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EDITED TRANSCRIPT

SFM.OQ - Q3 2024 Sprouts Farmers Market Inc Earnings Call

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Sprouts Farmers Market third-quarter 2024 earnings conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Susannah Livingston. Please go ahead.

Susannah Livingston - *Sprouts Farmers Market Inc - Vice President - Investor Relations and Treasury*

Thank you, and good afternoon, everyone. We are pleased you are joining Sprouts on our third-quarter 2024 earnings call. Jack Sinclair, Chief Executive Officer; and Curtis Valentine, Chief Financial Officer, are with me today. The earnings release announcing our third-quarter 2024 results, the webcast of this call, and financial slides can be accessed through our Investor Relations section of our website at investors.sprouts.com.

During this call, management may make certain forward-looking statements, including statements regarding our expectations for 2024 and beyond. These statements involve several risks and uncertainties that could cause results to differ materially from those described in the forward-looking statements. For more information, please refer to the risk factors discussed in our SEC filings and the commentary on forward-looking statements at the end of our earnings release.

Our remarks today include references to non-GAAP measures. Please see the tables in our earnings release to reconcile our non-GAAP measures to comparable GAAP figures.

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With that, let me hand it over to Jack.

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Thanks, Susannah, and good afternoon, everyone. The dedication and hard work of our 33,000 team members drove excellent results in the third quarter, surpassing our expectations. Our sales increased by 14% compared to the third quarter of 2023, including an 8.4% increase in comparable store sales. Additionally, our diluted earning diluted earnings per share grew by 40% from last year.

Firstly, I would like to express my gratitude to the teams in Florida, Georgia, and the Carolinas for their amazing support of their communities during the recent hurricane season. Much work still needs to be done, but our teams continue to demonstrate our core value of care as these communities recover.

The progress we've achieved in the business directly results from aligning our execution with our strategy, focusing on our target customer drives all functions in our business. It begins with our team members who provide exceptional service and create an outstanding in-store experience for our customers, resulting in some of our highest customer service scores.

We are growing our assortment of differentiated attribute-focused products to meet the demands of our health enthusiast customers resulting in increased foot traffic. I'm especially encouraged by the collaboration and coordination across functions in executing exciting merchandising events and providing enhanced customer engagement, which has been instrumental to our success.

Whilst delivering in the short term, we're making significant investments in infrastructure to support the business' growth for many years to come. I will talk more about these later.

For now, I'll hand it to Curtis to review our financial performance in the third quarter and our 2024 outlook. Curtis?

Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

Thanks, Jack, and good afternoon, everyone. For the third quarter, total sales were $1.9 billion, up $232, or 14% from the same period last year. This increase was driven by comparable store sales growth of 8.4% and the addition of new stores. Our comp was split fairly evenly between traffic and basket, and we saw a strong traffic comp both in-store and online.

E-commerce sales also increased by 36%, representing 14.5% of our total sales for the quarter. In addition, Sprout's brand contributed 23% to our total sales for the quarter.

Once again, the company's sales performance was healthy and balanced across all our key comp drivers, categories, and geographies. While all business components remain strong, our sequential improvement from Q2 to Q3 was primarily driven by improved in-store traffic and strong comp performance from new vintages.

In addition, the consumers pivot toward food at home and a growing focus on healthy living is bringing additional customers to Sprouts. We remain disciplined in executing our strategy, which allows us to capitalize on these tailwinds.

In the third quarter, our gross margin was 38.1%, approximately 150 basis points higher than the adjusted gross margin from last year. This increase was due primarily to improve shrink as we lap our challenges in the prior year and leveraged our improvements in inventory management.

In addition to our operational improvement, our step change in sales performance drove additional leverage in our supply chain and further reduced shrink, while our forecasting caught up to these new sales trends and our teams chased additional inventory.

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For the quarter, SG&A totaled $580 million, an increase of $79 million, or approximately 50 basis points of deleverage compared to adjusted SG&A from the same period last year. This deleverage was due to higher incentive compensation for our teams, increased e-commerce fees, and spending against our planned $15 million investment in the business. This was partially offset by leverage from the higher sales.

In the longer term, we remain focused on cost management and looking for opportunities to mitigate our cost headwinds. Store closure and other costs totaled approximately $4 million for the quarter. These are primarily related to the ongoing occupancy costs from our 2023 store closures. Depreciation and amortization, excluding depreciation included in cost sales, was $34 million.

For the third quarter, our earnings before interest and taxes were $122 million. Interest income was $1 million. And our effective tax rate was 25.8%. Net income was $92 million. And diluted earnings per share were $0.91 cents, an increase of 40% compared to adjusted diluted earnings per share from the same period of the prior year.

We opened nine new stores during the third quarter, ending with 428 stores across 23 states. We are excited about the new store success and expanding our growth to more communities. We have nearly 110 approved new stores and more than 70 executed leases in the pipeline for the years ahead.

Our strong and healthy balance sheet has been the foundation of our financial performance. Through the third quarter, we generated $520 million in operating cash flow, which enabled us to self-fund our investments of $132 million in capital expenditures net of landlord reimbursement to grow our business.

With our robust cash generation, we paid down our outstanding credit revolver in the second quarter and returned $130 million to our shareholders by repurchasing nearly 1.9 million shares year to date. We have $559 million remaining under our $600 million share repurchase authorization.

At quarter end, we have $310 million in cash and cash equivalents, no outstanding borrowings under our credit facility, and $20 million of letters of credit.

Turning to our outlook, for the full year, we expect total sales growth to be approximately 12% and comp sales to be approximately 7%. Adjusted earnings before interest in taxes are expected to be between $490 million and $495 million. And adjusted earnings per share are expected to be between $3.64 and $3.68 assuming no additional share of purchases. That said, we do expect to continue to repurchase shares opportunistically.

We also expect our corporate tax rate to be approximately 25%. During the year, we expect capital expenditures net of landlord reimbursements to be between $205 million and $215 million. We plan to open 33 new stores instead of our previous guidance of 35.

Due to the impact of hurricane Milton and to give the communities and our team members time to recover, we have decided to delay two planned store openings in Florida until the first quarter of 2025.

For the fourth quarter, we expect comp sales to range from approximately 8% to 10% and adjusted earnings per share to be between $0.67 and $0.71. To add more color to our fourth quarter, we expect continued gross margin expansion of approximately 100 basis points, partially offset by continued pressure on SG&A due to new store deleverage, strategic investments, and higher e-commerce fees due to the continued strength of our online sales.

And with that, I'll turn it back to Jack.

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Thanks Curtis. We've made significant progress this year against our strategy and are seeing positive outcomes. Our successes include enhancing our product assortment, improving customer engagement and experience, and operational advancements, all while strengthening our unique culture.

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Our target customers are at the center of our strategy, and these same customers are part of a growing community around a healthier lifestyle. That community includes entrepreneurs, growers, and suppliers, and we at Sprouts are proud to be part of this movement. This has inspired us to update and roll out our purpose to our internal teams to help people live and eat better.

This purpose has always been in our DNA, but needed to be put into simple words that resonate with every team member, from a cashier in Greenville, South Carolina, to a vice president in our store support office. This purpose drives everything we do and will help us maintain our focus on serving our team members, communities, and customers into the future, while we strive to make the world a little bit better product by product and store by store.

On the topic of products, our differentiated assortment is thoughtfully curated and designed to cater to our health enthusiast customers. To highlight a few examples, we are consistently expanding our range of organic produce, which is experiencing faster growth than our conventional produce.

Organic products now comprise more than 46% of our total produce sales, thus increasing accessibility to organic options. Our protein programs have expanded by offering only non-antibiotic chicken and pasture-raised brands such as Pasture Bird.

We've taken advantage of the consumer's pivot back towards food at home by increasing our meal solutions across our fresh and frozen departments, with items like our grass-fed beef, stuffed peppers, black garlic marinated NAE chicken skewers, and our organic grass-fed meatballs. These unique natural products you can only find at Sprouts and they lead our category growth.

Our ongoing innovation efforts continue to be a differentiator for us. This year, over 170 new items have transitioned from our innovation center to our inline shelves. As Sprouts is becoming a vendor of choice for new trend forward brands, our foraging team also continues to explore new tastes and trends from across the globe, from trade shows to restaurants for inspiration.

Our Sprouts brand continues to grow and gain affinity with unique items and attributes that our customers desire. We have released more than 300 new Sprouts brand items this year, such as Italian-made stock gnocchi, frozen risottos sourced from Italy, and our latest Moroccan and al pastor flavored chickpeas.

We're very excited about the launch of our new line of more than 130 premium body care and home fragrance items called Real Root by Sprouts this past month. They're free from many things including parabens, phthalates, artificial fragrances, and colors. These products help customers live healthier, nurturing inner and outer well-being.

On the customer engagement front, our marketing efforts have successfully attracted more customers to visit our stores. We continue to tailor our marketing strategy to target our unique customers and adjust our media approach based on regional and market differences.

One area that has played a key role in our acceleration is social media. Our team has brought our unique assortment and experience to life and has found willing partners with many influencers and celebrities whose products and purposes align with ours. Their energy and passion inspire us. What is even more encouraging is seeing authentic posts from our customers, sharing their experiences in store and with our products.

As a result of our marketing efforts, we're seeing more new customers, improved customer retention, and increased shopping frequency, leading to strong comp traffic momentum. Additionally, we're seeing more customers from younger cohorts, which bodes well for the future. To further support our long-term customer engagement, we're investing in technology to build a customer data foundation to tailor and personalize our customer communications.

Our new loyalty program will be our data acquisition engine for personalization efforts. While still early, we're pleased with the progress we're making and the learnings we're gathering from our loyalty test.

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Thank you to the teams in Nashville and Tucson for their support and enthusiasm. Sign-ups and scans are meeting and even slightly exceeding our early goals. We plan to extend this test to a couple more markets in early 2025 to accelerate our learnings that will inform our rollout later in 2025.

A differentiated assortment and strong marketing are key, but it doesn't tell the full story of our Q3 performance. Outstanding collaboration and execution across functions are required to bring it all together and deliver these results. Our supply chain, merchandising, marketing, IT and operations teams have been aligning early and often, working seamlessly to ensure we deliver an exceptional in-store experience.

As part of our continuous efforts to showcase differentiated and attribute-driven products, we are organizing customer-centric events for an engaging and enhanced customer experience. In July, we debuted the first Sprouts brand Discovery Days. It was well received and drove outsized growth for our brand.

Stores have embraced the opportunity to go big, and we saw some tremendous displays and sampling showcasing better for you products such as our rebranded coconut rolls and fall seasonal items. We also had an outstanding back-to-school event focusing on our healthy school snacks and lunch offerings, and our chef created deli and meat meals for those busy evenings.

On top of this work, our operations team was laser-focused on delivering exceptional customer service and an in-store experience that fosters long-term loyalty. This commitment to bringing our unique products to life through exemplary service, engaging sampling and in-store execution continues to set us apart and win customers.

We also optimize our operations by advancing our technology and processes, improving in stock, reducing shrink, boosting sales, and enhancing the customer shopping experience. Regarding our team, we've worked hard to create a culture that attracts, develops, and retains top talent, building Sprouties for the long term.

We recently held our annual SproutsCon conference, which brought together all our store managers and various department managers, with over 1,600 team members in attendance. During the event, the operations team learned about our business initiatives, received leadership development training, and were introduced to new products in our innovation pipeline, some through live vendor pitch slams.

Over 1,500 vendors attended our private show to discuss their products, allowing each team member to bring back their knowledge to the stores and share it with their customers and fellow team members. Our HR teams are focused on coaching and leadership training this year to build new leaders and our talent engines to support our growth objectives. They're doing a great job.

As we acknowledge that we have some macro tailwinds at our back, we are putting in the effort to establish a strong foundation that will enable the business to thrive in every environment. Our third-quarter results and overall momentum continue to confirm our belief in our target customer-focused strategy. That said, we know there's plenty of work to do and each day presents new challenges.

We are more committed than ever to making healthier options available to our customers in as many communities as possible. Our results enable us to keep investing in our growth. With the outstanding support of our team members across the company, we are confident we will continue to deliver value to our shareholders. We're enthusiastic about the opportunities ahead and our teams are rising to the challenge.

We look forward to updating you on our progress and connecting with many of you in the coming months. And with that, I'd like to turn it over for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mark Carden, UBS.

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Mark Carden - *UBS - Analyst*

So another really strong comp for you guys this quarter. How is the cadence of the comp from month to month? Did you guys see much of an impact from the hurricanes to your sales? And is it fair to assume there's been a bit of an acceleration thus far in 4Q today, just given the midpoint of your guidance range?

Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

Hey, Mark, it's Curtis. We had a good quarter. And a little bit of benefit from the hurricanes, but we're not heavily penetrated in the southeast. And fortunately, Helene kind of missed our stores. And then the Florida, Milton certainly impacted Florida. So there's a little bit of pull forward there. Neither was quite as bad as it was anticipated to be, but not a huge driver to the quarter overall. And yes, saw a little bit of acceleration late and good momentum heading into what we've seen so far in P10.

Mark Carden - *UBS - Analyst*

Great. And then as a follow-up, you talked about some stronger comp performance in your newer vintages. How much of a contribution do you think you're getting from your waterfall at this point? And how should we think about this going forward as you further ramp your store growth? Has this changed at all structurally? Thank you.

Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

No structural changes. I'll take that in reverse order. I think we talked over the last few calls that the stores from a couple years ago kind of started a little lower than our box economics, kind of algorithm view, but they've been comping faster. So we are playing out as expected, and we think that they'll get to that mature state that we have in our box economics.

I'll give specifics, but we're getting, I don't know, a little over, call it 100, a little more than 100 basis points probably from those new or recent vintages. So we really look at three or four years' worth of stores that are comping is out comping the core and they're doing a nice job for us.

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

And Mark, we're very excited by stores that have been on the ground for two or three years. I think there was a little bit of -- when we opened during COVID, they were probably smaller than we'd like to start with. So we're getting a benefit from that. But overall, in markets where we haven't been well established, we're seeing a really strong response from the consumers in those markets.

Operator

Rupesh Parikh, Oppenheimer.

Rupesh Parikh - *Oppenheimer & Co., Inc. - Analyst*

Thanks for taking my question and congrats on the very strong quarter. So just going back to -- obviously, strong guide for Q4 on the comp side. How do you guys feel about the sustainability that complement them that you're seeing in the business? Is it something that you believe can continue to next year? So just want to get a sense of if there's anything unsustainable in terms of what you guys are seeing right now.

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Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Well, I think the first thing we want to say is there's a huge upside in our customer base. We've still got a very small share of our customers' wallet, and we're doing some things that seem to be stimulating the customers pretty well. I'm very excited by how our marketing teams are shaping the message and using media effectively and being very thoughtful about that.

I think we've learned a lot this year, which we'll be able to use even more effectively next year. So I think that's an encouraging sign for us. And as I said in the script, the execution at store level continues to get better and better. Our in-stocks are getting better, the execution behind that.

We've invested a lot of money in infrastructure and systems over the last couple of years in terms of getting our business more in-stock and more in-tune with what needs to happen on a day-to-day basis in the stores. So I'm very encouraged that our operation execution will continue to drive some comp sales for us, encourage that our marketing teams will continue to get better and better at picking the right messages and sending those messages in the right place.

So there's a lot of encouragement in our business and there's a lot of upside to go with our customers. Curtis, I don't know if you want to expand on that.

Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

Yeah. No, I think, we've had a few -- we've called out a few one-timers. Again, the hurricanes was a little bit of helper. Produce season was pretty strong. We've added channels in the last couple of years in the digital business, but those are pretty small in the grand scheme of an 8.4 comp in the third quarter.

So as Jack says, for now, we've got good momentum. Expect that to continue. When we come up against it later next year, we feel really confident in a 2 to 4 algorithm comp that we can do that in any environment. We're certainly building a business to deliver results in any environment.

Mark Carden - *UBS - Analyst*

Great. And maybe just one follow-up question. So I know this quarter you weren't able to leverage just given some of the loyalty program investments, higher incentive comp. Any insight in terms of what you think could be a normalized leverage point as we look beyond this year?

Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

I'll just say it will normalize next year. Certainly, we've gotten one-time things in there with the incentive and the investments that will go away and will help offset some of the pressure points in the business from growth and wages and e-com. And then things are getting a little bit better.

Again, e-com won't have quite the penetration jump that it had this year, so there'll be less pressure from that. The labor market's been pretty good for us, so a little bit less pressure there, although we'll continue to invest in talent. And so it'll be a much more normalized 2025.

Teams are working through the budget process right now. And so we'll have more specifics when we get to February. But we should have a much more normal year in 2025.

Operator

Krisztina Katai, Deutsche Bank.

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Krisztina Katai - *Deutsche Bank - Analyst*

I add my congratulations as well. I wanted to ask about new store performance, which came in very strong. I think, based on our calculations, it improved around 90% compared to the previous, around mid-70s.

Can you talk a little about what you see as some of the bigger drivers behind this improvement? Anything you can share in terms of how some of the most recent vintages are ramping relative to those that are a couple of years old? And could this be the higher level of NSP, the normal range going forward?

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Yeah, Krisztina. We're very encouraged by the one, two, three, four years vintages. They're all playing a pretty strong role in terms of how they're coming through comp wise.

Why are we getting a little bit better? And we are getting a little bit better opening stores. One, I think, is our marketing teams are getting more honed in terms of being very specific by market in terms of how we're bringing our brand to that marketplace.

And the second thing is, I think, our teams behind the scenes are picking even the work that we've been doing in terms of getting the modeling right, so that we understand where to build stores, how to build stores, where to build stores that are directly related to our target customer and working very closely with people in those marketplaces so that when we build stores, they're being built in exactly the right part of town and the right corner on the right road.

So I think there's a combination of location, understanding the customer, and execution behind the marketing teams. And to be honest, the new store opening teams have done a really nice job for us at making these things come alive. And it's really gratifying when you go to these stores and see the lines of people outside. And a lot of people come in and are genuinely surprised by the assortment and the offer and excited by it.

So it certainly gives us a lot of confidence in the future as we get a little bit better honing this new store program.

Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

And Krisztina, I just have a couple things. One is density matters. So as we've opened more and more stores in some of our larger markets, certainly, you're getting word of mouth and awareness before we even start the new store program, which is great.

And then on the productivity calc itself, the denominators is advantageous because we're opening smaller stores. So that's a little bit of why it would be better than that kind of historical 75% on that new store productivity calc.

Krisztina Katai - *Deutsche Bank - Analyst*

Great, thanks. And just for a follow-up, I wanted to ask about your sort of target customer segments, but really tie it in with some of the newer households that you have started to shop with you. How are they performing in terms of frequency or wallet share relative to your overall base? Just any insights that you could share in terms of how we should think about their stickiness and then potential contribution on a go-forward basis. Thank you.

Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

Sure. A little -- on the newer customers we're seeing -- or seeing the frequency increase, which means we're seeing some smaller baskets. So we're seeing more transactions in kind of a two-, three-, four-, five-unit range. And so there's a little bit of a mix headwind there, or mix change there, so to speak.

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I think we're also really pleased because we're seeing a lot of younger customers coming into our stores. So in that 18 to 34 cohort is one of the ones where we've seen the strongest growth. And I think that's a credit to our marketing team and the work they're doing in social media and bringing in those younger customers. So a little bit of color around the customer cohort frequency increase, but we're pleased with where we're headed there.

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

And I think the stickiness, Krisztina, kind of comes from this growing interest in health and attribute-based products. So I think, increasingly, it's very clear that the people that are getting interested in this, get more and more interested, and we're finding that that's contributing to, I think, the increased number of people that are coming back in more consistently than they were in the past.

Operator

Jacob Aiken-Phillips, Melius Research.

Jacob Aiken-Phillips - *Melius Research - Analyst*

So I got -- I'm curious, just doing the math, it seems like 4Q might be a little conservative or at least there's like a slowdown in comp sales. So just curious your thoughts on that. And then I guess going forward, a lot of people are asking if you can continue to maintain these comp sales because your valuation is kind of high. So I'm just wondering what are the bigger drivers, not just in 2025, but over the next two or three years for developing those comps.

Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

I'll cover the first part, and then I'll let Jack cover drivers. Well, I think the one year is an acceleration at the midpoint, slightly higher than the 8.4 on Q3, and the two years flat to Q3. So I don't think it's a deceleration in the guide or in the performance in the way we've guided the business.

And then we feel good about what we alluded to a few minutes ago, but I'll let Jack cover some of the drivers and why we feel good about the sales.

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Yeah. We feel very confident that our top line can continue to move in the right direction, and that will flow through in terms of bringing it through in terms of our earnings. So we're feeling confident that our customers are in good shape, that the customers that shop with us are pretty resilient to any economic conditions that come at them.

We're pretty confident that we're taking some, as I said earlier, marketing, operational, and merchandising initiatives that should continue to drive a little bit more share of wallet of the existing customers that we have. And this health trend is a very real one. And it's one that I think we're probably benefiting from that tailwind at the moment. And I think that tailwind ain't going to go away anytime soon.

So I think that gives us some confidence that we can comp the comp going forward. And we don't think the share price is too high at all, sir.

Jacob Aiken-Phillips - *Melius Research - Analyst*

And I wasn't trying to say it was too high. Just talking about growth. What about just the same from a bottom-line perspective for 4Q, like you beat and raise every quarter is you don't consider 4Q conservative?

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Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

I think it's -- again, the midpoint kind of put it right in line with what we delivered in Q3. Certainly, we aspire to beat what we've said. We were certainly going to deliver what we say and we aspire to beat it every quarter.

So we've got some -- there's some things going on in the fourth quarter. We've got an election next week and we've got the holidays after that. And then we'll head into our healthy new year and fresh start. So a lot going on the last part of the quarter. Continues to be pressure on the consumer. And so we'll see how it all plays out as they're moving their way through the holiday, but we feel good about our guidance.

Operator

Ken Goldman, JPMorgan.

Ken Goldman - *JPMorgan - Analyst*

Jack, you talked about continuing to invest in the business. Obviously, you're getting great returns on a lot of your investments right now.

There's an article or two out there about how to fund some of these investments. Sprouts is considering, I don't want to say leaning on its vendors, but maybe asking its vendors to work with it a little closer in terms of costs per item to help fund that growth so that those vendors can grow successfully with you.

I don't want to go into more detail than that other than there have been a couple articles and a couple people asking about it. I'm just trying to get a sense of how valid that is. And if it is valid, what has the receptivity been among some of your vendors to the idea that maybe they want to share in some of the investment side of your growth? If that's a fair question.

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Of course it's a fair question, Ken. I think it's something our vendors are a light blood of how we're going to operate going forward and how we've operated going past.

Differentiation comes from a set of vendors who, as I said in the script, who are enthusiastic, who are very innovative, creative, entrepreneurial. And we're working very hard with all of that group of entrepreneurs and businesses and companies to try -- we want to try and be at the head of the curve in terms of these innovative products. And we're working very hard at that.

And as we build new stores and as we build our comp momentum and build our customer momentum, what we bring is some efficiency to how we work. We're a fair relative, we have been and becoming less, so a relatively immature company. And how we work with our vendors can drive real efficiency for the vendors.

And our aspiration -- and we're having very detailed conversations with our vendors. And it's about how can we make them more efficient, how can we become more efficient, how can that efficiency drive into better opportunities for our customer and for our customers to get access to products and better opportunities, quite frankly, for us to make a little bit more margin.

You've seen our margins over the last few years. So this combination of efficiency with the vendor, I'm envisaging that our vendors will become much more profitable working with us going forward. And we're getting a really good dialogue going with our companies on that. And it's really intense work, and it's great.

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The merchants are doing really good work and the vendors are responding really well because they can see the opportunity and they're very excited about this customer base that we have, which is pretty unique and pretty differentiated. So it's become a really -- it's been a very enthusiastic reception from the vendors and the merchants.

And they're having to think more intensely about how they work forward over two, three, four, five years with vendors. If we can give commitments to inventory, give commitments to growers and farmers over a long period of time, they can invest appropriately in their business to drive their own profitability and then bring even more and get on the virtue cycle of bringing even more positive products to it.

So, yeah, we are definitely having a lot of dialog with our vendors, and it's very positive dialogue that we think is going to stand us in good stead for many years to come in terms of the way we're operating. And it's been part of us growing up as a company, Ken.

Operator

Robert Ohmes, Bank of America.

Robert Ohmes - *BofA Global Research - Analyst*

Great quarter. Hey, Jack, you mentioned social media as part of the -- play to roll in the acceleration here. Can you talk a little more about how impactful social media has been? And maybe with that, when you think about an 8% to 10% comp in the fourth quarter, what's the difference between being at 10% in the fourth quarter versus 8% in your mind?

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Well, I'll let Curtis do the 10% and the 8% conversation. The social media, what we've got very clearly in social media is literally -- I'll misquote the numbers, but we've gone from millions to billions of impressions when you get into the real specifics of what's happening. And social media for us, our teams have done a lot of work on this in terms of really bringing forward the messaging around very specific messages that have resonated well.

We've had some support from some really interesting celebrities as well as part of that, which clearly drives a lot of interest in our products. And we see some pretty extraordinary responses.

We've got a product called sea moss out there at the moment, which has really responded, amazingly responded to. I'm not quite sure what we all do with a sea moss, but they're buying it and it's doing a lot -- it's doing some real positive things in terms of coming from a social media post and all of a sudden, we're chasing inventory to try and make it -- be able to hold on to it.

So it's the number of impressions that we're getting and the number of social media posts we're sending out and the support that we're getting from different entities and enterprises and celebrities behind those social media posts, which is driving impressions, which is also driving both transactions and some very specific sales on specific products going forward.

So that's really the message of social media, which we are excited about, Robbie.

Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

That sounds great. Yeah, and on 8% -- yeah, Robbie, on 8% to 10%, I mean, we're running -- those kind of numbers towards the end of Q3, if it's going to get a little better, if the holiday comes in well and we do well there. Again, I think we feel pretty good about where we are.

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And we've been a little surprised by the uptick in the last couple of quarters. We've seen a couple of step changes in our business. And not that we're surprised the business is getting better, but more the magnitude of the step changes and how quick they've come. So I think that's just wanting to see a little bit more of that and watching those hold on to those gains over a longer period of time.

But if some of that is a little bit macro or one-time in nature, that would be the way it goes down a little bit. But we feel pretty good about our range and our momentum.

Operator

Scott Mushkin, R5 Capital.

Scott Mushkin - *R5 Capital - Analyst*

So I think I asked this question last time actually, or maybe two times ago. But thinking about the use of capital, I think you paid down almost all your debt. Obviously, you're generating a ton of cash. So when we think about uses of capital, how should we think of it? And then I have a follow-up.

Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

Yeah, so always, first and foremost, we'll invest in the business in our 3% to 3.5% range on capital we feel good about going forward. And we're looking for ways to continue to expand our growth on the store side, get back to that 10%. But we'll start there always.

And then we get down to the excess free cash flow. It's always what's the most effective way to get it back to the shareholder. And so at the high interest rates, it was the debt pay down. Right now, it's more or less a push between hanging onto it and what we can get investing it with the banks versus buying back shares. So we're doing a little bit of both. And I think we'll continue to manage it dynamically as we watch what happens with interest rates.

But we feel good about where we are, as Jack said earlier, with the share price. We'll continue to buy shares as we move into 2025. And we'll just watch the interest rate piece on how aggressively we pursue that.

Scott Mushkin - *R5 Capital - Analyst*

And then on the M&A front, any thoughts there? (inaudible)

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Well, we're being very specific. We've got to think about does it tie up with our target customer base. And those opportunities are few and far between, Scott. So we'll always look at things that come at us. But it's not something that's at the forefront of our mind at the moment.

Scott Mushkin - *R5 Capital - Analyst*

Okay. And then this is my follow-up question. So when you guys obviously have a lot of ability to think about the store, the future, or maybe even things that you could bring into older stores that might help sustain a very strong comp even if the trend slows down a little bit. So anything on the front burner that way that we should be thinking about?

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Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

I think it's a good question, Scott. One of the things that we were talking about is how our stores have changed, not just our existing stores have changed.

When I look at our stores that we had, although we haven't done huge remodeling exercises, our stores have got more meal cases than they've ever had before. They've got new innovation centers that they didn't have before. You've got new facilities in our vitamins department that we didn't have before. So a number of things have been happening gradually over every store.

And we've clearly got a very interesting portfolio of different sizes, shapes, and sizes. In time, we may take a look at it. At the moment, we're spending most of our capital and most of our energy on making sure the size of our stores are right that we're building going forward. But there are some opportunities product-wise and category-wise that we will put back into the existing store fleet as we have done over the last couple of years. And that will be within the capital that we have allocated.

Operator

Edward Kelly, Wells Fargo.

Edward Kelly - *Wells Fargo Securities, LLC - Analyst*

Nice quater. I wanted to ask you about store growth. Obviously, you've got a good healthy pipeline now. You're ramping up to your goal of 10% unit growth. How do you think about the sustainability of that over time?

And I asked the question because you're going to open up 33 stores this year, but pretty soon it'll be close to 50. Is there a ceiling on the number of stores? Or are you building the capabilities internally to sustain the percent growth and continue to drive the number higher over time?

Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

Yeah, Ed, this is Curtis. Yes, we are. We're looking at that pretty closely right now. We're really looking at process. We're looking at cost to build. We're looking at ways to really go faster in the pipeline and continue to find better sites.

Certainly, Jack mentioned the analytics we've put into it and the confidence we're gaining in our ability to select sites. So that should open up opportunities for us. But we're working on all those things with the intent of trying to get back to that 10%.

We're seeing really good results with the stores. That's been great for us the last few years. So we'd love to open up a few more stores as we go forward. And we've been in that kind of high-single-digit range. So really confident in our ability to deliver that high-single-digit piece, working our way back to 10.

I think your question is a good one, but I think it's probably more 5, 7, 10 years out. We believe we can ramp up, improve the capability, invest in the teams, and get ourselves to that kind of 50 range. And we're working our way towards that.

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

And I think if you look at the numbers, Ed, we've only got 428 stores at the moment. And there's huge swathes of the country that we don't have stores, whether it be Chicago in the Midwest, whether it be Boston in the New England, and the Northeast. There's huge places where there's lots of customers who look like exactly the kind of customers that we're chasing after.

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So there's plenty of opportunity. And Curtis and the finance teams are being appropriately disciplined about making sure we don't open stores willy-nilly in the wrong place. And we've been very focused on that. So I think we can do more, but we're going to make sure we do it carefully and appropriately.

Edward Kelly - *Wells Fargo Securities, LLC - Analyst*

And can I ask you, how are you thinking about store density versus new markets? Under prior management, I remember at the time like there was some growing headwind associated with cannibalization. Obviously, you're not having that issue. But I'm just curious how your thoughts around store density have evolved and your appetite to really sort of push into new markets as opposed to infill, especially infill into some of the older markets that you're in.

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Yeah, we believe we've got opportunities in both. The density is important and it can drive some marketing very significantly. When you go to new markets, it's better not to have one store. We better have a few stores ready to go so that it can all come alive appropriately.

And I think the opportunity, if we start with, is there enough customers in that catchment area, if that gets it to how we got a distribution center within 250 miles, I think If it fulfills that, I do believe our cannibalization modeling has got significantly -- really got good in the last little while. So I'm very encouraged by the fact that we're understanding cannibalization better than we ever had.

And sometimes it makes some sense to build one very close and sometimes it doesn't, but our modeling's been getting better and better. And every time I look at a new store sales, I look at what the impact, what we have forecast for cannibalization, and it feels like we're getting both of them pretty in tune at the moment.

Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

Yeah. I just add a couple of things that I think, one, is that kind of 8%, this will be the second year in a row of 8%. So that kind of 8%-ish growth is in our run rate from a cannibalization perspective. And I think as we build more confidence in the process and in the program, that will allow us to maybe shift the mix a bit and be more aggressive into newer markets.

We're looking in the Midwest now. We're looking in the Northeast now. It'll be a few years away before we start to land sites there, but we're building our plans and I think we're using our learnings from these last few years to really be a lot smarter when we go in.

The better we get at that, the lower the -- if we can take cost out, we can take parts of the process out, some of the inefficiency there, we can build them faster, cheaper, and as the interest rates come down, the economics improve there as well. And that allows us to go faster.

So we're hoping those things are going to line up for us here in the next couple of years, and we'll kind of manage accordingly.

Operator

John Heinbockel, Guggenheim.

John Heinbockel - *Guggenheim Securities LLC - Analyst*

Hey, Jack, can you talk about how the foraging process has evolved? Right. So you think about how many new items you're introducing a year. Are all of those going through the innovation center first to prove themselves and then into the planogram?

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And when you think about taking items out, I don't think it's one-for-one, one in, one out. But taking items out at the right time because I know you don't want them to go too mainstream. How are you sort of managing that process now, maybe versus a couple of years ago?

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Yeah, well, that's a good question. It's been a journey over the last couple of years, John. We've been committed to bringing innovative differentiated products to our customers. The foraging team have done an amazing job really making us the destination for those type of products, those entrepreneurs, those new innovative ideas.

And part of that, I think I said the last time when we spoke about this on the call was we're doing a lot of -- we're taking a lot of pitch slams where lots of suppliers can get access to us to see a lot of products. We're spending a lot of time in exhibitions and going to chase around the world looking at different things and different opportunities, different initiatives. And we're getting literally thousands of applications for the product. So that's certainly creating plenty of pipeline for bringing products into it.

Not everything goes to the innovation center first, but some of it does. And it's a very good testing ground for us. In some ways, it allows us to reduce -- not go to all stores as well, so that smaller vendors can have enough inventory to give us the opportunity. We've learned that a little bit that we can't necessarily go to all stores day one, that we've got to build that up with the vendor base when these are some of these smaller suppliers.

And the transition from the innovation center to the main store, about 25% of the products are finding their way into the main shelf, which does involve rejigging. And it means there's a lot of change. And I think our customers are appreciating the fact that new things are coming in so consistently.

And we're learning how to do that better as well, how to forecast it right, how to work with our vendors effectively. But as I said, this has been an evolution and a learning curve, and we'll continue to learn on this, John.

John Heinbockel - *Guggenheim Securities LLC - Analyst*

And then a quick follow-up, supply chain. Supply chain, right? So I know at some point you'll build mid-Atlantic. It's probably too early for midwest. What else are you thinking about? I know you had a facility in Atlanta that didn't work out. Do you go back there to get more capacity in the southeast?

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

We might need to do that because at the moment we're shipping it a little bit too far into the Atlanta business, and our Georgia business is doing really well. So yeah, we're going to need something south of the midwest to the mid-Atlantic going forward. When we need to do that, we're not quite sure. But we're probably going to need a DC in both the mid-Atlantic and closer to Atlanta.

Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

John, I'd add Northern California too is a place where we need to expand space and expand capacity with our growth. So we're looking at that right now and looking for solutions in Northern California.

Operator

Michael Montani, Evercore ISI.

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Michael Montani - *Evercore ISI - Analyst*

Just wanted to ask, if I could, on two fronts. One was on the core consumer that you're seeing, you mentioned obviously the healthy eating tailwinds. Just wondering if you're seeing any variation in terms of the low- to middle-income consumer versus your upper income core. If you could like discuss that a little bit further.

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Well, we've talked a little bit about how our segmentation works. What we tend to find is we're not as directly related to earnings as we are to education level. And that people -- and I don't want to say this with hesitancy, people that have spent a bit more time thinking about what they eat and how they eat are the people that are reacting well to us.

Not necessarily wealthy or poor people in between. We're tending to find that that's the cohort that works well for us. And younger consumers tend to be -- we're definitely drifting younger in our customer base. And that's coming about partly because of what I was talking about in social media, partly because that group of people are more thoughtful and thinking much more about what they eat and how they eat.

And as dietary trends have evolved, we're tending to find these are getting narrow -- almost narrower and narrower as a customer base. You've got very specific gluten-free, dairy allergens, vegan, vegetarian. Those specific dietary issues are becoming, I think, as we evolve our assortment, we're attracting the customers that are really thinking about that.

So, Mike, I'm not -- I don't really think we talk well or know well about how our income levels are, but we know really well about what the dietary trends are coming through. And that's what's driving our customer base.

Michael Montani - *Evercore ISI - Analyst*

Got you. And then maybe if I could follow up on the margin front. Obviously, you gave some color into the fourth quarter of the 100 bps of gross and then some SG&A deleverage. So I was wondering if you could peel back the onion a little further in terms of what's driving that outlook.

And then I guess longer term, you know, it seems like there's been good progress and shrink from a waste perspective, but there could be a lot more to go, as well as the vendor leverage seems like a pretty new thing in our discussion. So just kind of wondering, does that provide opportunity for margins to actually move higher over time or do you feel they're at a level that's sustainable now?

Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

Hey, Mike. So I'll start with the shorter term on the kind of Q3, Q4 in the margin space. It's shrink is the big driver. We've talked about it the last couple quarters.

The team has really gotten after it. So we're pleased with how quickly they've gotten to some of the inefficiency that we felt like we had in shrink over the longer term, and they're pulling that a little bit into this year, as you saw with the third-quarter result. That was also our easiest compare from a shrink perspective, so we were starting to get our arms around it last year in the fourth quarter -- later in the fourth quarter. So the comparison is a little bit tougher for us. So that's why it would be a little maybe less than what it was in Q3.

On the longer term, I would point back to really confident in our algorithm, stable bottom line. We feel really good about that. The parts and pieces we'll deal with year to year. We've made investments in that inventory management space that's part of driving that gross margin expansion.

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So we'll continue to balance where we need to make the investments in order to drive the business. And that could be in gross, it could be in SG&A, but we're really good -- really confident in a stable bottom line going forward. And that goes the same for next year off of this new higher jumping off point and what we guided today.

So feel good about that. And we've got levers in gross, we've got levers in SG&A, and we'll manage through that year to year.

Operator

Kelly Bania, BMO Capital Markets.

Kelly Bania - *BMO Capital Markets - Analyst*

Hi. Wondering if you could talk a little bit more about the e-commerce growth. Obviously, that continues to accelerate to a pretty meaningful level here. Can you just unpack it maybe a little bit by digital partner, whether that's Instacart or Uber or Dash, or by new customer versus existing customer. Just try to think a little bit about what that longer-term growth rate or penetration for e-commerce could look like.

And then to follow up, I guess I'm surprised we haven't gotten to any questions on the loyalty test. And if you're willing to talk about just how that is going and any early learnings or tweaks to that as you test that.

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Sure. So e-commerce, we're delighted with our e-commerce business. It's evolving and developing really well. We've given those omnichannel customers the option of now operating through DoorDash and Uber Eats and the Instacart business continues to do well.

Our customers are truly omnichannel. And I think the encouraging thing about it, and I've said this in the past, Kelly, we're very encouraged by the fact that our mix within our e-comm business is the same as our mix within our standard -- our bricks-and-mortar business.

The fact that we're selling the same amount of produce as we do in our bricks-and-mortar business is pretty unusual, and it shows that the assortment and what we have is we've got a lot of trust with our target customers who are navigating their way through between different channels and whether they collect it at the store, whether they get it delivered or whether they go into the store and buy it. We're seeing steady growth in all of those issues over the course of the last, certainly in Q3, we saw it strongly in everything.

I think e-commerce will continue to creep up a little bit going forward. What it'll actually be will be determined by our customers and we'll let them, the customers, take us where they need to take us.

And just sort of linking it to the loyalty program a little bit. What we're getting from that in the first few stores that we're involved in is understanding how to get our customers to scan, how to get our customers to sign up. Those are the two key initiatives on it. And we're seeing numbers that are very encouraging in the Tucson and Nashville markets on the back of that.

What we then do with that information and how we navigate, that's what we're learning. We're learning how to understand the customer that's coming from that information and coming from those scanning data. And that's something that we're right in the middle of learning. And we're going to extend it to a few more stores over the course of the next little while. And that'll allow us to learn even more.

And then the rollout program of how to really navigate our way through, how do we stimulate our customers to be -- have more affinity to the Sprouts brand going forward, that'll start to come towards the end of 2025. And we're pretty encouraged with the way it's at at the moment. And we're taking the time to really learn to create the kind of program that's very unique in the marketplace and not a kind of me-too grocery program.

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Operator

Robert Dickerson, Jefferies.

Robert Dickerson - *Jefferies - Analyst*

I guess just kind of a general question as to what's changed relative to earlier part of the year. Clearly, now the updated guide is much more attractive, let's say, than it was nine months ago. And then it also -- if you're saying it, well, that should also continue in the fourth quarter.

So I'm just curious, like, it seems like maybe there was just not as much success baked in, but you weren't being conservative, right? And maybe now units were growing and maybe there could be a little macro tailwind, but it doesn't sound like you're really calling out much coming from a hurricane or better produce or what have you. So I'm just curious, like, what shocked you, so to speak, on the upside over the past few months.

Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

Well, yeah, I think you've called it there. It surprised us at how quickly it's accelerated. We saw pretty good acceleration through the last couple of years and into the first quarter up to the four, and then it's really taken off the last few quarters.

What's driving it under the covers is brick-and-mortar traffic, same thing that was part of our acceleration from Q2 to Q3. That's been the biggest change. We're getting more customers into our stores. Certainly, the things we highlighted in the script that the marketing teams are doing here, they're doing a great job. And I think we've made substantial progress here in the last 12 to 18 months and the team's done a really good job.

So I think it's a little bit of everything working and that's pretty rare too. Certainly, I haven't seen a lot of that in my career where everything's going in the right direction at the same time, and that's kind of what's happened here. The things that we're working in Q1 continue to work. There's made some improvements in the parts of the business that weren't working as well.

And then we've got these tailwinds sending people our way, and the team's doing a great job executing our strategy and taking advantage. When we bring new customers in, we're showing them a good experience and giving them reason to come back.

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Robert, there's really strong momentum in the business. Exactly why we're doing the exact numbers is difficult for us to call, but there's tailwinds. The execution in stores is as good as it's been. We've got great marketing. The merchants are working well.

There's momentum across the board. And when you get momentum, it usually fuels itself. And we're just trying to keep that running at the moment, Robert.

Robert Dickerson - *Jefferies - Analyst*

Okay, great. Yeah, I mean, look, it all makes logical sense. And you had the comment earlier about as you build some critical mass in certain markets, right? It's word of mouth, clearly the health and wellness and just the feeling of the in-store experience is clearly on trend. But then, I step back to the longer-term algo, right?

The 2% to 4%, I think this came up a little earlier. I'm just going circle back, definitely gives you confidence in the 2% to 4% for next year. But now, you're also saying, well, midpoint of the range, it's 9% in the fourth quarter. So why couldn't it be above algo, at least in the first half of the year, right? I mean, your comps get a little more challenging, but like what would preclude you from actually being able to be above algo?

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Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

Yeah, I think -- Rob, this is Curtis. I think we're not going to slow it down from getting to that place. I think we'll have good momentum as we head into the year. We'll have a better update when we get to February. We aspire to deliver these types of numbers as long as we can. Then we'll be up against those tougher numbers in the second half.

And as I think about it more in terms of that, we feel confident we can deliver on that 2% to 4% on this higher base we're on. We should have some tailwinds early in the year.

So our next year, maybe it's toward the higher end of that 2% to 4%. But again, I want to get through the election, see how the consumer does through the holidays, get through our healthy fresh start, and then we'll be a little more pinpoint when we get to February.

Robert Dickerson - *Jefferies - Analyst*

Great. And then just one more easy quick one. For Q4 SG&A, I know you're saying SG&A was up clearly in Q3. It's a little bit of an offset of the gross margin. It was up, let's say, almost like $80 million year over year in Q3 in dollar terms.

Is that like should we be thinking kind of a similar amount? Or maybe it's a little bit larger given kind of the seasonal aspect of the business? Just trying to gauge how you're thinking about the actual SG&A in Q4? And that's it. Thanks.

Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

Yeah, I think about it -- we talk about it a little bit more in terms of the basis points and I don't have the raw dollar numbers off the top of my head. But I think it's going to be pretty similar in the fourth quarter is kind of what we're anticipating to what we saw here in the third quarter.

Operator

Leah Jordan, Goldman Sachs.

Leah Jordan - *Goldman Sachs - Analyst*

I just wanted to dig into some basket trends a little bit more. First, where are we on the volume recovery for the average basket? Have we gotten back to flat?

And then second, we're seeing inflation reemerge in various commodities. So I guess what's your view on inflation from here and how are you thinking about AUR as a comp driver going forward?

Curtis Valentine - *Sprouts Farmers Market Inc - Chief Financial Officer*

So on the AUR as a comp driver, we expect it to be a part of driving our comp when we get into -- we're kind of -- I would say we're stable and normalized now. We're seeing those trends play out as you would anticipate.

Our business is always a little more volatile. It's going to be a little more up and down with the fresh aspect of our business. So we'll see it in different parts of our business, but we expect that to be a driver. But we are in that kind of stable space and have been for the last few quarters.

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On the unit front, we're driving more units year on year. I think some of the things, we're seeing the mix a little bit with value packs. We talked about some smaller baskets as we get more customers in who are trying us or we get more customers back. We're maybe doing a fill-in shop. That's having a mixed impact.

But when you get down to the core of our business, apples to apples skews year over year, we're in that low single digit from an inflation standpoint and we're seeing units flatten, or they are flat here in the third quarter on that kind of set of core skews. So it's played out as expected. And going forward, I think it'll play out similarly here in the fourth quarter as far as the mix between traffic and units and AUR.

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Yeah, and the movement's encouraging as to where we're at at the moment. And with regard to inflation, there is some volatility in the fresh markets across the -- and it's more volatile for us because we've got a bigger produce mix than everybody else. So we are seeing some volatility, both ups and downs. And I think that's back to a more normalized kind of inflation environment, where there's a lot of volatility and press, depending on certain seasonal aspects and weather and availability of labor and things like that.

So there's a lot of talk about that in the industry. But overall, inflation's definitely settled down.

Leah Jordan - *Goldman Sachs - Analyst*

Okay, great. And then for my follow-up, I just wanted to see if you could comment on the competitive environment and how it's maybe changed over the last few months. I mean, obviously, you guys are performing well, but just we're hearing more about price investments within produce from others.

So just how do you think about that? I know you're very differentiated, but just curious what you're seeing there.

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Well, as you know, Leah, we spend a lot of time watching our produce price and giving it such an important part of our business. We're very focused on organic produce pricing and feel we're in very good shape there. We're not seeing a lot of aggressive investment in produce across the board. There's one or two little pockets in different geographies and we're watching that closely.

But the volatility outside of that market -- outside of our produce comparisons doesn't really affect us too much. I think there is potentially some volatility amongst the conventional grocers and what Walmart are doing and all that kind of stuff, but it doesn't really affect us too much.

We pay a lot of attention to certain people on produce pricing in certain markets. And we haven't seen anything that's put us in a place that we're kind of concerned about it.

Operator

Thank you. I'd like to turn it back over to Jack Sinclair for any close remarks.

Jack Sinclair - *Sprouts Farmers Market Inc - Chief Executive Officer, Director*

Well, thank you everybody for your interest in our company and we look forward to updating you in due course. Take care, everyone.

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Operator

Thank you for your participation in today's conference. This does include the program. You may now disconnect. Everyone, have a great day.

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