

**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 March 31, 2024

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

(State or other jurisdiction of
incorporation or organization)

32-0331600

(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:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange on Which Registered</u>
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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 April 29, 2024, the registrant had 100,477,263 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 MARCH 31, 2024

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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 December 31, 2023, 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)

	March 31, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 312,276	\$ 201,794
Accounts receivable, net	36,306	30,313
Inventories	316,202	323,198
Prepaid expenses and other current assets	32,710	48,467
Total current assets	697,494	603,772
Property and equipment, net of accumulated depreciation	809,481	798,707
Operating lease assets, net	1,363,341	1,322,854
Intangible assets	208,060	208,060
Goodwill	381,750	381,741
Other assets	12,289	12,294
Total assets	<u>\$ 3,472,415</u>	<u>\$ 3,327,428</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 201,434	\$ 179,927
Accrued liabilities	190,217	164,887
Accrued salaries and benefits	57,084	74,752
Accrued income tax	8,869	—
Current portion of operating lease liabilities	127,255	126,271
Current portion of finance lease liabilities	1,089	1,032
Total current liabilities	585,948	546,869
Long-term operating lease liabilities	1,441,068	1,399,676
Long-term debt and finance lease liabilities	133,375	133,685
Other long-term liabilities	37,557	36,270
Deferred income tax liability	63,440	62,381
Total liabilities	2,261,388	2,178,881
Commitments and contingencies (Note 7)		
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, 100,802,152 shares issued and outstanding, March 31, 2024; 101,211,984 shares issued and outstanding, December 31, 2023	101	101
Additional paid-in capital	783,593	774,834
Retained earnings	427,333	373,612
Total stockholders' equity	1,211,027	1,148,547
Total liabilities and stockholders' equity	<u>\$ 3,472,415</u>	<u>\$ 3,327,428</u>

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	
	March 31, 2024	April 2, 2023
Net sales	\$ 1,883,808	\$ 1,733,310
Cost of sales	1,161,495	1,083,248
Gross profit	722,313	650,062
Selling, general and administrative expenses	539,771	486,195
Depreciation and amortization (exclusive of depreciation included in cost of sales)	32,232	34,068
Store closure and other costs, net	2,044	28,277
Income from operations	148,266	101,522
Interest expense, net	818	2,220
Income before income taxes	147,448	99,302
Income tax provision	33,348	23,142
Net income	<u>\$ 114,100</u>	<u>\$ 76,160</u>
Net income per share:		
Basic	\$ 1.13	\$ 0.73
Diluted	\$ 1.12	\$ 0.73
Weighted average shares outstanding:		
Basic	101,071	103,827
Diluted	<u>102,024</u>	<u>104,876</u>

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 weeks ended March 31, 2024

	Shares	Common Stock	Additional Paid In Capital	Retained Earnings	Total Stockholders' Equity
Balances at December 31, 2023	101,211,984	\$ 101	\$ 774,834	\$ 373,612	\$ 1,148,547
Net income	—	—	—	114,100	114,100
Issuance of shares under stock plans	547,948	1	2,282	—	2,283
Repurchase and retirement of common stock, including excise tax	(957,780)	(1)	—	(60,379)	(60,380)
Share-based compensation	—	—	6,477	—	6,477
Balances at March 31, 2024	<u>100,802,152</u>	<u>\$ 101</u>	<u>\$ 783,593</u>	<u>\$ 427,333</u>	<u>\$ 1,211,027</u>

For the thirteen weeks ended April 2, 2023

	Shares	Common Stock	Additional Paid In Capital	Retained Earnings	Total Stockholders' Equity
Balances at January 1, 2023	105,072,756	\$ 105	\$ 726,345	\$ 320,012	\$ 1,046,462
Net income	—	—	—	76,160	76,160
Issuance of shares under stock plans	882,014	1	5,487	—	5,488
Repurchase and retirement of common stock, including excise tax	(3,038,411)	(3)	—	(99,168)	(99,171)
Share-based compensation	—	—	3,852	—	3,852
Issuance of shares for acquisition	554,358	1	18,138	—	18,139
Balances at April 2, 2023	<u>103,470,717</u>	<u>\$ 104</u>	<u>\$ 753,822</u>	<u>\$ 297,004</u>	<u>\$ 1,050,930</u>

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)

	Thirteen weeks ended	
	March 31, 2024	April 2, 2023
Operating activities		
Net income	\$ 114,100	\$ 76,160
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	34,522	34,912
Operating lease asset amortization	32,303	30,696
Impairment of assets	—	27,845
Share-based compensation	6,477	3,852
Deferred income taxes	1,072	(386)
Other non-cash items	496	14
Changes in operating assets and liabilities, net of effects from acquisition:		
Accounts receivable	8,601	6,241
Inventories	6,996	5,400
Prepaid expenses and other current assets	14,691	9,528
Other assets	924	2,609
Accounts payable	28,899	27,006
Accrued liabilities	17,642	(2,024)
Accrued salaries and benefits	(17,667)	(13,712)
Accrued income tax	8,869	5,456
Operating lease liabilities	(36,580)	(33,956)
Other long-term liabilities	(1,650)	179
Cash flows from operating activities	<u>219,695</u>	<u>179,820</u>
Investing activities		
Purchases of property and equipment	(51,241)	(47,044)
Payments for acquisition, net of cash acquired	—	(13,042)
Cash flows used in investing activities	<u>(51,241)</u>	<u>(60,086)</u>
Financing activities		
Payments on revolving credit facilities	—	(25,000)
Payments on finance lease liabilities	(253)	(219)
Repurchase of common stock	(60,000)	(98,349)
Proceeds from exercise of stock options	2,283	5,488
Cash flows used in financing activities	<u>(57,970)</u>	<u>(118,080)</u>
Increase in cash, cash equivalents, and restricted cash	110,484	1,654
Cash, cash equivalents, and restricted cash at beginning of the period	203,870	295,192
Cash, cash equivalents, and restricted cash at the end of the period	<u>\$ 314,354</u>	<u>\$ 296,846</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 2,411	\$ 3,641
Cash refunded for income taxes	151	54
Supplemental disclosure of non-cash activities		
Property and equipment in accounts payable and accrued liabilities	\$ 23,599	\$ 20,924
Issuance of shares for acquisition	—	18,139
Excise tax accrued on repurchase of common stock	2,146	822
Leased assets obtained in exchange for new operating lease liabilities	72,791	138,662

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, offers a unique specialty 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 March 31, 2024, the Company operated 414 stores in 23 states. For convenience, the “Company” is used to refer collectively to Sprouts Farmers Market, Inc. and unless the context otherwise requires, its subsidiaries. The Company’s store operations are conducted by 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 December 31, 2023 (“fiscal year 2023”) included in the Company’s Annual Report on Form 10-K, filed on February 22, 2024.

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 December 29, 2024 (“fiscal year 2024”) and fiscal year 2023 are 52-week years. The Company reports its results of operations on a 13-week quarter, except for 53-week fiscal years (in which the fourth quarter has 14 weeks).

All dollar amounts are in thousands, unless otherwise noted.

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

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. A summary of the activity and balances in the gift card liability, net is as follows:

	Thirteen weeks ended	
	March 31, 2024	April 2, 2023
Beginning Balance	\$ 10,566	\$ 10,906
Gift cards issued during the period but not redeemed ⁽¹⁾	1,166	1,222
Revenue recognized from beginning liability	(2,532)	(2,582)
Ending Balance	<u>\$ 9,200</u>	<u>\$ 9,546</u>

(1) net of estimated breakage

The nature of goods the Company transfers to customers at the point of sale are inventories, consisting of merchandise purchased for resale.

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, any contract performance obligations, or any material costs to obtain or fulfill a contract as of March 31, 2024.

Restricted Cash

Restricted cash relates to the Company's defined benefit plan forfeitures and the Company's healthcare, general liability and workers' compensation plan benefits of \$2.1 million as of March 31, 2024 and December 31, 2023. These balances are included in prepaid expenses and other current assets in the consolidated balance sheets.

Recently Issued Accounting Pronouncements Not Yet Adopted

Segment Reporting – Improvements to Reportable Segment Disclosures

In November 2023, the FASB issued ASU no. 2023-07, "Segment Reporting (Topic 280) Improvements to Reportable Segment Disclosures." The amendments in this update increase required disclosures about a public entity's reportable segments, primarily through enhanced disclosures about significant segment expenses that are regularly provided to the Company's chief operating decision maker ("CODM"). In addition, ASU 2023-07 will require the Company to disclose the title and position of its CODM. The guidance will be effective for the Company for its fiscal year 2024 and for interim periods starting in the first quarter of its fiscal year 2025. Early adoption is permitted, and the guidance is required to be applied retrospectively. The Company is currently evaluating the potential impact of this ASU on its consolidated financial statements and disclosures.

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

Income Taxes – Improvements to Income Tax Disclosures

In December 2023, the FASB issued ASU no. 2023-09, "Income Taxes (Topic 740) Improvements to Income Tax Disclosures." The amendments in this update enhance a public entity's annual income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The guidance will be effective for the Company for its fiscal year 2025. Early adoption is permitted, and the guidance should be applied prospectively, with an option to apply it retrospectively. The Company is currently evaluating the potential impact of this ASU on its consolidated financial statements and disclosures.

No other new accounting pronouncements issued or effective during the thirteen weeks ended March 31, 2024 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 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 March 31, 2024 and December 31, 2023:

March 31, 2024	Level 1	Level 2	Level 3	Total
Long-term debt	\$ —	\$ 125,000	\$ —	\$ 125,000
Total financial liabilities	\$ —	\$ 125,000	\$ —	\$ 125,000

December 31, 2023	Level 1	Level 2	Level 3	Total
Long-term debt	\$ —	\$ 125,000	\$ —	\$ 125,000
Total financial liabilities	\$ —	\$ 125,000	\$ —	\$ 125,000

The determination of fair values of certain tangible and intangible assets for purposes of the Company's goodwill or long-lived asset impairment evaluation is based upon Level 3 inputs. When necessary, the Company uses third party market data and market participant assumptions to derive the fair value of its asset groupings, which primarily include right-of-use lease assets and property and equipment.

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 March 31, 2024 and December 31, 2023.

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

4. Long-Term Debt and Finance Lease Liabilities

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

Facility	Maturity	Interest Rate	As of	
			March 31, 2024	December 31, 2023
Senior secured debt				
\$700.0 million Credit Agreement	March 25, 2027	Variable	\$ 125,000	\$ 125,000
Finance lease liabilities	Various	n/a	8,375	8,685
Long-term debt and finance lease liabilities			<u>\$ 133,375</u>	<u>\$ 133,685</u>

Credit Agreement

The Company's subsidiary, Sprouts Farmers Markets Holdings, LLC ("Intermediate Holdings"), is the borrower under a credit agreement entered into on March 25, 2022 (the "Credit Agreement"). The Credit Agreement provides for a revolving credit facility (the "Revolving Credit Facility") with an initial aggregate commitment of \$700.0 million. Amounts outstanding under the Credit Agreement may be increased from time to time in accordance with an expansion feature set forth in the Credit Agreement.

The Company capitalized debt issuance costs of \$3.4 million related to the Credit Agreement, which, combined with the remaining \$0.5 million debt issuance costs in respect of that certain amended and restated credit agreement entered into on March 27, 2018, by and among the Company, Intermediate Holdings, certain lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent and collateral agent (the "Former Credit Facility"), which remained outstanding as of the time of Intermediate Holdings' entry into the Credit Agreement, were recorded to prepaid expenses and other current assets and other assets in the consolidated balance sheets and are being amortized on a straight-line basis to interest expense over the five-year term of the Credit Agreement.

The Credit Agreement provides for a \$70.0 million letter of credit sub-facility (the "Letter of Credit Sub-Facility") and a \$50.0 million swingline facility. Letters of credit issued under the Credit Agreement reduce the capacity of Intermediate Holdings to borrow under the Revolving Credit Facility. Letters of credit totaling \$21.3 million have been issued as of March 31, 2024 under the Letter of Credit Sub-Facility, primarily to support the Company's insurance programs.

Guarantees

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

Interest and Fees

Loans under the Credit Agreement will initially bear interest, at the Company's option, either at the Term SOFR (with a floor of 0.00%) plus a 0.10% SOFR adjustment and 1.00% per annum or base rate (with a floor of 0.00%) plus 0.00% per annum. The interest rate margins are subject to upward adjustments pursuant to a pricing grid based on the Company's total net leverage ratio as set forth in the Credit Agreement and to upward or downward adjustments of up to 0.05% based upon the achievement of certain diversity and sustainability-linked metric thresholds, as set forth in the Credit Agreement.

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

Under the terms of the Credit Agreement, the Company is obligated to pay a commitment fee on the available unused amount of the commitments, which commitment fee ranges between 0.10% to 0.225% per annum, pursuant to a pricing grid based on the Company's total net leverage ratio. The commitment fees are subject to upward or downward adjustments of up to 0.01% based upon the achievement of certain diversity and sustainability-linked metric thresholds, as set forth in the Credit Agreement.

As of March 31, 2024, loans outstanding under the Credit Agreement bore interest at Term SOFR (as defined in the Credit Agreement) plus a 0.10% SOFR adjustment and 0.95% per annum.

As of March 31, 2024, outstanding letters of credit issued under the Credit Agreement were subject to a participation fee of 0.95% per annum and an issuance fee of 0.125% per annum.

Payments and Borrowings

The Credit Agreement is scheduled to mature, and the commitments thereunder will terminate on March 25, 2027, subject to extensions as set forth therein.

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

In connection with the execution of the Credit Agreement, the Company's obligations under the Former Credit Facility were prepaid and terminated.

During the thirteen weeks ended March 31, 2024, the Company made no additional borrowings or principal payments, resulting in total outstanding debt under the Credit Agreement of \$125.0 million as of March 31, 2024. During 2023, the Company made no additional borrowings and made principal payments of \$125.0 million, resulting in total outstanding debt under the Credit Agreement of \$125.0 million as of December 31, 2023.

Covenants

The 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 certain debt or other material agreements; and
- change its fiscal year.

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

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

In addition, the Credit Agreement requires that the Company and its subsidiaries maintain a maximum total net leverage ratio not to exceed 3.75 to 1.00, which ratio may be increased from time to time in connection with certain permitted acquisitions pursuant to conditions as set forth in the Credit Agreement, and a minimum interest coverage ratio not to be less than 3.00 to 1.00. Each of these covenants is tested as of the last day of each fiscal quarter.

The Company was in compliance with all applicable covenants under the Credit Agreement as of March 31, 2024.

5. Income Taxes

The Company's effective tax rate decreased to 22.6% for the thirteen weeks ended March 31, 2024, compared to 23.3% for the thirteen weeks ended April 2, 2023. The decrease in the effective tax rate was primarily due to an increase in excess tax benefits associated with share-based payment awards. The income tax effect resulting from excess tax benefits of share-based payment awards was \$4.5 million and \$2.6 million for the thirteen weeks ended March 31, 2024 and April 2, 2023, 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.

6. Related Party Transactions

During the thirteen weeks ended March 31, 2024, the Company did not have any material related party transactions.

On May 24, 2022, the Company appointed a new member to its board of directors who served as an executive officer of a company that is a supplier of nutrition bars and related products to the Company for resale. The director departed employment from this supplier on February 28, 2023. The cost of sales recognized from this supplier during the thirteen weeks ended April 2, 2023 was immaterial.

7. 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.

8. Stockholders' Equity

Share Repurchases

On March 2, 2022, the Company's board of directors authorized a new \$600 million share repurchase program for its common stock. This authorization replaced the Company's then-existing share repurchase authorization of \$300 million that was due to expire on March 3, 2024, of which \$99.8 million remained available upon its replacement. No further shares may be repurchased under the \$300 million authorization. The following table outlines the common stock share repurchase program authorized by the Company's board of directors and the related repurchase activity and available authorization as of March 31, 2024:

Effective date	Expiration date	Amount authorized	Cost of repurchases	Authorization available
March 2, 2022	December 31, 2024	\$ 600,000	\$ 451,619	\$ 148,381

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The shares under the Company's repurchase programs may be purchased on a discretionary basis from time to time through the applicable expiration date, 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	
	March 31, 2024	April 2, 2023
Number of common shares acquired	957,780	3,038,411
Average price per common share acquired	\$ 63.04	\$ 32.64
Total cost of common shares acquired	\$ 60,380	\$ 99,171

Shares purchased under the Company's repurchase programs were subsequently retired and the excess of the repurchase price over par value was charged to retained earnings. The cost of common shares repurchased included the 1% excise tax imposed as part of the Inflation Reduction Act of 2022.

Subsequent to March 31, 2024 and through the date of this filing, the Company repurchased an additional 0.3 million shares of common stock for \$21.5 million, excluding excise tax.

9. Net Income Per Share

The computation of basic 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 and unvested restricted stock units ("RSUs"). Performance share awards ("PSAs") are included in the computation of diluted net income per share only to the extent that the underlying performance conditions are satisfied prior to the end of the reporting period or would be satisfied if the end of the reporting period were the end of the related performance period, and if the effect would be dilutive.

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	
	March 31, 2024	April 2, 2023
Basic net income per share:		
Net income	\$ 114,100	\$ 76,160
Weighted average shares outstanding - basic	101,071	103,827
Basic net income per share	\$ 1.13	\$ 0.73
Diluted net income per share:		
Net income	\$ 114,100	\$ 76,160
Weighted average shares outstanding - basic	101,071	103,827
Dilutive effect of share-based awards:		
Assumed exercise of options to purchase shares	404	395
RSUs	549	481
PSAs	—	173
Weighted average shares and equivalent shares outstanding - diluted	102,024	104,876
Diluted net income per share	\$ 1.12	\$ 0.73

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For the thirteen weeks ended March 31, 2024, the Company had 0.1 million options, 0.3 million RSUs and 0.4 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 April 2, 2023, the Company had 0.4 million options, 0.4 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.

10. Segments

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

The Company categorizes the varieties of products it sells as perishable and non-perishable. Perishable product categories include produce, meat and meat alternatives, 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.

In accordance with ASC 606, the following table represents a disaggregation of revenue for the thirteen weeks ended March 31, 2024 and April 2, 2023:

	Thirteen weeks ended			
	March 31, 2024		April 2, 2023	
Perishables	\$ 1,069,730	56.8%	\$ 999,575	57.7 %
Non-Perishables	814,078	43.2%	733,735	42.3 %
Net Sales	<u>\$ 1,883,808</u>	<u>100.0%</u>	<u>\$ 1,733,310</u>	<u>100.0 %</u>

11. Share-Based Compensation

2022 Incentive Plan

In March 2022, the Company's board of directors adopted the Sprouts Farmers Market, Inc. 2022 Omnibus Incentive Compensation Plan (the "2022 Incentive Plan"), which became effective May 25, 2022, upon approval by the Company's stockholders. The 2022 Incentive Plan provides team members of the Company, certain consultants and advisors who perform services for the Company, and non-employee members of the Company's board of directors with the opportunity to receive grants of equity awards, including stock options, RSUs, PSAs, and other stock-based awards. The 2022 Incentive Plan replaced the 2013 Incentive Plan (as described below).

Awards Granted under the 2022 Incentive Plan

During the thirteen weeks ended March 31, 2024, the Company granted the following share-based compensation awards under the 2022 Incentive Plan:

Grant Date	RSUs	PSAs	Options
March 19, 2024	272,855	103,584	135,783
Total	<u>272,855</u>	<u>103,584</u>	<u>135,783</u>
Weighted-average grant date fair value	\$ 61.15	\$ 61.15	\$ 23.50
Weighted-average exercise price	\$ —	\$ —	\$ 61.15

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The aggregate number of shares of common stock that may be issued to team members and directors under the 2022 Incentive Plan may not exceed 6,600,000, subject to the following adjustments. If any awards granted under the 2022 Incentive Plan, terminate, expire, or are cancelled, forfeited, exchanged, or surrendered without having been exercised, vested or paid in shares, the shares will again be available for purposes of the 2022 Incentive Plan. The number of shares subject to outstanding awards under the Sprouts Farmers Market, Inc. 2013 Incentive Plan (the "2013 Incentive Plan") that terminate, expire, are paid in cash, or are cancelled, forfeited, exchanged, or surrendered without having been exercised, vested, or paid in shares under the 2013 Incentive Plan after the effective date of the 2022 Incentive Plan will be available for issuance under the 2022 Incentive Plan. As of March 31, 2024, there were 1,134,570 stock awards outstanding and 5,517,416 shares remaining available for issuance under the 2022 Incentive Plan.

2013 Incentive Plan

Prior to the adoption of the 2022 Incentive Plan, the 2013 Incentive Plan served as the umbrella plan for the Company's share-based and cash-based incentive compensation programs for its directors, officers and other team members. Upon stockholder approval of the 2022 Incentive Plan on May 25, 2022, no further awards will be granted under the 2013 Incentive Plan, but awards outstanding under the 2013 Incentive Plan will remain outstanding in accordance with their terms and the terms of 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 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 2020 were subject to the Company achieving certain earnings before taxes ("EBT") performance targets for the 2022 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 2022 EBT 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 2023). There were no outstanding 2020 PSAs as of March 31, 2024.

PSAs granted in 2021 were subject to the Company achieving certain earnings before interest and taxes ("EBIT") performance targets for the 2023 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 2023 EBIT were deemed not to have been met. Accordingly, no PSAs vested on the third anniversary of the grant date (March 2024). There were no outstanding 2021 PSAs as of March 31, 2024.

PSAs granted in 2022 are subject to the Company achieving certain EBIT performance targets for the 2024 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 2025).

PSAs granted in 2023 are subject to the Company achieving certain EBIT performance targets for the 2025 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 2026).

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PSAs granted in 2024 are subject to the Company achieving certain EBIT performance targets for the 2026 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 2027).

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	
	March 31, 2024	April 2, 2023
Share-based compensation expense	\$ 6,477	\$ 3,852

The following share-based awards were outstanding under the 2022 and 2013 Incentive Plans as of March 31, 2024 and April 2, 2023:

	As of	
	March 31, 2024	April 2, 2023
	(in thousands)	
Options		
Vested	567	740
Unvested	338	481
RSUs	669	1,156
PSAs	395	471

As of March 31, 2024, total unrecognized compensation expense and remaining weighted average recognition period related to outstanding share-based awards were as follows:

	Unrecognized compensation expense	Remaining weighted average recognition period
Options	\$ 5,458	2.2
RSUs	28,551	2.0
PSAs	13,600	1.9
Total unrecognized compensation expense at March 31, 2024	<u>\$ 47,609</u>	

During the thirteen weeks ended March 31, 2024 and April 2, 2023, the Company received \$2.3 million and \$5.5 million, respectively, in cash proceeds from the exercise of options.

12. Goodwill

The Company's goodwill balance was \$381.8 million and \$381.7 million as of March 31, 2024 and December 31, 2023, respectively. As of March 31, 2024 and December 31, 2023, the Company had no accumulated goodwill impairment losses. The goodwill was related to the acquisitions of Henry's Farmers Market and Sunflower Farmers Market in 2011 and 2012, respectively, and the acquisition of Ronald Cohn, Inc. in 2023. For further details, see Note 14, "Business Combination".

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13. Store Closures

In February 2023, the Company's board of directors approved the closing of 11 stores, all of which were closed during 2023. These stores, on average, were approximately 30% larger than the Company's current prototype format and were underperforming financially. The closure of these stores resulted in a charge of \$27.8 million during the thirteen weeks ended April 2, 2023 related to the impairment of leasehold improvements and right-of-use assets and was reflected in Store closure and other costs, net on the consolidated statements of income. The impairment charge represented the excess of the carrying value over the estimated fair value of each store's asset group. Accelerated depreciation on the closed stores' assets during 2023 was \$5.9 million, of which \$4.0 million was incurred during the thirteen weeks ended April 2, 2023 and was reflected in Depreciation and amortization on the consolidated statements of income. Severance expense during 2023 was immaterial.

14. Business Combination

On March 20, 2023, the Company completed its acquisition of Ronald Cohn, Inc., a corporation that owned two stores located in California operating under the 'Sprouts Farmers Market' name pursuant to a legacy trademark license arrangement. The aggregate consideration paid in the transaction consisted of 0.6 million of the Company's common shares valued at \$18.1 million using the closing price of the Company's common stock on March 20, 2023 and cash consideration of \$13.0 million.

The Company accounted for this transaction as a business combination in accordance with the acquisition method of accounting, which requires that the purchase price be allocated to the assets and liabilities acquired based on their estimated fair values as of the acquisition date. Acquisition-related costs were immaterial and were expensed as incurred. The financial results of the acquired stores have been included in the Company's consolidated financial statements from the date of acquisition. The acquired stores' results of operations were not material to the Company's consolidated results.

The net purchase price was allocated to the net tangible assets of (\$4.9) million and a reacquired right intangible asset of \$23.1 million based on their fair values on the acquisition date. The remaining unallocated net purchase price of \$12.9 million was recorded as goodwill. Goodwill represents the future economic benefits to the Company from the acquisition, which include the Company's ability to fully control the Sprouts Farmers Market brand by termination of the legacy trademark license agreement and allowing further expansion opportunities in Southern California. The goodwill is not expected to be deductible for tax purposes. The final allocation of the purchase price consideration to the assets acquired and liabilities assumed has been completed and included an immaterial amount of measurement period adjustments.

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 2023 fiscal year, filed on February 22, 2024 ("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 specialty 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. From our founding in 2002, we have grown rapidly, significantly increasing our sales, store count and profitability. Headquartered in Phoenix with 414 stores in 23 states as of March 31, 2024, we are one of the largest and fastest growing specialty retailers of fresh, natural and organic food in the United States.

Our Growth Strategy

We continue to execute on our long-term growth strategy that we believe is transforming our company and driving profitable growth, focusing on the following areas:

- *Win with Target Customers.* We are focusing attention on our target customers, identified through research as 'health enthusiasts' and 'selective shoppers', where there is ample opportunity to gain share within these customer segments. We believe our business can continue to grow by leveraging existing strengths in a unique assortment of better-for-you, quality products and by providing a full omnichannel offering through delivery or pickup via our website or the Sprouts app.
- *Update Format and Expand in Select Markets.* We are delivering unique smaller stores with expectations of stronger returns, while maintaining the approachable, fresh-focused farmer's market heritage Sprouts is known for. From 2021 through March 31, 2024, we opened 49 new stores and remodeled one store featuring our new format. Our geographic store expansion and new store placement will intersect where our target customers live, in markets with growth potential and supply chain support, which we believe will provide a long runway of approximately 10% annual unit growth.
- *Create an Advantaged Fresh Supply Chain.* We believe our network of fresh distribution centers can drive efficiencies across the chain and support our growth plans. To further deliver on our fresh commitment and reputation, as well as to increase our local offerings and improve financial results, we aspire to ultimately position fresh distribution centers within a 250-mile radius of stores. Following the opening of two fresh distribution centers in fiscal 2021 and the relocation of our Southern California distribution center, closure of our Georgia distribution center and partnership with a third-party fresh distribution center in the Northeast in fiscal 2023, we are better leveraging our existing distribution center capacity, and approximately 80% of our stores were within 250 miles of a distribution center as of March 31, 2024.
- *Refine Brand and Marketing Approach.* We believe we are elevating our national brand recognition and positioning by telling our unique brand story rooted in product innovation and differentiation. We are increasing our use of data analytics and insights. We believe this data-driven intelligence will increase customer engagement through personalization efforts with digital and social connections to drive additional sales growth and loyalty.
- *Inspire and Engage Our Talent to Create a Best Place to Work.* Subsequent to the initial launch of our long-term growth strategy, we have added the focus area of inspiring and engaging our talent through our culture, acquisition and development and total rewards program to attract and retain the talent we believe we need to execute on our strategic goals and transform our company into a premier place to work.

- *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. With the implementation of our strategy beginning in 2020, we have significantly improved our margin structure above our 2019 baseline.

Results of Operations for Thirteen Weeks Ended March 31, 2024 and April 2, 2023

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	
	March 31, 2024	April 2, 2023
Unaudited Quarterly Consolidated Statement of Income Data:		
Net sales	\$ 1,883,808	\$ 1,733,310
Cost of sales	1,161,495	1,083,248
Gross profit	722,313	650,062
Selling, general and administrative expenses	539,771	486,195
Depreciation and amortization (exclusive of depreciation included in cost of sales)	32,232	34,068
Store closure and other costs, net	2,044	28,277
Income from operations	148,266	101,522
Interest expense, net	818	2,220
Income before income taxes	147,448	99,302
Income tax provision	33,348	23,142
Net income	<u>\$ 114,100</u>	<u>\$ 76,160</u>
Weighted average shares outstanding - basic	101,071	103,827
Diluted effect of equity-based awards	953	1,049
Weighted average shares and equivalent shares outstanding - diluted	102,024	104,876
Diluted net income per share	<u>\$ 1.12</u>	<u>\$ 0.73</u>

	Thirteen weeks ended	
	March 31, 2024	April 2, 2023
Other Operating Data:		
Comparable store sales growth	4.0 %	3.1 %
Stores at beginning of period	407	386
Closed	—	(1)
Opened	7	8
Acquired	—	2
Stores at end of period	<u>414</u>	<u>395</u>

Comparison of Thirteen Weeks Ended March 31, 2024 to Thirteen Weeks Ended April 2, 2023

Net sales

	Thirteen weeks ended		Change	% Change
	March 31, 2024	April 2, 2023		
Net sales	\$1,883,808	\$1,733,310	\$ 150,498	9 %
Comparable store sales growth	4.0 %	3.1 %		

Net sales during the thirteen weeks ended March 31, 2024 totaled \$1.9 billion, an increase of \$150.5 million or 9%, compared to the thirteen weeks ended April 2, 2023. The sales increase was driven by sales from new stores opened in the last twelve months and a 4.0% increase in comparable store sales. Comparable stores contributed approximately 94% of total sales for the thirteen weeks ended March 31, 2024 and approximately 97% of total sales for the thirteen weeks ended April 2, 2023.

Cost of sales and gross profit

	Thirteen weeks ended		Change	% Change
	March 31, 2024	April 2, 2023		
Net sales	\$1,883,808	\$1,733,310	\$ 150,498	9 %
Cost of sales	1,161,495	1,083,248	78,247	7 %
Gross profit	722,313	650,062	72,251	11 %
Gross margin	38.3 %	37.5 %	0.8 %	

Gross profit totaled \$722.3 million during the thirteen weeks ended March 31, 2024, an increase of \$72.3 million or 11%, compared to the thirteen weeks ended April 2, 2023, driven by increased sales volume. Gross margin increased by 0.8% to 38.3% for the thirteen weeks ended March 31, 2024, compared to 37.5% for the thirteen weeks ended April 2, 2023, primarily driven by improved shrink management and continued promotional optimization efforts.

Selling, general and administrative expenses

	Thirteen weeks ended		Change	% Change
	March 31, 2024	April 2, 2023		
Selling, general and administrative expenses	\$ 539,771	\$ 486,195	\$ 53,576	11 %
Percentage of net sales	28.7 %	28.1 %	0.6 %	

Selling, general and administrative expenses increased \$53.6 million or 11%, compared to the thirteen weeks ended April 2, 2023. The increase was primarily due to the increase in new stores opened since the end of the same period of the prior year. As a percentage of net sales, selling, general and administrative expenses increased primarily due to higher holiday pay related to calendar shift in the New Year's Day holiday and higher incentive compensation costs and ecommerce fees due to strong sales performance.

Depreciation and amortization

	Thirteen weeks ended		Change	% Change
	March 31, 2024	April 2, 2023		
Depreciation and amortization	\$ 32,232	\$ 34,068	\$ (1,836)	(5)%
Percentage of net sales	1.7 %	2.0 %	(0.3)%	

Depreciation and amortization expense (exclusive of depreciation included in cost of sales) was \$32.2 million for the thirteen weeks ended March 31, 2024, compared to \$34.1 million for the thirteen weeks ended April 2, 2023. Depreciation and amortization expense primarily consists of depreciation and amortization for buildings, store leasehold improvements, and equipment for new stores as well as remodel initiatives in older stores. Depreciation and amortization for the thirteen weeks ended April 2, 2023 was inclusive of \$4.0 million in accelerated depreciation in connection with the decision to close certain underperforming stores during 2023. See Note 13, "Store Closures" of our unaudited consolidated financial statements.

Store closure and other costs, net

	Thirteen weeks ended		Change	% Change
	March 31, 2024	April 2, 2023		
Store closure and other costs, net	\$ 2,044	\$ 28,277	\$ (26,233)	(93)%
Percentage of net sales	0.1 %	1.6 %	(1.5)%	

Store closure and other costs, net for the thirteen weeks ended March 31, 2024 of \$2.0 million was primarily related to ongoing occupancy costs associated with our closed store locations. Store closure and other costs, net for the thirteen weeks ended April 2, 2023 of \$28.3 million primarily consisted of \$27.8 million of impairment losses related to the write-down of leasehold improvements and right-of-use assets in connection with the decision to close certain underperforming stores during 2023. See Note 13, "Store Closures" of our unaudited consolidated financial statements.

Interest expense, net

	Thirteen weeks ended		Change	% Change
	March 31, 2024	April 2, 2023		
Long-term debt	\$ 2,202	\$ 3,482	\$ (1,280)	(37)%
Finance leases	196	205	(9)	(4)%
Deferred financing costs	193	193	—	0 %
Interest income and other	(1,773)	(1,660)	(113)	7 %
Total interest expense, net	\$ 818	\$ 2,220	\$ (1,402)	(63)%

Interest expense, net decreased to \$0.8 million for the thirteen weeks ended March 31, 2024, compared to \$2.2 million for the thirteen weeks ended April 2, 2023, primarily due to lower average debt outstanding. See Note 4, "Long-Term Debt and Finance Lease Liabilities" of our unaudited consolidated financial statements.

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	
	March 31, 2024	April 2, 2023
Federal statutory rate	21.0 %	21.0 %
Change in income taxes resulting from:		
State income taxes, net of federal benefit	5.0 %	5.0 %
Enhanced charitable contributions	(1.0)%	(1.1)%
Federal credits	(0.4)%	(0.4)%
Share-based payment awards	(3.0)%	(2.6)%
Non-deductible Executive Compensation	1.0 %	1.1 %
Other, net	— %	0.3 %
Effective tax rate	22.6 %	23.3 %

The effective tax rate decreased to 22.6% for the thirteen weeks ended March 31, 2024 from 23.3% for the thirteen weeks ended April 2, 2023. The decrease in the effective tax rate was primarily due to an increase in excess tax benefits associated with share-based payment awards.

Net income

	Thirteen weeks ended		Change	% Change
	March 31, 2024	April 2, 2023		
Net income	\$ 114,100	\$ 76,160	\$ 37,940	50 %
Percentage of net sales	6.1 %	4.4 %	1.7 %	

Net income increased \$37.9 million primarily due to higher gross profit and lower store closure and other costs, net, partially offset by higher selling, general and administrative expenses for the reasons discussed above.

Diluted earnings per share

	Thirteen weeks ended		Change	% Change
	March 31, 2024	April 2, 2023		
Diluted earnings per share	\$ 1.12	\$ 0.73	\$ 0.39	53 %
Diluted weighted average shares outstanding	102,024	104,876	(2,852)	

The increase in diluted earnings per share of \$0.39 was driven by higher net income and fewer diluted shares outstanding compared to the prior year, due primarily to the share repurchase program.

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. 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 four-quarter 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	
	March 31, 2024	April 2, 2023
	(dollars in thousands)	
Net income ⁽¹⁾	\$ 296,797	\$ 249,018
Special items, net of tax ^{(2), (3)}	7,751	26,521
Interest expense, net of tax ⁽³⁾	3,852	6,168
Net operating profit after tax (NOPAT)	<u>\$ 308,400</u>	<u>\$ 281,707</u>
Total rent expense, net of tax ⁽³⁾	181,856	157,944
Estimated depreciation on operating leases, net of tax ⁽³⁾	(101,175)	(89,396)
Estimated interest on operating leases, net of tax ^{(3), (4)}	80,681	68,548
NOPAT, including effect of operating leases	<u>\$ 389,081</u>	<u>\$ 350,255</u>
Average working capital	217,750	283,293
Average property and equipment	767,059	704,649
Average other assets	602,634	575,722
Average other liabilities	(98,576)	(98,409)
Average invested capital	<u>\$1,488,867</u>	<u>\$1,465,255</u>
Average operating leases ⁽⁵⁾	1,480,590	1,287,831
Average invested capital, including operating leases	<u>\$2,969,457</u>	<u>\$2,753,086</u>
ROIC, including operating leases	<u>13.1 %</u>	<u>12.7 %</u>

- (1) Net income amounts represent total net income for the past four trailing quarters.
- (2) Special items related to store closure, supply chain transition and acquisition related charges net of tax.
- (3) Net of tax amounts are calculated using the normalized effective tax rate for the periods presented.
- (4) 2024 and 2023 estimated interest on operating leases is calculated by multiplying operating leases by the 7.2% and 7.1% discount rate, respectively, for each lease recorded as rent expense within direct store expense.
- (5) 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):

	Thirteen weeks ended	
	March 31, 2024	April 2, 2023
Cash, cash equivalents and restricted cash at end of period	\$ 314,354	\$ 296,846
Cash flows from operating activities	\$ 219,695	\$ 179,820
Cash flows used in investing activities	\$ (51,241)	\$ (60,086)
Cash flows used in financing activities	\$ (57,970)	\$ (118,080)

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. Our principal contractual obligations and commitments consist of obligations under our Credit Agreement, interest on our Credit Agreement, operating and finance leases, purchase commitments and self-insurance liabilities. Our operating and finance leases for the rental of land, buildings, and for rental of facilities and equipment expire or become subject to renewal clauses at various dates through 2044. 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 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 increased \$39.9 million to \$219.7 million for the thirteen weeks ended March 31, 2024 compared to \$179.8 million for the thirteen weeks ended April 2, 2023. The increase in cash flows from operating activities was primarily a result of favorable changes in working capital of \$30.1 million and higher net income adjusted for non-cash items of \$15.9 million.

Cash flows provided by operating activities from changes in working capital were \$68.0 million in the thirteen weeks ended March 31, 2024 compared to \$37.9 million in the thirteen weeks ended April 2, 2023. This \$30.1 million increase in cash flow from changes in working capital was primarily attributable to a \$19.7 million change in accrued liabilities primarily due to timing differences of payments for goods and services. Certain other immaterial items combined to result in an additional \$10.4 million net increase in cash flows from changes in working capital.

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 as well as cash outlays for acquisitions. Cash flows used in investing activities were \$51.2 million and \$60.1 million, for the thirteen weeks ended March 31, 2024 and thirteen weeks ended April 2, 2023, respectively. Cash flows used in investing activities during the thirteen weeks ended April 2, 2023 included our acquisition of Ronald Cohn, Inc. See Note 14, "Business Combination" of our unaudited consolidated financial statements.

We expect capital expenditures to be in the range of \$225 - \$245 million in 2024, 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 \$58.0 million for the thirteen weeks ended March 31, 2024 compared to \$118.1 million for the thirteen weeks ended April 2, 2023. During the thirteen weeks ended March 31, 2024, cash flows used in financing activities primarily consisted of \$60.0 million for stock repurchases, partially offset by \$2.3 million in proceeds from the exercise of stock options.

During the thirteen weeks ended April 2, 2023, cash flows used in financing activities primarily consisted of \$98.3 million for stock repurchases and \$25.0 million in payments on our Credit Agreement, partially offset by \$5.5 million in proceeds from the exercise of stock options.

Long-Term Debt and Credit Facilities

Long-term debt outstanding was \$125.0 million as of March 31, 2024 and December 31, 2023.

See Note 4, “Long-Term Debt and Finance Lease Liabilities” of our unaudited consolidated financial statements for a description of our 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 program authorized by our board, and the related repurchase activity and available authorization as of March 31, 2024:

Effective date	Expiration date	Amount authorized	Cost of repurchases	Authorization available
March 2, 2022	December 31, 2024	\$ 600,000	\$ 451,619	\$ 148,381

The shares under our current repurchase program may be purchased on a discretionary basis from time to time through the applicable expiration date, 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	
	March 31, 2024	April 2, 2023
Number of common shares acquired	957,780	3,038,411
Average price per common share acquired	\$ 63.04	\$ 32.64
Total cost of common shares acquired	\$ 60,380	\$ 99,171

Shares purchased under our repurchase programs were subsequently retired and the excess of the repurchase price over par value was charged to retained earnings. The cost of common shares repurchased included the 1% excise tax imposed as part of the Inflation Reduction Act of 2022.

Subsequent to March 31, 2024 and through the date of this filing, we repurchased an additional 0.3 million shares of common stock for \$21.5 million, excluding excise tax.

Contractual Obligations

Our principal contractual obligations and commitments arising in the normal course of business consist of obligations under our Credit Agreement, interest on our Credit Agreement, operating and finance leases, purchase commitments and self-insurance liabilities. There have been no material changes outside the normal course of business as of March 31, 2024 in our contractual obligations and commitments from those reported in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

The future amount and timing of interest payments are expected to vary with the outstanding amounts and then prevailing contractual interest rates. Interest payments through the March 25, 2027 maturity date of our Credit Agreement based on the outstanding amounts as of March 31, 2024 and interest rates in effect at the time of this filing, are estimated to be approximately \$20.8 million, with \$8.0 million payable within 12 months.

Impact of Inflation and Deflation

Inflation and deflation in the prices of food and other products we sell may periodically affect our sales, gross profit and gross margin. Food inflation, when combined with reduced consumer spending, could also reduce sales, gross profit margins and comparable store sales. Inflationary pressures on compensation, utilities, commodities, equipment and supplies may also impact our profitability. Food deflation or declining levels of inflation across multiple categories, particularly in produce, could reduce sales growth and earnings, particularly 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. The short-term impact of inflation and deflation is largely dependent on whether or not the effects are passed through to our customers, which is subject to competitive market conditions.

Food inflation and deflation is affected by a variety of factors and our determination of whether to pass on the effects of inflation or deflation 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 inflation or deflation 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 inventories, lease assumptions, self-insurance reserves, goodwill and intangible assets, impairment of long-lived assets, 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 the thirteen weeks ended March 31, 2024. 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 December 31, 2023.

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, our Credit Agreement bears interest at a rate based in part on SOFR. Accordingly, we could be exposed to fluctuations in interest rates. Based solely on the \$125.0 million principal outstanding under our Credit Agreement as of March 31, 2024, each hundred basis point change in SOFR would result in a change in interest expense by \$1.25 million 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.

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 March 31, 2024, 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 March 31, 2024, 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.

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 December 31, 2023.

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 March 31, 2024.

Period ⁽¹⁾	Total number of shares purchased	Average price paid per share ⁽²⁾	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 ⁽³⁾
January 1, 2024 - January 28, 2024	—	\$ —	—	\$ 208,381,000
January 29, 2024 - February 25, 2024	—	\$ —	—	\$ 208,381,000
February 26, 2024 - March 31, 2024	957,780	\$ 62.64	957,780	\$ 148,381,000
Total	<u>957,780</u>		<u>957,780</u>	

- (1) Periodic information is presented by reference to our fiscal periods during the first quarter of fiscal year 2024.
- (2) Average price paid per share includes costs associated with the purchases, but excludes the excise tax on share repurchases imposed as part of the Inflation Reduction Act of 2022.
- (3) On March 2, 2022, our board of directors authorized a \$600 million share repurchase program of our common stock. The shares may be purchased on a discretionary basis from time to time through December 31, 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.

Item 5. Other Information.

Rule 10b5-1 Trading Arrangements

On March 11, 2024, Stacy Hilgendorf, our Vice President - Controller and Principal Accounting Officer, adopted a written plan for the sale of our common stock that is intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act (a "Rule 10b5-1 Trading Plan"). The Rule 10b5-1 Trading Plan provides for the sale of up to 4,951 shares of the Company's common stock beginning June 10, 2024 through March 11, 2025.

On March 19, 2024, Jack Sinclair, our Chief Executive Officer and member of our board of directors, adopted a Rule 10b5-1 Trading Plan that provides for the sale of up to 80,000 shares of the Company's common stock beginning June 20, 2024 through December 18, 2024.

During the first quarter of 2024, except as described above, none of our other directors or executive officers adopted or terminated a Rule 10b5-1 Trading Plan, or a "non-Rule 10b5-1 trading arrangement" (as defined in Item 408(c) of Regulation S-K).

Item 6. Exhibits.

Exhibit Number	Description
10.1	2024 Form of Performance Share Agreement under Sprouts Farmers Market, Inc. 2022 Omnibus Incentive Compensation Plan
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	The following financial information from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2024, formatted in iXBRL (Inline Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements
104	Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101)

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: May 1, 2024

By: /s/ Curtis Valentine

Name: Curtis Valentine

Title: Chief Financial Officer

(Principal Financial Officer)

**SPROUTS FARMERS MARKET, INC.
PERFORMANCE SHARE AWARD AGREEMENT**

Cover Sheet

Sprouts Farmers Market, Inc., a company organized under the laws of the State of Delaware (“Company”), hereby grants an award of performance shares (“Performance Shares”) to the individual named below. The terms and conditions of the Performance Shares are set forth in this cover sheet (“Cover Sheet”), in the attached Performance Share Award Agreement (the “Agreement”) and in the Sprouts Farmers Market, Inc. 2022 Omnibus Incentive Compensation Plan (as may be amended from time to time, the “Plan”). All capitalized terms used but not defined in this Cover Sheet and the Agreement will have the meanings ascribed to such terms in the Plan.

Granted to:

Grant Date:

**Number of Performance
Shares:**

Issuance of Shares:

**Time Vesting Schedule/
Vesting Date:**

By signing this Cover Sheet, you agree to all of the terms and conditions described in this Cover Sheet, in the Agreement and in the Plan. The Company has the right to rescind this award, if you do not sign and return this Cover Sheet and the attached Irrevocable Standing Order to Sell Shares within 60 days of the Grant Date.

Signature: _____

Date: _____

SPROUTS FARMERS MARKET, INC.

By:

Name:

Title:

SPROUTS FARMERS MARKET, INC.
2022 OMNIBUS INCENTIVE COMPENSATION PLAN
PERFORMANCE SHARE AWARD AGREEMENT

Right to Shares

The award of Performance Shares represents your right to receive, and the Company's obligation to issue, one Share for each Performance Share earned, based on the Company's achievement of the performance metric(s) set forth in the Cover Sheet. The Shares issued will be subject to the vesting conditions described below. Issuance of Shares equal to the Performance Shares earned will occur as soon as practicable following the date the Committee certifies the Company's achievement of the performance metric(s) set forth in the Cover Sheet, based on the Company's 2026 fiscal year audited financial statements (the "Certification Date").

Vesting

The Performance Shares issued to you will vest in accordance with the schedule set forth in the Cover Sheet.

All Performance Shares will cease vesting as of the date your employment with the Company and its subsidiaries (the "Employer") has terminated for any reason, except as set forth herein.

**Termination;
Specified Conduct**

Should your employment with the Employer terminate for any reason (except in connection with a Change in Control or due to death or Disability, in each case, as provided for below) or if you engage in Specified Conduct (as defined in Exhibit A) prior to the Certification Date, you shall forfeit all rights to receive any Performance Shares. Should your employment with the Employer terminate for any reason (except in connection with a Change in Control or due to death or Disability, in each case, as provided for below) after the Certification Date or if you engage in Specified Conduct after the Certification Date, you shall forfeit all Performance Shares that are not then vested, and such Performance Shares shall be returned to the Company automatically and for no consideration.

Change in Control

In the event of a Change in Control, the Committee may take such actions with respect to the Performance Shares as it deems appropriate pursuant to the Plan. Absent other action by the Committee:

- (A) if there occurs a Change in Control, and this award is not continued or assumed by, or replaced with an award that has comparable terms by, the surviving corporation (or a parent or subsidiary of the surviving corporation) in accordance with the Plan, then (i) if the Change in Control occurs prior to the Certification Date, you will become vested, immediately prior to the Change in Control, in the greater of (x) the Target Number of Performance Shares, or (y) the number of Performance Shares which would have been earned based on the Company's actual achievement of the performance metric(s) set forth in the Cover Sheet, and (ii) if the Change in Control occurs after the Certification Date, all Performance Shares that have not yet vested shall vest immediately prior to the Change in Control; and
- (B) if there occurs a Change in Control, and this award continues or is assumed by, or replaced with an award that has comparable terms by, the surviving corporation (or a parent or subsidiary of the surviving corporation) in accordance with the Plan and your employment is terminated by the Employer without Cause or by you for Good Reason, in each case within 24 months following the Change in Control, then (i) upon such termination, you will become vested in the greater of (x) the Target Number of Performance Shares, or (y) the number of Performance Shares which would have been earned based on the Company's actual achievement of the performance metric(s) set forth in the Cover Sheet through the date of such termination, and (ii) if such termination occurs after the Certification Date, all Performance Shares that have not yet vested shall vest immediately upon such termination.

For purposes of the foregoing, this award shall not be treated as continued, assumed or replaced on comparable terms unless it is continued, assumed or replaced with substantially equivalent terms, including, without limitation, continuation, replacement or assumption of the same Company performance metrics set forth in the Cover Sheet, subject to adjustment in accordance with the Plan.

**Termination due to
Death or Disability**

Should your employment with the Employer terminate due to death or Disability, then any unvested Performance Shares will be treated as follows:

- (A) if such termination occurs prior to the Certification Date, upon such termination you will become vested in a pro-rated number of Performance Shares that is equal to: (i) the greater of (x) the Target Number of Performance Shares, or (y) the number of Performance Shares which would have been earned based on the Company's actual achievement of the performance metric(s) set forth in the Cover Sheet through the date of such termination, multiplied by, (ii) a fraction, the numerator of which is the number of days that elapsed between the Grant Date and the termination date, and the denominator of which is the number of days in the performance period; or
- (B) if such termination occurs on or after the Certification Date, all Performance Shares that have been deemed earned on the Certification Date but have not yet vested shall vest upon such termination.

Taxes

Unless you make an election under Section 83(b) of the Code within 30 days of the Certification Date, the value of the Performance Shares as and when they vest will be treated as wages subject to payroll withholding. The Company will satisfy the withholding obligation through a "sell to cover" whereby you irrevocably direct a securities broker approved by the Company to sell a portion of your Performance Shares that are then scheduled to vest and to deliver the sale proceeds to the Company in payment of the applicable withholding taxes. You agree to provide these directions by signing and returning the Irrevocable Standing Order to Sell Shares attached hereto, along with a signed copy of the Cover Sheet, within 60 days of the Grant Date.

The number of Shares that the broker will sell will be based on an estimate made by the broker of the Shares required to be sold to satisfy the withholding taxes. You agree that the proceeds received from the sale of Shares will be used to satisfy the withholding taxes and, accordingly, you authorize the broker to pay such proceeds to the Company for such purpose. To the extent that the proceeds obtained by such sale exceed the amount necessary to satisfy the withholding taxes, such excess proceeds shall be deposited into your brokerage account and in the event of a shortfall, additional Shares may be sold and/or cash withholding may be required from you. Any remaining Shares shall be deposited into your brokerage account.

If there is not a market in the Shares or the Company determines in its sole discretion that the sell to cover procedure is not advisable or sufficient, the Company will have the right to make other arrangements to satisfy the withholding taxes due upon the vesting of the Shares with respect to the Performance Shares, including, but not limited to, the right to deduct amounts from salary or payments of any kind otherwise due to you or withhold in Shares (by transferring Shares back to the Company), provided that the Company only withholds the amount of Shares necessary to satisfy the statutory minimum withholding amount or such other amount as permitted by the Committee. If such other arrangements are made, your Irrevocable Standing Order to Sell Shares will be voided.

You represent to the Company that, as of the date you sign the Irrevocable Standing Order to Sell Shares, you are not aware of any material nonpublic information about the Company or the Shares. You and the Company have structured this Agreement to constitute a "binding contract" relating to the sale of Shares, consistent with the affirmative defense to liability under Section 10(b) of the Exchange Act under Rule 10b5-1(c) issued under such Act.

Restrictions on Resale

By signing this Agreement, you agree not to sell any Performance Shares at a time when applicable laws, regulations or Company policies prohibit a sale.

In addition, until the Performance Shares have vested pursuant to the schedule set forth in the Cover Sheet, they may not be sold, transferred, assigned, pledged, margined, or otherwise encumbered or disposed of (except for transfers and forfeitures to the Company).

The Company's obligation to issue Performance Shares upon the Certification Date shall be subject to applicable laws, rules and regulations and also to such approvals by governmental agencies as may be deemed appropriate to comply with relevant securities laws and regulations.

You shall deliver to the Chief Legal Officer of the Company, at the time of execution of this Agreement and/or at such other time or times as the Chief Legal Officer may request, one or more executed stock powers, authorizing the transfer of the Performance Shares to the Company upon forfeiture, and you shall take such other steps or perform such other actions as may be requested by the Chief Legal Officer to effect the transfer of any forfeited Performance Shares.

Transfer of right to receive Performance Shares

Prior to the Vesting Date as set forth on the Cover Sheet, you cannot transfer or assign your right to receive Performance Shares. For instance, you may not sell your right to Performance Shares or use such right as security for a loan. If you attempt to do any of these things, your award will immediately become invalid.

Regardless of any marital property settlement agreement, the Company or a securities broker, as applicable, is not obligated to recognize your former spouse's interest in your right to Performance Shares in any way.

Stockholder Rights; Dividend Equivalent Rights

You, or your estate or heirs, have no rights as a stockholder of the Company in respect of Performance Shares until the Certification Date. No adjustments are made for dividends or other rights if the applicable record date occurs before Shares are issued, except as described in the Plan.

On and following the Certification Date, you shall have the rights as a stockholder, subject to the restrictions set forth in this Agreement (including, without limitation, transfer restrictions and forfeiture during the vesting period); provided that, any dividends declared with respect to the Performance Shares issued to you shall be paid only if and to the extent that such Performance Shares vest.

Applicable Law

This Agreement will be interpreted and enforced under the laws of the State of Delaware.

Company Policies

This Agreement, the Performance Shares and any other Shares or cash you receive pursuant to this Agreement shall be subject to any applicable clawback or recoupment policies, share trading policies and other policies that may be implemented by the Board from time to time.

409A

This Agreement and the Performance Shares are intended to comply with, or be exempt from, the requirements of Section 409A of the Code, and shall in all respects be administered in accordance with Section 409A of the Code. However, neither the Company nor any Affiliate of the Company shall have any responsibility or liability if the Performance Shares are not compliant with, or exempt from, Section 409A of the Code. If the Performance Shares are subject to Section 409A of the Code, payments to be made upon a termination of employment shall only be made upon a "separation from service" under Section 409A of the Code; and each payment hereunder shall be treated as a separate payment for purposes of Section 409A of the Code. If you are a Key Employee (and any distribution with respect to the Performance Shares is to be distributed on a separation from service, such distribution shall be subject to delay for six months if required by Section 19(f)(iii) of the Plan.

The Plan and Other Agreements

The text of the Plan and any amendments thereto are incorporated in this Agreement by reference.

This Agreement, the Cover Sheet and the Plan constitute the entire understanding between you and the Company regarding the Performance Shares. Any prior agreements, commitments or negotiations concerning the Performance Shares are superseded.

By signing the Cover Sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan and evidence your acceptance of the powers of the Committee of the Board of Directors of the Company that administers the Plan.

Certain Definitions

“Specified Conduct” means, if you are party to an employment agreement that contains post-termination restrictive covenants, a breach of any such covenant, or if you are not party to an employment agreement that contains post-termination restrictive covenants, your (i) unauthorized disclosure of confidential information relating to the Company or its Affiliates, (ii) engaging, directly or indirectly, as an employee, partner, consultant, director, stockholder (other than as a passive investor in not more than 5% of the shares of any publicly traded class of securities of any business), owner, or agent in any business that is competitive with the businesses conducted by the Company and its Affiliates at the time of termination of your employment, (iii) soliciting or inducing, directly or indirectly, any former, present or prospective customer or client of the Company or its Affiliates to purchase any services or products offered by the Company or its Affiliates from any Person other than the Company or its Affiliates, or (iv) hiring, directly or indirectly, any individual who was an employee of the Company or its Affiliates within the six month period prior to termination of your employment, or soliciting or inducing, directly or indirectly, any such individual to terminate his or her employment with the Company or its Affiliates.

IRREVOCABLE STANDING ORDER TO SELL SHARES

I have been granted an award in respect of Performance Shares (“Performance Shares”) by Sprouts Farmers Market, Inc. (the “Company”), which is evidenced by a performance share award agreement between me and the Company (the “Agreement,” copy attached). Provided that I remain employed by the Company on the applicable vesting date, the shares vest according to the provisions of the Agreement.

I understand that on the Certification Date (as defined in the Agreement), the Performance Shares will be deposited into my account at E*TRADE or such other broker the Company may engage at such time (the “Broker”) and that on the applicable vesting date following the Certification Date (or my earlier termination of employment under certain circumstances set forth in the Agreement), I will recognize taxable ordinary income as a result. Pursuant to the terms of the Agreement and as a condition of my receipt of the Shares, I understand and agree that, on the vesting date or earlier termination of employment, as applicable, I must sell a number of shares sufficient to satisfy all withholding taxes applicable to that ordinary income. Therefore, **I hereby direct the Broker to sell, at the market price and on the vesting date or termination of employment, as applicable, (or the first business day thereafter if the applicable date should fall on a day when the market is closed), the number of Shares that the Company informs the Broker is sufficient to satisfy the applicable withholding taxes, which shall be calculated based on the closing price of the Company’s ordinary shares on the last trading day before the vesting date or termination date, as applicable.** I understand that the Broker will remit the proceeds to the Company for payment of the withholding taxes.

I understand and agree that by signing below, I am making an Irrevocable Standing Order to Sell Shares which will remain in effect until the vesting date. I also agree that this Irrevocable Standing Order to Sell Shares is in addition to and subject to the terms and conditions of any existing Account Agreement that I have with the Broker.

Signature

Print Name

**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: May 1, 2024

/s/ Jack L. Sinclair

Jack L. Sinclair

Chief Executive Officer

(Principal Executive Officer)

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

I, Curtis Valentine, 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: May 1, 2024

/s/ Curtis Valentine

Curtis Valentine

Chief Financial Officer

(Principal Financial Officer)

**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 March 31, 2024, 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: May 1, 2024

/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.

**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 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Curtis Valentine, 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: May 1, 2024

/s/ Curtis Valentine

Curtis Valentine

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.