effective January 4, 2021 on a prospective basis. There was no impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

Reference Rate Reform

In March 2020 and January 2021, the FASB issued ASU no. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" and ASU 2021-01, "Reference Rate Reform (Topic 848): Scope," respectively. The amendments in these updates provide optional expedients and exceptions for a limited period of time to ease the potential burden in accounting for contracts, hedging relationships, and other transactions affected by reference rate reform. Generally, the guidance allows contract modifications related to reference rate reform to be considered events that do not require remeasurements or reassessments of previous accounting determinations at the modification date. These updates only apply to modifications made prior to December 31, 2022. No such modifications occurred in the period ending July 4, 2021. The Company expects to utilize this optional guidance but does not expect it to have a material impact on its consolidated financial statements.

No other new accounting pronouncements issued or effective during the thirteen weeks ended July 4, 2021 had, or are expected to have, a material impact on the Company's consolidated financial statements.

3. Fair Value Measurements

The Company records its financial assets and liabilities in accordance with the framework for measuring fair value in accordance with GAAP. This framework establishes a fair value hierarchy that prioritizes the inputs used to measure fair value:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Fair value measurements of nonfinancial assets and nonfinancial liabilities are primarily used in the valuation of derivative instruments, impairment analysis of goodwill, intangible assets and long-lived assets.

The following tables present the fair value hierarchy for the Company's financial liabilities measured at fair value on a recurring basis as of July 4, 2021 and January 3, 2021:

July 4, 2021	Level 1	Level 2	Level 3	Total
Long-term debt	$ —	$ 250,000	$ —	$ 250,000
Interest rate swap liability	—	8,584	—	8,584
Total financial liabilities	$ —	$ 258,584	$ —	$ 258,584

January 3, 2021	Level 1	Level 2	Level 3	Total
Long-term debt	$ —	$ 250,000	$ —	$ 250,000
Interest rate swap liability	—	11,451	—	11,451
Total financial liabilities	$ —	$ 261,451	$ —	$ 261,451

The Company's interest rate swaps are considered Level 2 in the hierarchy and are valued using an income approach. Expected future cash flows are converted to a present value amount based on market expectations of the yield curve on floating interest rates, which is readily available on public markets.

The determination of fair values of certain tangible and intangible assets for purposes of the Company's goodwill impairment evaluation as described above is based upon Level 3 inputs. The weighted average cost of capital is estimated using information from comparable companies and management's judgment related to the risk associated with the operations of the stores.

Cash, cash equivalents, restricted cash, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued liabilities, and accrued salaries and benefits approximate fair value because of the short maturity of those instruments. Based on comparable open market transactions, the fair value of the long-term debt approximated carrying value as of July 4, 2021 and January 3, 2021.

4. Long-Term Debt and Finance Lease Liabilities

A summary of long-term debt and finance lease liabilities is as follows:

			As of	
Facility	Maturity	Interest Rate	July 4, 2021	January 3, 2021
Senior secured debt				
$700.0 million Credit Agreement	March 27, 2023	Variable	$ 250,000	$ 250,000
Finance lease liabilities	Various	n/a	10,082	10,459
Long-term debt and finance lease liabilities			$ 260,082	$ 260,459

Senior Secured Revolving Credit Facility

The Company's subsidiary, Sprouts Farmers Markets Holdings, LLC ("Intermediate Holdings"), is the borrower under an amended and restated credit agreement entered into on March 27, 2018 (the "Amended and Restated Credit Agreement") to amend and restate the Company's former's senior secured credit facility, dated April 17, 2015 (the "Former Credit Facility"). The Amended and Restated Credit Agreement provides for a revolving credit facility with an initial aggregate commitment of $700.0 million, an increase from $450.0 million from the Former Credit Facility, which may be increased from time to time pursuant to an expansion feature set forth in the Amended and Restated Credit Agreement.

The Company capitalized debt issuance costs of $2.1 million related to the Amended and Restated Credit Agreement which combined with the remaining $0.7 million debt issuance costs for the Former Credit Facility, are being amortized on a straight-line basis to interest expense over the five-year term of the Amended and Restated Credit Agreement.

The Amended and Restated Credit Agreement also provides for a letter of credit sub-facility and a $15.0 million swingline facility. Letters of credit issued under the Amended and Restated Credit Agreement reduce its borrowing capacity. Letters of credit totaling $38.6 million have been issued as of July 4, 2021, primarily to support the Company's insurance programs.

On March 6, 2019, Intermediate Holdings entered into an amendment to the Amended and Restated Credit Agreement intended to align the treatment of certain lease accounting terms with the Company's adoption of ASC 842. This amendment had no impact on borrowing capacity, interest rate, or maturity.

Guarantees

Obligations under the Amended and Restated Credit Agreement are guaranteed by the Company and all of its current and future wholly-owned material domestic subsidiaries (other than the borrower), and are secured by first-priority security interests in substantially all of the assets of the Company and its subsidiary guarantors, including, without limitation, a pledge by the Company of its equity interest in Intermediate Holdings.

Interest and Fees

Loans under the Amended and Restated Credit Agreement initially bore interest at LIBOR plus 1.50% per annum or prime plus 0.50%. The interest rate margins are subject to adjustment pursuant to a pricing grid based on the Company's total net leverage ratio, as set forth in the Amended and Restated Credit Agreement. Under the terms of the Amended and Restated Credit Agreement, the Company is obligated to pay a commitment fee on the available unused amount of the commitments between 0.15% to 0.30% per annum, also pursuant to a pricing grid based on the Company's total net leverage ratio. As of July 4, 2021, loans under the Amended and Restated Credit Agreement bore interest at LIBOR plus 1.25% per annum or prime plus 0.25%.

The interest rate on 100% of outstanding debt under the Amended and Restated Credit Agreement is fixed, reflecting the effects of floating to fixed interest rate swaps (see Note 9, "Derivative Financial Instruments").

As of July 4, 2021, outstanding letters of credit under the Amended and Restated Credit Agreement were subject to a participation fee of 1.25% per annum and an issuance fee of 0.125% per annum.

Payments and Borrowings

The Amended and Restated Credit Agreement is scheduled to mature, and the commitments thereunder will terminate on March 27, 2023, subject to extensions as set forth therein.

The Company may prepay loans and permanently reduce commitments under the Amended and Restated Credit Agreement at any time in agreed-upon minimum principal amounts, without premium or penalty (except LIBOR breakage costs, if applicable).

During the thirteen and twenty-six weeks ended July 4, 2021, the Company made no additional borrowings or principal payments, resulting in total outstanding debt under the Amended and Restated Credit Agreement of $250.0 million as of July 4, 2021. During fiscal year 2020, the Company made no additional borrowings and made a total of $288.0 million of principal payments, resulting in total outstanding debt under the Amended and Restated Credit Agreement of $250.0 million at January 3, 2021.

Covenants

The Amended and Restated Credit Agreement contains financial, affirmative and negative covenants. The negative covenants include, among other things, limitations on the Company's ability to:

- incur additional indebtedness;
- grant additional liens;
- enter into sale-leaseback transactions;
- make loans or investments;
- merge, consolidate or enter into acquisitions;
- pay dividends or distributions;
- enter into transactions with affiliates;
- enter into new lines of business;
- modify the terms of debt or other material agreements; and
- change its fiscal year.

Each of these covenants is subject to customary and other agreed-upon exceptions.

In addition, the Amended and Restated Credit Agreement requires that the Company and its subsidiaries maintain a maximum total net leverage ratio not to exceed 3.25 to 1.00 and minimum interest coverage ratio not to be less than 1.75 to 1.00. Each of these covenants is tested on the last day of each fiscal quarter.

The Company was in compliance with all applicable covenants under the Amended and Restated Credit Agreement as of July 4, 2021.

5. Income Taxes

The Company's effective tax rate decreased to 24.4% for the thirteen weeks ended July 4, 2021, compared to 24.7% for the thirteen weeks ended June 28, 2020. The decrease in the effective tax rate was primarily due to an increase in enhanced charitable contributions.

The Company's effective tax rate decreased to 24.6% for the twenty-six weeks ended July 4, 2021, compared to 25.0% for the twenty-six weeks ended June 28, 2020. The decrease in the effective tax rate is primarily due to an increase in enhanced charitable contributions along with tax benefits for share-based payment awards in the current year period compared to prior year period detriments, partially offset by an increase in disallowed executive compensation. The income tax effect resulting from excess tax detriments/(benefits) of share-based payment awards were ($0.2) million and $0.5 million for the twenty-six weeks ended July 4, 2021 and June 28, 2020, respectively.

The Company files income tax returns for federal purposes and in many states. The Company's tax filings remain subject to examination by applicable tax authorities for a certain length of time, generally three years, following the tax year to which those filings relate. The Company's U.S. federal income tax return for the fiscal year ended December 31, 2017 is currently under examination by the Internal Revenue Service.

6. Commitments and Contingencies

The Company is exposed to claims and litigation matters arising in the ordinary course of business and uses various methods to resolve these matters that are believed to best serve the interests of the Company's stakeholders. The Company's primary contingencies are associated with self-insurance obligations and litigation matters. Self-insurance liabilities require significant judgment and actual claim settlements and associated expenses may differ from the Company's current provisions for loss.

"Phishing" Scam Actions

In April 2016, four complaints were filed, two in the federal courts of California, one in the Superior Court of California and one in the federal court in the District of Colorado, each on behalf of a purported class of the Company's current and former team members whose personally identifiable information ("PII") was inadvertently disclosed to an unauthorized third party that perpetrated an email "phishing" scam against one of the Company's team members. The complaints alleged the Company failed to properly safeguard the PII in accordance with applicable law. The complaints sought damages on behalf of the purported class in unspecified amounts, attorneys' fees and litigation expenses. On March 1, 2019, a number of individual plaintiffs filed arbitration demands. On May 15, 2019, certain other plaintiffs filed a second amended class action complaint in the District of Arizona, alleging that certain subclasses of team members are not subject to the Company's arbitration agreement and attempted to pursue those team members' claims in federal court. In late August 2019, the Company reached an agreement in principle to settle the majority of these claims, which were funded in the fourth quarter of 2019. Primary funding for the settlement came from the Company's cyber insurance policy, and the settlement did not have a material impact on the consolidated financial statements. Following the group settlement, three (3) individual claimants planned to proceed with arbitration of their claims. The three individual arbitrations were settled in late June and early July 2020, with immaterial settlement amounts fully funded by the Company's cyber insurance policy.

Proposition 65 Coffee Action

On April 13, 2010, an organization named Council for Education and Research on Toxics ("CERT") filed a lawsuit in the Superior Court of the State of California, County of Los Angeles, against nearly 80 defendants who manufacture, package, distribute or sell brewed coffee, including the Company. CERT alleged that the defendants failed to provide warnings for their coffee products of exposure to the chemical acrylamide as required under California Health and Safety Code section 25249.5, the California Safe Drinking Water and Toxic Enforcement Act of 1986, better known as Proposition 65. CERT seeks equitable relief, including providing warnings to consumers of coffee products, as well as civil penalties.

The Company, as part of a joint defense group, asserted multiple defenses against the lawsuit. On May 7, 2018, the trial court issued a ruling adverse to defendants on these defenses to liability. On October 1, 2019, before the court tried damages, remedies and attorneys' fees, California's Office of Environmental Health Hazard Assessment adopted a regulation that exempted "Exposures to listed chemicals in coffee created by and inherent in the processes of roasting coffee beans or brewing coffee" from Proposition 65's warning requirement. On August 25, 2020, the court granted the defense motion for summary judgment based on the regulation, and the case was dismissed.

On November 20, 2020, CERT filed a notice of appeal to appeal the ruling on the defense motion for summary judgment. The case is currently being briefed, with a decision expected in 2022. At this stage of the proceedings, the Company is unable to predict or reasonably estimate any potential loss or effect on the Company or its operations. Accordingly, no loss contingency was recorded for this matter.

7. Stockholders' Equity

Share Repurchases

On March 3, 2021, the Company's board of directors authorized a new $300 million share repurchase program for its common stock. The following table outlines the common stock share repurchase programs authorized by the Company's board of directors and the related repurchase activity and available authorization as of July 4, 2021.

Effective date	Expiration date	Amount authorized	Cost of repurchases	Authorization available
February 20, 2018	December 31, 2019	$ 350,000	$ 308,017	$ —
March 3, 2021	March 3, 2024	$ 300,000	$ 87,484	$ 212,516

The shares under the Company's repurchase programs may be purchased on a discretionary basis from time to time through March 3, 2024, subject to general business and market conditions and other investment opportunities, through open market purchases, privately negotiated transactions, or other means, including through Rule 10b5-1 trading plans. The board's authorization of the share repurchase programs does not obligate the Company to acquire any particular amount of common stock, and the repurchase programs may be commenced, suspended, or discontinued at any time.

Share repurchase activity under the Company's repurchase programs for the periods indicated was as follows (total cost in thousands):

	Thirteen weeks ended		Twenty-six weeks ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Number of common shares acquired	3,150,649	—	3,280,617	—
Average price per common share acquired	$ 26.75	$ —	$ 26.67	$ —
Total cost of common shares acquired	$ 84,275	$ —	$ 87,484	$ —

Shares purchased under the Company's repurchase programs were subsequently retired.

Subsequent to July 4, 2021 and through August 5, 2021, we repurchased an additional 1.0 million shares of common stock for $25.0 million.

8. Net Income Per Share

The computation of net income per share is based on the number of weighted average shares outstanding during the period. The computation of diluted net income per share includes the dilutive effect of share equivalents consisting of incremental shares deemed outstanding from the assumed exercise of options, assumed vesting of restricted stock units ("RSUs"), assumed vesting of performance stock awards ("PSAs"), and assumed vesting of restricted stock awards ("RSAs").

A reconciliation of the numerators and denominators of the basic and diluted net income per share calculations is as follows (in thousands, except per share amounts):

	Thirteen weeks ended		Twenty-six weeks ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Basic net income per share:				
Net income	$ 61,014	$ 67,002	$ 144,062	$ 158,812
Weighted average shares outstanding	117,246	117,832	117,645	117,688
Basic net income per share	$ 0.52	$ 0.57	$ 1.22	$ 1.35
Diluted net income per share:				
Net income	$ 61,014	$ 67,002	$ 144,062	$ 158,812
Weighted average shares outstanding - basic	117,246	117,832	117,645	117,688
Dilutive effect of share-based awards:				
Assumed exercise of options to purchase shares	276	81	217	1
RSUs	309	276	393	258
RSAs	—	—	—	18
PSAs	—	—	10	12
Weighted average shares and equivalent shares outstanding	117,831	118,189	118,265	117,977
Diluted net income per share	$ 0.52	$ 0.57	$ 1.22	$ 1.35

For the thirteen weeks ended July 4, 2021, the Company had 0.5 million options, 0.1 million RSUs, and 0.5 million PSAs outstanding which were excluded from the computation of diluted net income per share as those awards would have been antidilutive or were performance awards with performance conditions not yet deemed met. For the thirteen weeks ended June 28, 2020, the Company had 0.3 million options, 0.1 million RSUs, and 0.3 million PSAs outstanding which were excluded from the computation of diluted net income per share as those awards would have been antidilutive or were performance awards with performance conditions not yet deemed met.

For the twenty-six weeks ended July 4, 2021, the Company had 0.5 million options, 0.1 million RSUs, and 0.5 million PSAs outstanding which were excluded from the computation of diluted net income per share as those awards would have been antidilutive or were performance awards with performance conditions not yet deemed met. For the twenty-six weeks ended June 28, 2020, the Company had 1.4 million options, 0.1 million RSUs, and 0.3 million PSAs outstanding which were excluded from the computation of diluted net income per share as those awards would have been antidilutive or were performance awards with performance conditions not yet deemed met.

9. Derivative Financial Instruments

The Company entered into an interest rate swap agreement in December 2017 to manage its cash flow associated with variable interest rates. This forward contract has been designated and qualifies as a cash flow hedge, and its change in fair value is recorded as a component of other comprehensive income and reclassified into earnings in the same period or periods in which the forecasted transaction occurs. The forward contract initially consisted of five cash flow hedges, of which two were outstanding at July 4, 2021. To qualify as a hedge, the Company needs to formally document, designate and assess the effectiveness of the transactions that receive hedge accounting.

The notional dollar amount of the two outstanding swaps was $250.0 million at July 4, 2021 and January 3, 2021, under which the Company pays a fixed rate and receives a variable rate of interest (cash flow swap). The cash flow swaps hedge the change in interest rates on debt related to fluctuations in interest rates and each have a length of one year and mature annually from 2021 to 2022. These interest rate swaps have been designated and qualify as cash flow hedges and have met the requirements to assume zero ineffectiveness. The Company reviews the effectiveness of its hedging instruments on a quarterly basis.

The counterparties to these derivative financial instruments are major financial institutions. The Company evaluates the credit ratings of the financial institutions and believes that credit risk is at an acceptable level. The following table summarizes the fair value of the Company's derivative instruments designated as hedging instruments:

	As of July 4, 2021		As of January 3, 2021	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps	Accrued liabilities	$ 2,904	Accrued liabilities	$ 5,695
Interest rate swaps	Other long-term liabilities	5,680	Other long-term liabilities	5,756

The gain or loss on these derivative instruments is recognized in other comprehensive income, net of tax, with the portion related to current period interest payments reclassified to interest expense, net on the consolidated statements of income. The following table summarizes these losses classified on the consolidated statements of income:

	Thirteen weeks ended		Twenty-six weeks ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Consolidated Statements of Income Classification				
Interest expense, net	$ 1,440	$ 1,117	$ 2,880	$ 1,510

10. Comprehensive Income

The following table presents the changes in accumulated other comprehensive income (loss) for the twenty-six weeks ended June 28, 2020 and July 4, 2021.

	Cash Flow Hedges
Balance at December 29, 2019	$ (4,682)
Other comprehensive income (loss), net of tax	
Unrealized losses on cash flow hedging activities, net of income tax of ($1,533)	(4,436)
Reclassification of net losses on cash flow hedges to net income, net of income tax of ($389)	(1,121)
Total other comprehensive income (loss)	(5,557)
Balance at June 28, 2020	$ (10,239)
Balance at January 3, 2021	$ (8,474)
Other comprehensive income (loss), net of tax	
Unrealized gains on cash flow hedging activities, net of income tax of $1,485	4,295
Reclassification of net losses on cash flow hedges to net income, net of income tax of ($740)	(2,140)
Total other comprehensive income (loss)	2,155
Balance at July 4, 2021	$ (6,319)

Amounts reclassified from accumulated other comprehensive income (loss) are included within interest expense, net on the consolidated statements of income.

11. Segments

The Company has one reportable and one operating segment, healthy grocery stores.

In accordance with ASC 606, the following table represents a disaggregation of revenue for the thirteen and twenty-six weeks ended July 4, 2021 and June 28, 2020.

	Thirteen weeks ended			
	July 4, 2021		June 28, 2020	
Perishables	$ 889,684	58.5%	$ 950,584	57.9%
Non-Perishables	632,309	41.5%	692,204	42.1%
Net Sales	$ 1,521,993	100.0%	$ 1,642,788	100.0%

	Twenty-six weeks ended			
	July 4, 2021		June 28, 2020	
Perishables	$ 1,800,652	58.1%	$ 1,863,224	56.6%
Non-Perishables	1,296,788	41.9%	1,426,103	43.4%
Net Sales	$ 3,097,440	100.0%	$ 3,289,327	100.0%

The Company categorizes the varieties of products it sells as perishable and non-perishable. Perishable product categories include produce, meat, seafood, deli, bakery, floral and dairy and dairy alternatives. Non-perishable product categories include grocery, vitamins and supplements, bulk items, frozen foods, beer and wine, and natural health and body care.

12. Share-Based Compensation

2013 Incentive Plan

The Company's board of directors adopted, and its equity holders approved, the Sprouts Farmers Market, Inc. 2013 Incentive Plan (the "2013 Incentive Plan"). The 2013 Incentive Plan became effective July 31, 2013 in connection with the Company's initial public offering. The 2013 Incentive Plan serves as the umbrella plan for the Company's share-based and cash-based incentive compensation programs for its directors, officers and other team members. Awards granted under these plans include RSUs, PSAs, and RSAs. On May 1, 2015, the Company's stockholders approved the material terms of the performance goals under the 2013 Incentive Plan for purposes of Section 162(m) of the Internal Revenue Code as then in effect.

Awards Granted

During the twenty-six weeks ended July 4, 2021, the Company granted the following share-based compensation awards under the 2013 Incentive Plan:

Grant Date	RSUs	PSAs	Options
March 16, 2021	356,503	178,780	404,016
June 9, 2021	50,839	—	6,493
Total	407,342	178,780	410,509
Weighted-average grant date fair value	$ 24.83	$ 24.42	$ 7.67
Weighted-average exercise price	—	—	$ 24.47

The aggregate number of shares of common stock that may be issued to team members and directors under the 2013 Incentive Plan may not exceed 10,089,072. Shares subject to awards granted under the 2013 Incentive Plan which are subsequently forfeited, expire unexercised or are otherwise not issued will not be treated as having been issued for purposes of the share limitation. As of July 4, 2021, there were 2,864,915 stock awards outstanding and 3,608,758 shares remaining available for issuance under the 2013 Incentive Plan.

Stock Options

The Company uses the Black-Scholes option pricing model to estimate the fair value of options at grant date. Options vest in accordance with the terms set forth in the grant letter.

Time-based options granted prior to fiscal year 2016 generally vested ratably over a period of 12 quarters (three years), and time-based options granted after 2016 vest annually over a period of three years.

RSUs

The fair value of RSUs is based on the closing price of the Company's common stock on the grant date. RSUs generally vest annually over a period of two or three years from the grant date.

PSAs

PSAs granted in 2017 were subject to the Company achieving certain earnings per share performance targets during fiscal year 2017. The criteria was based on a range of performance targets in which grantees could earn between 10% and 150% of the base number of awards granted. The performance conditions with respect to fiscal year 2017 earnings per share were deemed to have been met, and the PSAs vested 50% on the second anniversary of the grant date (March 2019) and vested 50% on the third anniversary of the grant date (March 2020). There were no outstanding 2017 PSAs as of July 4, 2021.

PSAs granted in 2018 were subject to the Company achieving certain earnings before interest and taxes ("EBIT") performance targets for the 2020 fiscal year. The criteria was based on a range of performance targets in which grantees may earn 0% to 200% of the base number of awards granted. The performance conditions with respect to fiscal year 2020 EBIT were deemed to have been met, and the PSAs vested at the maximum pay out level on the third anniversary of the grant date (March 2021). During the twenty-six weeks ended July 4, 2021, 31,544 of the 2018 PSAs vested. There were no outstanding 2018 PSAs as of July 4, 2021.

PSAs granted in 2019 are subject to the Company achieving certain EBIT performance targets for the 2021 fiscal year. The criteria is based on a range of performance targets in which grantees may earn 0% to 200% of the base number of awards granted. If performance conditions are met, the applicable number of performance shares will vest on the third anniversary of the grant date (March 2022).

PSAs granted in 2020 are subject to the Company achieving certain earnings before taxes ("EBT") performance targets for the 2022 fiscal year. The criteria is based on a range of performance targets in which grantees may earn 0% to 200% of the base number of awards granted. If performance conditions are met, the applicable number of performance shares will vest on the third anniversary of the grant date (March 2023).

PSAs granted in 2021 are subject to the Company achieving certain EBIT performance targets for the 2023 fiscal year. The criteria is based on a range of performance targets in which grantees may earn 0% to 200% of the base number of awards granted. If performance conditions are met, the applicable number of performance shares will vest on the third anniversary of the grant date (March 2024).

RSAs

The fair value of RSAs is based on the closing price of the Company's common stock on the grant date. Outstanding RSA grants vest annually over three years. There were no outstanding RSAs as of July 4, 2021.

Share-based Compensation Expense

The Company presents share-based compensation expense in selling, general and administrative expenses on the Company's consolidated statements of income. The amount recognized was as follows:

	Thirteen weeks ended		Twenty-six weeks ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Share-based compensation expense before income taxes	$ 4,238	$ 4,327	$ 7,851	$ 6,727
Income tax benefit	(690)	(790)	(1,313)	(1,348)
Net share-based compensation expense	$ 3,548	$ 3,537	$ 6,538	$ 5,379

The following share-based awards were outstanding as of July 4, 2021 and June 28, 2020:

	As of	
	July 4, 2021	June 28, 2020
	(in thousands)	
Options		
Vested	281	367
Unvested	1,273	1,081
RSUs	840	888
PSAs	471	310

As of July 4, 2021, total unrecognized compensation expense and remaining weighted average recognition period related to outstanding share-based awards was as follows:

	Unrecognized compensation expense	Remaining weighted average recognition period
Options	$ 5,680	2.0
RSUs	15,375	1.8
PSAs	8,589	1.8
Total unrecognized compensation expense at July 4, 2021	$ 29,644	

During the twenty-six weeks ended July 4, 2021 and June 28, 2020, the Company received $1.2 million and $1.3 million, respectively, in cash proceeds from the exercise of options.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion of our financial condition and results of operations together with the consolidated financial statements and related notes that are included elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements included in our Annual Report on Form 10-K for the 2020 fiscal year, filed on February 25, 2021 ("Form 10-K") with the Securities and Exchange Commission. All dollar amounts included below are in thousands, unless otherwise noted.

Business Overview

Sprouts Farmers Market offers a unique grocery experience featuring an open layout with fresh produce at the heart of the store. Sprouts inspires wellness naturally with a carefully curated assortment of better-for-you products paired with purpose-driven people. We continue to bring the latest in wholesome, innovative products made with lifestyle-friendly ingredients such as organic, plant-based and gluten-free. Since our founding in 2002, we have grown rapidly, significantly increasing our sales, store count and profitability. Headquartered in Phoenix with 363 stores in 23 states as of July 4, 2021, we are one of the largest specialty retailers of fresh, natural and organic food, and fastest growing retailers in the United States.

Our Heritage

In 2002, we opened the first Sprouts Farmers Market store in Chandler, Arizona. From our founding in 2002, we have grown rapidly, significantly increasing our sales, store count and profitability, including successfully rebranding 43 Henry's Farmers Market and 39 Sunflower Farmers Market stores added in 2011 and 2012, respectively, through acquisitions to the Sprouts banner. These three businesses all trace their lineage back to Henry's Farmers Market and were built with similar store formats and operations including a strong emphasis on value, produce and service in smaller, convenient locations. The consistency of these formats and operations was an important factor that allowed us to rapidly and successfully rebrand and integrate each of these businesses under the Sprouts banner and on a common platform.

Outlook

In 2020, we announced the initial steps of our new long-term growth strategy that we believe will transform our company and drive profitable growth. This strategy focuses on the following areas:

- *Win with Target Customers*. We are refocusing attention on our target customers, where there is ample opportunity to gain share within these customer segments. Our business can grow by leveraging existing strengths in a unique assortment of better-for-you, quality products and by expanding ecommerce capabilities to allow customers easy access to differentiated products through delivery or pickup.

- *Update Format and Expand in Select Markets*. We are beginning to deliver unique smaller stores with expectations of stronger returns, while maintaining the approachable, fresh-focused farmer's market heritage Sprouts is known for. Our geographic store expansion and new store placement will intersect where our target customers live, in markets with growth potential and supply chain support, providing a long runway of at least 10% annual unit growth beginning in 2022.

- *Create an Advantaged Fresh Supply Chain*. We believe our network of fresh distribution centers can drive efficiencies across the chain and support growth plans. To further deliver on our fresh commitment and reputation, as well as to improve financial results, we will aspire to ultimately position fresh distribution centers within a 250-mile radius of stores. With the opening of two fresh distribution centers in 2021, we now have more than 85% of our stores within 250 miles of a distribution center.

- *Refine Brand and Marketing Approach*. We believe we are elevating our national brand recognition and positioning by telling our unique product innovation and differentiation story. Increased customer engagement through digital and social connections will drive additional sales growth and loyalty.

- *Deliver on Financial Targets and Box Economics*. We are measuring and reporting on the success of this strategy against a number of long-term financial and operational targets.

Recent Developments – COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, and on March 13, 2020, the United States declared the pandemic to be a national emergency. As COVID-19 spread throughout the country, the situation has continued to evolve, including, more recently, the increasing adoption of the COVID-19 vaccine and the accelerating reopening of state economies to approach pre-pandemic levels. As we cycle periods of 2020 where our results benefited from the initial onset of the pandemic, we are reporting declines in year over year net sales and comparable store sales growth. We have seen varying levels of inflation in certain categories resulting from product supply disruptions caused by the pandemic. In addition, due to continued difficulties in obtaining necessary equipment from third parties due to supply chain delays complicated by the COVID-19 pandemic, approximately seven of our planned new store-openings in the fourth quarter of 2021 may be delayed until 2022. The ultimate impact of the COVID-19 pandemic on our results of operations for future periods will depend on the length and severity of the pandemic, vaccine efficacy and adoption, the emergence and severity of COVID-19 variants and governmental and consumer actions taken in response, which we cannot predict. These uncertainties make it challenging for our management to estimate our future business performance. See “Item 1A. Risk Factors— The coronavirus (COVID-19) pandemic has disrupted our business and could negatively impact our financial condition.” in our Form 10-K for additional information.

Results of Operations for Thirteen Weeks Ended July 4, 2021 and June 28, 2020

The following tables set forth our unaudited results of operations and other operating data for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods. All dollar amounts are in thousands, unless otherwise noted.

	Thirteen weeks ended	
	July 4, 2021	June 28, 2020
Unaudited Quarterly Consolidated Statement of Income Data:		
Net sales	$ 1,521,993	$ 1,642,788
Cost of sales	971,912	1,030,129
Gross profit	550,081	612,659
Selling, general and administrative expenses	436,420	488,877
Depreciation and amortization (exclusive of depreciation included in cost of sales)	30,430	30,549
Store closure and other costs, net	(419)	470
Income from operations	83,650	92,763
Interest expense, net	2,938	3,737
Income before income taxes	80,712	89,026
Income tax provision	19,698	22,024
Net income	$ 61,014	$ 67,002
Weighted average shares outstanding - basic	117,246	117,832
Diluted effect of equity-based awards	585	357
Weighted average shares and equivalent shares outstanding	117,831	118,189
Diluted net income per share	$ 0.52	$ 0.57

	Thirteen weeks ended	
	July 4, 2021	June 28, 2020
Other Operating Data:		
Comparable store sales growth	(10.0)%	9.1%
Stores at beginning of period	362	344
Closed	—	—
Opened	1	6
Stores at end of period	363	350

Comparison of Thirteen Weeks Ended July 4, 2021 to Thirteen Weeks Ended June 28, 2020

Net sales

	Thirteen weeks ended			
	July 4, 2021	June 28, 2020	Change	% Change
Net sales	$ 1,521,993	$ 1,642,788	$ (120,795)	(7)%
Comparable store sales growth	(10.0)%	9.1%		

Net sales during the thirteen weeks ended July 4, 2021 totaled $1.5 billion, a decrease of $120.8 million, or 7%, compared to the thirteen weeks ended June 28, 2020. The sales decrease was primarily due to a 10.0% decrease in comparable store sales as a result of cycling the impact of the COVID-19 pandemic. Comparable stores contributed approximately 96% of total sales for the thirteen weeks ended July 4, 2021 and approximately 93% for the thirteen weeks ended June 28, 2020.

Cost of sales and gross profit

	Thirteen weeks ended			
	July 4, 2021	June 28, 2020	Change	% Change
Net sales	$ 1,521,993	$ 1,642,788	$ (120,795)	(7)%
Cost of sales	971,912	1,030,129	(58,217)	(6)%
Gross profit	550,081	612,659	(62,578)	(10)%
Gross margin	36.1%	37.3%	(1.2)%	

Gross profit totaled $550.1 million during the thirteen weeks ended July 4, 2021, a decrease of $62.6 million, or 10%, compared to the thirteen weeks ended June 28, 2020, driven by decreased sales volume for the reasons discussed above. Gross margin decreased by 1.2% to 36.1%, compared to 37.3% for the thirteen weeks ended July 4, 2021, primarily due to cycling opportunistic produce buys and exceptionally low shrink in the prior period from the elevated demand due to the COVID-19 pandemic.

Selling, general and administrative expenses

	Thirteen weeks ended			
	July 4, 2021	June 28, 2020	Change	% Change
Selling, general and administrative expenses	$ 436,420	$ 488,877	$ (52,457)	(11)%
Percentage of net sales	28.7%	29.8%	(1.1)%	

Selling, general and administrative expenses decreased $52.5 million, or 11%, compared to the thirteen weeks ended June 28, 2020. The decrease was primarily driven by lower COVID related costs including payroll and bonus expense and lower ecommerce fees. As a result of this decrease, partially offset by the effect of sales deleverage, selling, general and administrative expenses as a percentage of net sales decreased to 28.7% from 29.8%.

Depreciation and amortization

	Thirteen weeks ended			
	July 4, 2021	June 28, 2020	Change	% Change
Depreciation and amortization	$ 30,430	$ 30,549	$ (119)	0%
Percentage of net sales	2.0%	1.9%	0.1%	

Depreciation and amortization expenses (exclusive of depreciation included in cost of sales) primarily consists of depreciation and amortization for buildings, store leasehold improvements, and equipment. As a percentage of net sales, depreciation and amortization expenses (exclusive of depreciation included in cost of sales) increased slightly to 2.0% from 1.9% as a result of sales deleverage.

Store closure and other costs, net

	Thirteen weeks ended			
	July 4, 2021	June 28, 2020	Change	% Change
Store closure and other costs, net	$ (419)	$ 470	$ (889)	(189)%
Percentage of net sales	0.0%	0.0%	0.0%	

Store closure and other costs, net decreased $0.9 million to a credit of $0.4 million, compared to $0.5 million for the thirteen weeks ended June 28, 2020. The credit in the current year period was primarily related to an insurance recovery from a fire at one of our stores in the first quarter of 2021. Store closure and other costs, net during the thirteen weeks ended June 28, 2020 primarily related to ongoing activity associated with our closed store locations.

Interest expense, net

	Thirteen weeks ended			
	July 4, 2021	June 28, 2020	Change	% Change
Long-term debt	$ 1,160	$ 2,256	$ (1,096)	(49)%
Capital and financing leases	228	241	(13)	(5)%
Deferred financing costs	141	141	—	0%
Interest rate hedge and other	1,409	1,099	310	28%
Total interest expense, net	$ 2,938	$ 3,737	$ (799)	(21)%

The decrease in interest expense, net was primarily due to the decrease in the average balance outstanding under the Amended and Restated Credit Agreement. This was partially offset by the interest expense paid as a result of an unfavorable interest rate swap.

Income tax provision

Income tax provision differed from the amounts computed by applying the U.S. federal income tax rate to pretax income as a result of the following:

	Thirteen weeks ended	
	July 4, 2021	June 28, 2020
Federal statutory rate	21.0%	21.0%
Change in income taxes resulting from:		
State income taxes, net of federal benefit	4.7%	4.6%
Enhanced charitable contributions	(1.2)%	(0.9)%
Federal credits	(0.4)%	(0.3)%
Share-based payment awards	(0.1)%	0.0%
Other, net	0.4%	0.3%
Effective tax rate	24.4%	24.7%

The effective tax rate decreased to 24.4% for the thirteen weeks ended July 4, 2021 from 24.7% for the thirteen weeks ended June 28, 2020. The decrease in the effective tax rate was primarily due to an increase in enhanced charitable contributions.

Net income

	Thirteen weeks ended			
	July 4, 2021	June 28, 2020	Change	% Change
Net income	$ 61,014	$ 67,002	$ (5,988)	(9)%
Percentage of net sales	4.0%	4.1%	(0.1)%	

Net income decreased $6.0 million primarily due to decreased net sales and unfavorable margin impact, partially offset by lower selling, general and administrative expenses.

Diluted earnings per share

	Thirteen weeks ended			
	July 4, 2021	June 28, 2020	Change	% Change
Diluted earnings per share	$ 0.52	$ 0.57	$ (0.05)	(9)%
Diluted weighted average shares outstanding	117,831	118,189	(358)	

The decrease in diluted earnings per share of $0.05 was driven by lower net income.

Results of Operations for Twenty-six Weeks Ended July 4, 2021 and June 28, 2020

The following tables set forth our unaudited results of operations and other operating data for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods. All dollar amounts are in thousands, unless otherwise noted.

Comparison of Twenty-six Weeks Ended July 4, 2021 to Twenty-six Weeks Ended June 28, 2020

	Twenty-six weeks ended	
	July 4, 2021	June 28, 2020
Unaudited Quarterly Consolidated Statement of Income Data:		
Net sales	$ 3,097,440	$ 3,289,327
Cost of sales	1,961,185	2,082,836
Gross profit	1,136,255	1,206,491
Selling, general and administrative expenses	876,082	925,181
Depreciation and amortization (exclusive of depreciation included in cost of sales)	61,659	61,570
Store closure and other costs, net	1,629	(612)
Income from operations	196,885	220,352
Interest expense, net	5,929	8,564
Income before income taxes	190,956	211,788
Income tax provision	46,894	52,976
Net income	$ 144,062	$ 158,812
Weighted average shares outstanding - basic	117,645	117,688
Diluted effect of equity-based awards	620	289
Weighted average shares and equivalent shares outstanding	118,265	117,977
Diluted net income per share	$ 1.22	$ 1.35

	Twenty-six weeks ended	
	July 4, 2021	June 28, 2020
Other Operating Data:		
Comparable store sales growth	(9.7)%	9.9%
Stores at beginning of period	362	340
Closed	—	—
Opened	1	10
Stores at end of period	363	350

Net Sales

	Twenty-six weeks ended			
	July 4, 2021	June 28, 2020	Change	% Change
Net sales	$ 3,097,440	$ 3,289,327	$ (191,887)	(6)%
Comparable store sales growth	(9.7)%	9.9%		

Net sales during the twenty-six weeks ended July 4, 2021 totaled $3.1 billion, a decrease of $191.9 million, or 6%, over the same period of the prior fiscal year. The sales decrease was primarily due to a 9.7% decrease in comparable store sales as a result of cycling the impact of COVID-19 in the prior year. Comparable stores contributed approximately 96% of total sales for the twenty-six weeks ended July 4, 2021 and approximately 94% for the twenty-six weeks ended June 28, 2020.

Cost of sales and gross profit

	Twenty-six weeks ended			
	July 4, 2021	June 28, 2020	Change	% Change
Net sales	$ 3,097,440	$ 3,289,327	$ (191,887)	(6)%
Cost of sales, buying and occupancy	1,961,185	2,082,836	(121,651)	(6)%
Gross profit	1,136,255	1,206,491	(70,236)	(6)%
Gross margin	36.7%	36.7%	0.0%	

Gross profit totaled $1.1 billion during the twenty-six weeks ended July 4, 2021, a decrease of $70.2 million, or 6%, compared to the twenty-six weeks ended June 28, 2020, primarily driven by decreased sales volume for the reasons discussed above. Strategic initiatives contributed to gross margin remaining flat at 36.7% for the twenty-six weeks ended July 4, 2021 and June 28, 2020 despite the decrease in sales.

Selling, general and administrative expenses

	Twenty-six weeks ended			
	July 4, 2021	June 28, 2020	Change	% Change
Selling, general and administrative expenses	$ 876,082	$ 925,181	$ (49,099)	(5)%
Percentage of net sales	28.3%	28.1%	0.2%	

Selling, general and administrative expenses decreased $49.1 million, or 5%, compared to the twenty-six weeks ended June 28, 2020. The decrease is primarily due to lower compensation and other COVID driven costs in the current year, partially offset by new stores opened since the comparable period in the prior year. As a percentage of net sales, selling, general and administrative expenses increased to 28.3% from 28.1% due to the deleveraging effect from lower sales.

Depreciation and amortization

	Twenty-six weeks ended			
	July 4, 2021	June 28, 2020	Change	% Change
Depreciation and amortization	$ 61,659	$ 61,570	$ 89	0%
Percentage of net sales	2.0%	1.9%	0.1%	

Depreciation and amortization expenses (exclusive of depreciation included in cost of sales) primarily consists of depreciation and amortization for buildings, store leasehold improvements, and equipment. As a percentage of net sales, depreciation and amortization expenses (exclusive of depreciation included in cost of sales) increased slightly to 2.0% from 1.9% as a result of sales deleverage.

Store closure and other costs, net

	Twenty-six weeks ended			
	July 4, 2021	June 28, 2020	Change	% Change
Store closure and other costs, net	$ 1,629	$ (612)	$ 2,241	366%
Percentage of net sales	0.1%	0.0%	0.1%	

Store closure and other costs, net increased $2.2 million to $1.6 million, compared to a credit of $0.6 million for the twenty-six weeks ended June 28, 2020. The increase was driven by inventory loss and additional expenses, net of insurance recovery, related to the impact of winter storms at several of our stores and a fire at one of our stores during the twenty-six weeks ended July 4, 2021. Store closure and other costs, net during the twenty-six weeks ended June 28, 2020 primarily represents a recognized gain on the assignment of the lease for one of our closed locations in the first quarter of 2020.

Interest expense, net

	Twenty-six weeks ended			
	July 4, 2021	June 28, 2020	Change	% Change
Long-term debt	$ 2,341	$ 6,303	$ (3,962)	(63)%
Capital and financing leases	463	484	(21)	(4)%
Deferred financing costs	282	282	—	0%
Interest rate hedge and other	2,843	1,495	1,348	90%
Total interest expense, net	$ 5,929	$ 8,564	$ (2,635)	(31)%

The decrease in interest expense, net is primarily due to the decrease in the average balance outstanding under the Amended and Restated Credit Agreement. This is partially offset by the interest expense paid as a result of an unfavorable interest rate swap.

Income tax provision

Income tax provision differed from the amounts computed by applying the U.S. federal income tax rate to pretax income as a result of the following:

	Twenty-six weeks ended	
	July 4, 2021	June 28, 2020
Federal statutory rate	21.0%	21.0%
Decrease in income taxes resulting from:		
State income taxes, net of federal benefit	4.8%	4.7%
Enhanced charitable contributions	(1.2)%	(0.8)%
Federal Credits	(0.4)%	(0.4)%
Share-based payment awards	(0.1)%	0.2%
Other, net	0.5%	0.3%
Effective tax rate	24.6%	25.0%

The effective tax rate decreased to 24.6% for the twenty-six weeks ended July 4, 2021 from 25.0% in the same period last year. The decrease in the effective tax rate is primarily due to an increase in enhanced charitable contributions along with tax benefits for share-based payment awards in the current year period compared to prior year period detriments, partially offset by an increase in disallowed executive compensation.

Net income

	Twenty-six weeks ended			
	July 4, 2021	June 28, 2020	Change	% Change
Net income	$ 144,062	$ 158,812	$ (14,750)	(9)%
Percentage of net sales	4.7%	4.8%	(0.1)%	

Net income decreased $14.8 million primarily due to decreased net sales, partially offset by lower selling, general and administrative expenses.

Diluted earnings per share

	Twenty-six weeks ended			
	July 4, 2021	June 28, 2020	Change	% Change
Diluted earnings per share	$ 1.22	$ 1.35	$ (0.13)	(10)%
Diluted weighted average shares outstanding	118,265	117,977	288	

The decrease in diluted earnings per share of $0.13 was driven by lower net income.

Return on Invested Capital

In addition to reporting financial results in accordance with generally accepted accounting principles, or GAAP, we provide information regarding Return on Invested Capital (referred to as "ROIC") as additional information about our operating results. ROIC is a non-GAAP financial measure and should not be reviewed in isolation or considered as a substitute for our financial results as reported in accordance with GAAP. ROIC is an important measure used by management to evaluate our investment returns on capital and provides a meaningful measure of the effectiveness of our capital allocation over time.

We define ROIC as net operating profit after tax (referred to as "NOPAT"), including the effect of capitalized operating leases, divided by average invested capital. Operating lease interest represents the add-back to operating income driven by the hypothetical interest expense we would incur if the property under our operating leases were owned or accounted for as a finance lease (capital lease prior to adoption of ASC 842). The assumed ownership and associated interest expense are calculated using the discount rate for each lease as recorded as a component of rent expense within selling, general and administrative expenses. Invested capital reflects a trailing twelve-month average.

As numerous methods exist for calculating ROIC, our method may differ from methods used by other companies to calculate their ROIC. It is important to understand the methods and the differences in those methods used by other companies to calculate their ROIC before comparing our ROIC to that of other companies.

Our calculation of ROIC for the fiscal periods indicated was as follows:

	Rolling Four Quarters Ended	
	July 4. 2021 [1]	June 28, 2020
	(dollars in thousands)	
Net Income [2]	$ 272,700	$ 216,705
Special items, net of tax [3], [4]	3,134	3,431
Interest Expense, net of tax [4]	9,304	14,557
Net operating profit after tax (NOPAT)	$ 285,138	$ 234,693
Total rent expense, net of tax [4]	151,041	136,883
Estimated depreciation on operating leases, net of tax [4]	(84,411)	(69,063)
Estimated interest on operating leases, net of tax [4], [5]	66,630	67,820
NOPAT, including effect of operating leases	$ 351,768	$ 302,513
Average working capital	153,098	75,016
Average property and equipment	722,570	738,999
Average other assets	568,964	566,192
Average other liabilities	(103,198)	(99,934)
Average invested capital	$ 1,341,434	$ 1,280,273
Average operating leases [6]	1,208,682	1,184,185
Average invested capital, including operating leases	$ 2,550,116	$ 2,464,458
ROIC, including operating leases	13.8%	12.3%

(1) Fiscal 2020 included 53 weeks.
(2) Net income amounts represent total net income for the past four trailing quarters.
(3) Special items include professional fees related to strategic initiatives.
(4) Net of tax amounts are calculated using the normalized effective tax rate for the periods presented.

(5) 2021 and 2020 estimated interest on operating leases is calculated by multiplying operating leases by the 7.2% and 7.6% discount rate, respectively, for each lease recorded as rent expense within direct store expense.
(6) Average operating leases represents the average net present value of outstanding lease obligations over the past four trailing quarters.

Liquidity and Capital Resources

The following table sets forth the major sources and uses of cash for each of the periods set forth below, as well as our cash, cash equivalents and restricted cash at the end of each period (in thousands):

	Twenty-six weeks ended	
	July 4, 2021	June 28, 2020
Cash, cash equivalents and restricted cash at end of period	$ 222,754	$ 329,594
Cash flows from operating activities	$ 177,305	$ 393,348
Cash flows used in investing activities	$ (39,421)	$ (64,571)
Cash flows used in financing activities	$ (86,571)	$ (85,968)

We have generally financed our operations principally through cash generated from operations and borrowings under our credit facilities. Our primary uses of cash are for purchases of inventory, operating expenses, capital expenditures primarily for opening new stores, remodels and maintenance, repurchases of our common stock and debt service. We believe that our existing cash, cash equivalents and restricted cash, and cash anticipated to be generated from operations will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend on many factors, including the impact of the COVID-19 pandemic on our operations, new store openings, remodel and maintenance capital expenditures at existing stores, store initiatives and other corporate capital expenditures and activities. Our cash, cash equivalents and restricted cash position benefits from the fact that we generally collect cash from sales to customers the same day or, in the case of credit or debit card transactions, within days from the related sale.

Operating Activities

Cash flows from operating activities decreased $216.0 million to $177.3 million for the twenty-six weeks ended July 4, 2021 compared to $393.3 million for the twenty-six weeks ended June 28, 2020. The decrease in cash flows from operating activities was primarily a result of changes in working capital.

Cash flows provided by/(used in) operating activities from changes in working capital were ($32.2) million in the twenty-six weeks ended July 4, 2021 compared to $166.0 million in the twenty-six weeks ended June 28, 2020. The decrease was primarily driven by elevated accrual balances in the prior year period.

Investing Activities

Cash flows used in investing activities consist primarily of capital expenditures in new stores, including leasehold improvements and store equipment, capital expenditures to maintain the appearance of our stores, sales enhancing initiatives and other corporate investments. Cash flows used in investing activities were $39.4 million and $64.6 million, for the twenty-six weeks ended July 4, 2021 and June 28, 2020, respectively.

We expect capital expenditures to be in the range of $110 - $125 million in 2021, including expenditures incurred to date, net of estimated landlord tenant improvement allowances, primarily to fund investments in new stores, remodels, maintenance capital expenditures and corporate capital expenditures. We expect to fund our capital expenditures with cash on hand and cash generated from operating activities.

Financing Activities

Cash flows used in financing activities were $86.6 million for the twenty-six weeks ended July 4, 2021 compared to $86.0 million for the twenty-six weeks ended June 28, 2020. During the twenty-six weeks ended July 4, 2021, cash flows used in financing activities primarily consisted of $87.5 million for stock repurchases.

During the twenty-six weeks ended June 28, 2020, cash flows used in financing activities primarily consisted of $87.0 million in payments on our credit facilities.

Long-Term Debt and Credit Facilities

Long-term debt outstanding was $250.0 million as of July 4, 2021 and January 3, 2021.

See Note 4, “Long-Term Debt and Finance Lease Liabilities” of our unaudited consolidated financial statements for a description of our Amended and Restated Credit Agreement and our Former Credit Facility (each as defined therein).

Share Repurchase Program

Our board of directors from time to time authorizes share repurchase programs for our common stock. The following table outlines the share repurchase programs authorized by our board, and the related repurchase activity and available authorization as of July 4, 2021.

Effective date	Expiration date	Amount authorized	Cost of repurchases	Authorization available
February 20, 2018	December 31, 2019	$ 350,000	$ 308,017	$ —
March 3, 2021	March 3, 2024	$ 300,000	$ 87,484	$ 212,516

The shares under our current repurchase program may be purchased on a discretionary basis from time to time through March 3, 2024, subject to general business and market conditions and other investment opportunities, through open market purchases, privately negotiated transactions, or other means, including through Rule 10b5-1 trading plans. Our board’s authorization of the share repurchase program does not obligate our Company to acquire any particular amount of common stock, and the repurchase program may be commenced, suspended, or discontinued at any time.

Share repurchase activity under our repurchase program for the periods indicated was as follows (total cost in thousands):

	Thirteen weeks ended		Twenty-six weeks ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Number of common shares acquired	3,150,649	—	3,280,617	—
Average price per common share acquired	$ 26.75	$ —	$ 26.67	$ —
Total cost of common shares acquired	$ 84,275	$ —	$ 87,484	$ —

Shares purchased under our repurchase programs were subsequently retired.

Subsequent to July 4, 2021 and through August 5, 2021, we repurchased an additional 1.0 million shares of common stock for $25.0 million.

Contractual Obligations

We are committed under certain operating and finance leases for the rental of land, buildings, and for rental of facilities and equipment. These leases expire or become subject to renewal clauses at various dates through 2040.

The following table summarizes our contractual obligations as of July 4, 2021, and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			(in thousands)		
$700.0 million Credit Agreement [1]	$ 250,000	$ —	$ 250,000	$ —	$ —
Interest payments on $700.0 million Credit Agreement [2]	16,797	5,119	11,678	—	—
Finance lease obligations [3]	41,957	2,179	6,345	6,668	26,765
Operating lease obligations [3]	1,857,544	212,946	409,714	347,684	887,200
Totals	$ 2,166,298	$ 220,244	$ 677,737	$ 354,352	$ 913,965

(1) The Amended and Restated Credit Agreement is scheduled to mature, and the commitments thereunder will terminate on March 27, 2023, subject to extensions as set forth therein. These borrowings are reflected in the "1-3 Years" column and discussed in the financing activities section above. See Note 4, "Long-Term Debt and Finance Lease Liabilities" to our unaudited consolidated financial statements located elsewhere in this Quarterly Report on Form 10-Q.

(2) Represents estimated interest payments through the March 27, 2023 maturity date of our Amended and Restated Credit Agreement based on the outstanding amounts as of July 4, 2021 and based on LIBOR rates in effect at the time of this report, net of interest rate swaps.

(3) Represents estimated payments for finance and operating lease obligations as of July 4, 2021. Lease obligations are presented gross without offset for subtenant rentals. We have subtenant agreements under which we will receive $1.0 million for the period of less than one year, $1.8 million for years one to three, $1.7 million for years three to five, and $1.3 million for the period beyond five years.

We have other contractual commitments which were presented under Contractual Obligations in our Annual Report on Form 10-K for the fiscal year ended January 3, 2021, and for which there have not been material changes since that filing through July 4, 2021.

Off-Balance Sheet Arrangements

We do not engage in any off-balance sheet financing activities, nor do we have any interest in entities referred to as variable interest entities.

Impact of Deflation and Inflation

Deflation and inflation in the prices of food and other products we sell may periodically affect our sales, gross profit and gross margin. Food deflation across multiple categories, particularly in produce, could reduce sales growth and earnings if our competitors react by lowering their retail pricing and expanding their promotional activities, which can lead to retail deflation higher than cost deflation that could reduce our sales, gross profit margins and comparable store sales. Food inflation, when combined with reduced consumer spending, could also reduce sales, gross profit margins and comparable store sales. The short-term impact of deflation and inflation is largely dependent on whether or not the effects are passed through to our customers, which is subject to competitive market conditions.

Food deflation and inflation is affected by a variety of factors and our determination of whether to pass on the effects of deflation or inflation to our customers is made in conjunction with our overall pricing and marketing strategies, as well as our competitors' responses. Although we may experience periodic effects on sales, gross profit, gross margins and cash flows as a result of changing prices, we do not expect the effect of deflation or inflation to have a material impact on our ability to execute our long-term business strategy.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. These principles require us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, cash flow and related disclosure of contingent assets and liabilities. Our critical accounting estimates include inventory valuations, lease assumptions, self-insurance reserves, impairment of long-lived assets, fair values of share-based awards, and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

There have been no substantial changes to these estimates, or the policies related to them during thirteen and twenty-six weeks ended July 4, 2021. For a full discussion of these estimates and policies, see "Critical Accounting Estimates" in Item 7 of our Annual Report on Form 10-K for the fiscal year ended January 3, 2021.

Recently Issued Accounting Pronouncements

See Note 2, "Summary of Significant Accounting Policies" to our accompanying unaudited consolidated financial statements contained in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As described in Note 4, "Long-Term Debt and Finance Lease Liabilities" to our unaudited consolidated financial statements located elsewhere in this Quarterly Report on Form 10-Q, we have an Amended and Restated Credit Agreement that bears interest at a rate based in part on LIBOR. Accordingly, we could be exposed to fluctuations in interest rates. Based solely on the $250.0 million principal outstanding under our Amended and Restated Credit Agreement as of July 4, 2021, each hundred basis point change in LIBOR would result in a change in interest expense by $2.5 million annually. We entered into an interest rate swap agreement in December 2017 to manage our cash flow associated with variable interest rates. The notional dollar amount of the two outstanding swaps at July 4, 2021 and January 3, 2021 was $250.0 million under which we pay a fixed rate and received a variable rate of interest (cash flow swap). Taking into account the interest rate swaps, based on the $250.0 million principal outstanding under our Amended and Restated Credit Agreement as of July 4, 2021, each hundred basis point change in LIBOR would result in no change in interest expense annually.

This sensitivity analysis assumes our mix of financial instruments and all other variables will remain constant in future periods. These assumptions are made in order to facilitate the analysis and are not necessarily indicative of our future intentions.

We do not enter into derivative financial instruments for trading purposes (see Note 9, "Derivative Financial Instruments" of our unaudited consolidated financial statements).

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) designed to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to our management, including our Chief Executive Officer (our principal executive officer) and Chief Financial Officer (our principal financial officer), as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures under the Exchange Act as of July 4, 2021, the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

During the quarterly period ended July 4, 2021, there were no changes in our internal controls over financial reporting that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time we are a party to legal proceedings, including matters involving personnel and employment issues, product liability, personal injury, intellectual property and other proceedings arising in the ordinary course of business, which have not resulted in any material losses to date. Although management does not expect that the outcome in these proceedings will have a material adverse effect on our financial condition or results of operations, litigation is inherently unpredictable. Therefore, we could incur judgments or enter into settlements of claims that could materially impact our results.

See Note 6, "Commitments and Contingencies" to our Unaudited Consolidated Financial Statements for information regarding certain legal proceedings in which we are involved.

Item 1A. Risk Factors.

Certain factors may have a material adverse effect on our business, financial condition and results of operations. You should carefully consider the risks and uncertainties referenced below, together with all of the other information in this Quarterly Report on Form 10-Q, including our consolidated financial statements and related notes. Any of those risks could materially and adversely affect our business, operating results, financial condition, or prospects and cause the value of our common stock to decline, which could cause you to lose all or part of your investment.

There have been no material changes to the Risk Factors described under "Part I – Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended January 3, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Equity Securities

The following table provides information about our share repurchase activity during the thirteen weeks ended July 4, 2021.

Period (1)	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs
April 5, 2021 - May 2, 2021	50,497	$ 25.80	50,497	$ 295,488,000
May 3, 2021 - May 30, 2021	1,247,457	$ 26.09	1,247,457	$ 262,936,000
May 31, 2021 - July 4, 2021	1,852,695	$ 27.21	1,852,695	$ 212,516,000

(1) Periodic information is presented by reference to our fiscal periods during the second quarter of fiscal year 2021.

Item 6. Exhibits.

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SPROUTS FARMERS MARKET, INC.

Date: August 5, 2021

By: */s/ Denise A. Paulonis*
Name: Denise A. Paulonis
Title: Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jack L. Sinclair, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sprouts Farmers Market, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2021

/s/ Jack L. Sinclair
Jack L. Sinclair
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF INTERIM CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Denise A. Paulonis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sprouts Farmers Market, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2021

/s/ *Denise A. Paulonis*
Denise A. Paulonis
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Sprouts Farmers Market, Inc. (the "Company"), on Form 10-Q for the quarterly period ended July 4, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jack L. Sinclair, Chief Executive Officer of the Company, certify, based on my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2021

/s/ Jack L. Sinclair
Jack L. Sinclair
Chief Executive Officer
(Principal Executive Officer)

This certification accompanies the Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Sprouts Farmers Market, Inc. (the "Company"), on Form 10-Q for the quarterly period ended July 4, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Denise A. Paulonis, Chief Financial Officer of the Company, certify, based on my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2021

/s/ Denise A. Paulonis
Denise A. Paulonis
Chief Financial Officer
(Principal Financial Officer)

This certification accompanies the Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.