

**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 June 30, 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 July 25, 2024, the registrant had 100,130,499 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 JUNE 30, 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)**

	June 30, 2024	December 31, 2023
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 177,321	\$ 201,794
Accounts receivable, net	31,381	30,313
Inventories	325,578	323,198
Prepaid expenses and other current assets	33,771	48,467
Total current assets	568,051	603,772
Property and equipment, net of accumulated depreciation	836,010	798,707
Operating lease assets, net	1,402,161	1,322,854
Intangible assets	208,060	208,060
Goodwill	381,750	381,741
Other assets	14,487	12,294
Total assets	<u>\$ 3,410,519</u>	<u>\$ 3,327,428</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 158,773	\$ 179,927
Accrued liabilities	193,814	164,887
Accrued salaries and benefits	69,656	74,752
Current portion of operating lease liabilities	126,395	126,271
Current portion of finance lease liabilities	1,119	1,032
Total current liabilities	549,757	546,869
Long-term operating lease liabilities	1,482,797	1,399,676
Long-term debt and finance lease liabilities	8,057	133,685
Other long-term liabilities	38,661	36,270
Deferred income tax liability	61,972	62,381
Total liabilities	2,141,244	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, 100,214,345 shares issued and outstanding, June 30, 2024; 101,211,984 shares issued and outstanding, December 31, 2023	100	101
Additional paid-in capital	791,364	774,834
Retained earnings	477,811	373,612
Total stockholders' equity	1,269,275	1,148,547
Total liabilities and stockholders' equity	<u>\$ 3,410,519</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		Twenty-six weeks ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
Net sales	\$ 1,893,519	\$ 1,692,247	\$ 3,777,327	\$ 3,425,557
Cost of sales	1,175,154	1,066,275	2,336,649	2,149,523
Gross profit	718,365	625,972	1,440,678	1,276,034
Selling, general and administrative expenses	556,367	497,965	1,096,138	984,160
Depreciation and amortization (exclusive of depreciation included in cost of sales)	31,489	33,964	63,721	68,032
Store closure and other costs, net	3,192	2,427	5,236	30,704
Income from operations	127,317	91,616	275,583	193,138
Interest (income) expense, net	(139)	2,140	679	4,360
Income before income taxes	127,456	89,476	274,904	188,778
Income tax provision	32,167	22,142	65,515	45,284
Net income	<u>\$ 95,289</u>	<u>\$ 67,334</u>	<u>\$ 209,389</u>	<u>\$ 143,494</u>
Net income per share:				
Basic	\$ 0.95	\$ 0.65	\$ 2.08	\$ 1.39
Diluted	\$ 0.94	\$ 0.65	\$ 2.06	\$ 1.38
Weighted average shares outstanding:				
Basic	<u>100,460</u>	<u>102,824</u>	<u>100,765</u>	<u>103,326</u>
Diluted	<u>101,196</u>	<u>103,514</u>	<u>101,647</u>	<u>104,240</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 and twenty-six weeks ended June 30, 2024**

	Shares	Common Stock	Additional Paid In Capital	Retained Earnings	Total Stockholders' Equity
<b>Balances at March 31, 2024</b>	100,802,152	\$ 101	\$ 783,593	\$ 427,333	\$ 1,211,027
Net income	—	—	—	95,289	95,289
Issuance of shares under stock plans	51,731	—	982	—	982
Repurchase and retirement of common stock, including excise tax	(639,538)	(1)	—	(44,811)	(44,812)
Share-based compensation	—	—	6,789	—	6,789
<b>Balances at June 30, 2024</b>	<u>100,214,345</u>	<u>\$ 100</u>	<u>\$ 791,364</u>	<u>\$ 477,811</u>	<u>\$ 1,269,275</u>

	Shares	Common Stock	Additional Paid In Capital	Retained Earnings	Total Stockholders' Equity
<b>Balances at December 31, 2023</b>	101,211,984	\$ 101	\$ 774,834	\$ 373,612	\$ 1,148,547
Net income	—	—	—	209,389	209,389
Issuance of shares under stock plans	599,679	1	3,264	—	3,265
Repurchase and retirement of common stock, including excise tax	(1,597,318)	(2)	—	(105,190)	(105,192)
Share-based compensation	—	—	13,266	—	13,266
<b>Balances at June 30, 2024</b>	<u>100,214,345</u>	<u>\$ 100</u>	<u>\$ 791,364</u>	<u>\$ 477,811</u>	<u>\$ 1,269,275</u>

**For the thirteen and twenty-six weeks ended July 2, 2023**

	Shares	Common Stock	Additional Paid In Capital	Retained Earnings	Total Stockholders' Equity
<b>Balances at April 2, 2023</b>	103,470,717	\$ 104	\$ 753,822	\$ 297,004	\$ 1,050,930
Net income	—	—	—	67,334	67,334
Issuance of shares under stock plans	150,298	—	1,750	—	1,750
Repurchase and retirement of common stock, including excise tax	(1,437,932)	(2)	—	(50,468)	(50,470)
Share-based compensation	—	—	5,609	—	5,609
<b>Balances at July 2, 2023</b>	<u>102,183,083</u>	<u>\$ 102</u>	<u>\$ 761,181</u>	<u>\$ 313,870</u>	<u>\$ 1,075,153</u>

	Shares	Common Stock	Additional Paid In Capital	Retained Earnings	Total Stockholders' Equity
<b>Balances at January 1, 2023</b>	105,072,756	\$ 105	\$ 726,345	\$ 320,012	\$ 1,046,462
Net income	—	—	—	143,494	143,494
Issuance of shares under stock plans	1,032,312	1	7,237	—	7,238
Repurchase and retirement of common stock, including excise tax	(4,476,343)	(5)	—	(149,636)	(149,641)
Share-based compensation	—	—	9,461	—	9,461
Issuance of shares for acquisition	554,358	1	18,138	—	18,139
<b>Balances at July 2, 2023</b>	<u>102,183,083</u>	<u>\$ 102</u>	<u>\$ 761,181</u>	<u>\$ 313,870</u>	<u>\$ 1,075,153</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)**

	Twenty-six weeks ended	
	June 30, 2024	July 2, 2023
<b>Operating activities</b>		
Net income	\$ 209,389	\$ 143,494
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	67,756	70,013
Operating lease asset amortization	65,489	62,331
Impairment of assets	—	27,845
Share-based compensation	13,266	9,461
Deferred income taxes	(396)	(5,953)
Other non-cash items	2,189	254
Changes in operating assets and liabilities, net of effects from acquisition:		
Accounts receivable	18,746	8,390
Inventories	(2,380)	(7,665)
Prepaid expenses and other current assets	13,947	9,915
Other assets	(125)	3,205
Accounts payable	(12,914)	3,374
Accrued liabilities	24,081	41,733
Accrued salaries and benefits	(5,095)	(2,561)
Operating lease liabilities	(83,952)	(68,986)
Other long-term liabilities	1,294	(69)
Cash flows from operating activities	<u>311,295</u>	<u>294,781</u>
<b>Investing activities</b>		
Purchases of property and equipment	(108,925)	(98,683)
Payments for acquisition, net of cash acquired	—	(13,042)
Cash flows used in investing activities	<u>(108,925)</u>	<u>(111,725)</u>
<b>Financing activities</b>		
Payments on revolving credit facilities	(125,000)	(75,000)
Payments on finance lease liabilities	(542)	(482)
Repurchase of common stock	(104,488)	(148,346)
Proceeds from exercise of stock options	3,265	7,238
Cash flows used in financing activities	<u>(226,765)</u>	<u>(216,590)</u>
Decrease in cash, cash equivalents, and restricted cash	(24,395)	(33,534)
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>\$ 179,475</u>	<u>\$ 261,658</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 4,193	\$ 7,517
Cash paid for income taxes	43,590	43,191
<b>Supplemental disclosure of non-cash activities</b>		
Property and equipment in accounts payable and accrued liabilities	\$ 25,989	\$ 26,818
Issuance of shares for acquisition	—	18,139
Excise tax accrued on repurchase of common stock	2,470	1,294
Leased assets obtained in exchange for new operating lease liabilities, net of lease terminations	144,796	207,835
Leased assets obtained in exchange for new finance lease liabilities	—	809

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 June 30, 2024, the Company operated 419 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:

	Twenty-six weeks ended	
	June 30, 2024	July 2, 2023
Beginning Balance	\$ 10,566	\$ 10,906
Gift cards issued during the period but not redeemed <sup>(1)</sup>	1,590	1,621
Revenue recognized from beginning liability	(3,330)	(3,562)
Ending Balance	<u>\$ 8,826</u>	<u>\$ 8,965</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 June 30, 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 \$2.2 million and \$2.1 million as of June 30, 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 beginning with the Company's Annual Report on Form 10-K 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 expects this update to impact its segment disclosures but does not anticipate that this update will impact its results of operations, cash flows or financial condition.

**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 expects this update to impact its income tax disclosures but does not anticipate that this update will impact its results of operations, cash flows or financial condition.

No other new accounting pronouncements issued or effective during the thirteen weeks ended June 30, 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 Company did not have any financial liabilities measured at fair value on a recurring basis as of June 30, 2024. The following table presents the fair value hierarchy for the Company's financial liabilities measured at fair value on a recurring basis as of December 31, 2023:

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 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	
			June 30, 2024	December 31, 2023
Senior secured debt				
\$700.0 million Credit Agreement	March 25, 2027	Variable	\$ —	\$ 125,000
Finance lease liabilities	Various	n/a	8,057	8,685
Long-term debt and finance lease liabilities			<u>\$ 8,057</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 \$19.6 million have been issued as of June 30, 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 June 30, 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. The Company had no loans outstanding under the Credit Agreement as of June 30, 2024.

As of June 30, 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 and twenty-six weeks ended June 30, 2024, the Company made no additional borrowings and made principal payments of \$125.0 million, resulting in no outstanding debt under the Credit Agreement as of June 30, 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.

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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 June 30, 2024.

## 5. Income Taxes

The Company's effective tax rate increased to 25.2% for the thirteen weeks ended June 30, 2024, compared to 24.7% for the thirteen weeks ended July 2, 2023. The increase in the effective tax rate was primarily due to a prior period refund of interest from amended returns, partially offset by a tempered impact to the effective tax rate for executive compensation due to increased pre-tax income. The income tax effect resulting from excess tax benefits of share-based payment awards was \$0.6 million and \$0.4 million for the thirteen weeks ended June 30, 2024 and July 2, 2023, respectively.

The Company's effective tax rate decreased to 23.8% for the twenty-six weeks ended June 30, 2024, compared to 24.0% for the twenty-six weeks ended July 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 and a tempered impact to the effective tax rate for executive compensation due to increased pre-tax income, partially offset by a prior period refund of interest from amended returns. The income tax effect resulting from excess tax benefits of share-based payment awards was \$5.1 million and \$3.0 million for the twenty-six weeks ended June 30, 2024 and July 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. 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.

## 7. Stockholders' Equity

### Share Repurchases

On May 22, 2024, 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 \$600 million that was due to expire on December 31, 2024, of which \$119.3 million remained available upon its replacement, and under which no further shares may be repurchased. The following table outlines the common stock share repurchase programs authorized by the Company's board of directors and the related repurchase activity and available authorization as of June 30, 2024:

Effective date	Expiration date	Amount authorized	Cost of repurchases	Authorization available
March 2, 2022	December 31, 2024	\$ 600,000	\$ 480,715	\$ —
May 22, 2024	May 22, 2027	\$ 600,000	\$ 15,393	\$ 584,607

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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		Twenty-six weeks ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
Number of common shares acquired	639,538	1,437,932	1,597,318	4,476,343
Average price per common share acquired	\$ 70.07	\$ 35.10	\$ 65.86	\$ 33.43
Total cost of common shares acquired	\$ 44,812	\$ 50,470	\$ 105,192	\$ 149,641

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 June 30, 2024 and through the date of this filing, the Company repurchased an additional 0.1 million shares of common stock for \$7.4 million, excluding excise tax.

## 8. 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.

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

	Thirteen weeks ended		Twenty-six weeks ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
<b>Basic net income per share:</b>				
Net income	\$ 95,289	\$ 67,334	\$ 209,389	\$ 143,494
Weighted average shares outstanding - basic	100,460	102,824	100,765	103,326
Basic net income per share	\$ 0.95	\$ 0.65	\$ 2.08	\$ 1.39
<b>Diluted net income per share:</b>				
Net income	\$ 95,289	\$ 67,334	\$ 209,389	\$ 143,494
Weighted average shares outstanding - basic	100,460	102,824	100,765	103,326
Dilutive effect of share-based awards:				
Assumed exercise of options to purchase shares	447	303	436	353
RSUs	289	387	446	474
PSAs	—	—	—	87
Weighted average shares and equivalent shares outstanding - diluted	101,196	103,514	101,647	104,240
Diluted net income per share	\$ 0.94	\$ 0.65	\$ 2.06	\$ 1.38

For the thirteen weeks ended June 30, 2024, the Company had 0.1 million options 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 July 2, 2023, the Company had 0.4 million options and 0.5 million PSAs outstanding which were excluded from the computation of diluted net income per share as those awards would have been antidilutive or were performance awards with performance conditions not yet deemed met.

For the twenty-six weeks ended June 30, 2024, the Company had 0.1 million options 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 twenty-six weeks ended July 2, 2023, the Company had 0.4 million options 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.

## 9. 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.

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In accordance with ASC 606, the following table represents a disaggregation of revenue for the thirteen and twenty-six weeks ended June 30, 2024 and July 2, 2023:

	Thirteen weeks ended			
	June 30, 2024		July 2, 2023	
	Perishables	\$ 1,090,974	57.6%	\$ 971,249
Non-Perishables	802,545	42.4%	720,998	42.6 %
Net Sales	<u>\$ 1,893,519</u>	<u>100.0%</u>	<u>\$ 1,692,247</u>	<u>100.0 %</u>

  

	Twenty-six weeks ended			
	June 30, 2024		July 2, 2023	
	Perishables	\$ 2,160,704	57.2%	\$ 1,970,824
Non-Perishables	1,616,623	42.8%	1,454,733	42.5%
Net Sales	<u>\$ 3,777,327</u>	<u>100.0%</u>	<u>\$ 3,425,557</u>	<u>100.0%</u>

## 10. 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 twenty-six weeks ended June 30, 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
June 4, 2024	1,538	—	—
Total	<u>274,393</u>	<u>103,584</u>	<u>135,783</u>
Weighted-average grant date fair value	\$ 61.25	\$ 61.15	\$ 23.50
Weighted-average exercise price	\$ —	\$ —	\$ 61.15

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 June 30, 2024, there were 1,080,489 stock awards outstanding and 5,584,937 shares remaining available for issuance under the 2022 Incentive Plan.

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***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 June 30, 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 June 30, 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).

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).

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**Share-based Compensation Expense**

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

	Thirteen weeks ended		Twenty-six weeks ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
Share-based compensation expense	\$ 6,789	\$ 5,609	\$ 13,266	\$ 9,461

The following share-based awards were outstanding under the 2022 and 2013 Incentive Plans as of June 30, 2024 and July 2, 2023:

	As of	
	June 30, 2024	July 2, 2023
	(in thousands)	
Options		
Vested	527	641
Unvested	319	475
RSUs	633	1,084
PSAs	370	471

As of June 30, 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	\$ 4,653	1.9
RSUs	23,837	1.8
PSAs	11,997	1.7
Total unrecognized compensation expense at June 30, 2024	\$ 40,487	

During the twenty-six weeks ended June 30, 2024 and July 2, 2023, the Company received \$3.3 million and \$7.2 million, respectively, in cash proceeds from the exercise of options.

**11. Goodwill**

The Company's goodwill balance was \$381.8 million and \$381.7 million as of June 30, 2024 and December 31, 2023, respectively. As of June 30, 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 13, "Business Combination".

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**12. 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 twenty-six weeks ended July 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, and was reflected in Depreciation and amortization on the consolidated statements of income. Severance expense during 2023 was immaterial.

**13. 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 419 stores in 23 states as of June 30, 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 June 30, 2024, we opened 54 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 June 30, 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 June 30, 2024 and July 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	
	June 30, 2024	July 2, 2023
<b>Unaudited Quarterly Consolidated Statement of Income Data:</b>		
Net sales	\$ 1,893,519	\$ 1,692,247
Cost of sales	1,175,154	1,066,275
Gross profit	718,365	625,972
Selling, general and administrative expenses	556,367	497,965
Depreciation and amortization (exclusive of depreciation included in cost of sales)	31,489	33,964
Store closure and other costs, net	3,192	2,427
Income from operations	127,317	91,616
Interest (income) expense, net	(139)	2,140
Income before income taxes	127,456	89,476
Income tax provision	32,167	22,142
Net income	<u>\$ 95,289</u>	<u>\$ 67,334</u>
Weighted average shares outstanding - basic	100,460	102,824
Diluted effect of equity-based awards	736	690
Weighted average shares and equivalent shares outstanding - diluted	101,196	103,514
Diluted net income per share	<u>\$ 0.94</u>	<u>\$ 0.65</u>

	Thirteen weeks ended	
	June 30, 2024	July 2, 2023
<b>Other Operating Data:</b>		
Comparable store sales growth	6.7 %	3.2 %
Stores at beginning of period	414	395
Closed	—	(10)
Opened	5	6
Stores at end of period	<u>419</u>	<u>391</u>

### Comparison of Thirteen Weeks Ended June 30, 2024 to Thirteen Weeks Ended July 2, 2023

#### Net sales

	Thirteen weeks ended		Change	% Change
	June 30, 2024	July 2, 2023		
Net sales	\$1,893,519	\$1,692,247	\$ 201,272	12 %
Comparable store sales growth	6.7 %	3.2 %		

Net sales during the thirteen weeks ended June 30, 2024 totaled \$1.9 billion, an increase of \$201.3 million or 12%, compared to the thirteen weeks ended July 2, 2023. The sales increase was driven by sales from new stores opened in the last twelve months and a 6.7% increase in comparable store sales. Comparable stores contributed approximately 94% of total sales for the thirteen weeks ended June 30, 2024 and approximately 96% of total sales for the thirteen weeks ended July 2, 2023.

### **Cost of sales and gross profit**

	Thirteen weeks ended		Change	% Change
	June 30, 2024	July 2, 2023		
Net sales	\$1,893,519	\$1,692,247	\$ 201,272	12 %
Cost of sales	1,175,154	1,066,275	108,879	10 %
Gross profit	718,365	625,972	92,393	15 %
Gross margin	37.9 %	37.0 %	0.9 %	

Gross profit totaled \$718.4 million during the thirteen weeks ended June 30, 2024, an increase of \$92.4 million or 15%, compared to the thirteen weeks ended July 2, 2023, driven by increased sales volume. Gross margin increased by 0.9% to 37.9% for the thirteen weeks ended June 30, 2024, compared to 37.0% for the thirteen weeks ended July 2, 2023, primarily driven by improved inventory management and continued promotional optimization as well as positive leverage on our supply chain from the increase in sales.

### **Selling, general and administrative expenses**

	Thirteen weeks ended		Change	% Change
	June 30, 2024	July 2, 2023		
Selling, general and administrative expenses	\$ 556,367	\$ 497,965	\$ 58,402	12 %
Percentage of net sales	29.4 %	29.4 %	— %	

Selling, general and administrative expenses increased \$58.4 million or 12%, compared to the thirteen weeks ended July 2, 2023. The increase was primarily due to the increase in new stores opened since the comparable period last year. As a percentage of net sales, selling, general and administrative expenses remained relatively flat as a result of sales leverage, which was partially offset by higher incentive compensation costs and ecommerce fees due to strong sales performance and higher professional fees and other costs incurred related to strategic initiatives.

### **Depreciation and amortization**

	Thirteen weeks ended		Change	% Change
	June 30, 2024	July 2, 2023		
Depreciation and amortization	\$ 31,489	\$ 33,964	\$ (2,475)	(7)%
Percentage of net sales	1.7 %	2.0 %	(0.3)%	

Depreciation and amortization expense (exclusive of depreciation included in cost of sales) was \$31.5 million for the thirteen weeks ended June 30, 2024, compared to \$34.0 million for the thirteen weeks ended July 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 July 2, 2023 was inclusive of \$1.9 million in accelerated depreciation in connection with the decision to close certain underperforming stores during 2023. See Note 12, "Store Closures" of our unaudited consolidated financial statements.

**Store closure and other costs, net**

	Thirteen weeks ended		Change	% Change
	June 30, 2024	July 2, 2023		
Store closure and other costs, net	\$ 3,192	\$ 2,427	\$ 765	32 %
Percentage of net sales	0.2 %	0.1 %	0.1 %	

Store closure and other costs, net for the thirteen weeks ended June 30, 2024 of \$3.2 million and for the thirteen weeks ended July 2, 2023 of \$2.4 million was primarily related to ongoing occupancy costs associated with our closed store locations. See Note 12, “Store Closures” of our unaudited consolidated financial statements.

**Interest (income) expense, net**

	Thirteen weeks ended		Change	% Change
	June 30, 2024	July 2, 2023		
Long-term debt	\$ 1,641	\$ 3,318	\$ (1,677)	(51)%
Finance leases	190	207	(17)	(8)%
Deferred financing costs	193	193	—	0 %
Interest income and other	(2,163)	(1,578)	(585)	37 %
Total interest (income) expense, net	\$ (139)	\$ 2,140	\$ (2,279)	(106)%

The decrease in interest (income) expense, net for the thirteen weeks ended June 30, 2024 compared to the thirteen weeks ended July 2, 2023 was primarily due to lower average debt outstanding and higher interest income driven by higher interest rates. 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	
	June 30, 2024	July 2, 2023
Federal statutory rate	21.0 %	21.0 %
Change in income taxes resulting from:		
State income taxes, net of federal benefit	4.9 %	5.0 %
Enhanced charitable contributions	(1.0)%	(1.2)%
Federal credits	(0.4)%	(0.4)%
Share-based payment awards	(0.5)%	(0.5)%
Non-deductible Executive Compensation	1.0 %	1.4 %
Other, net	0.2 %	(0.6)%
Effective tax rate	25.2 %	24.7 %

The effective tax rate increased to 25.2% for the thirteen weeks ended June 30, 2024 from 24.7% for the thirteen weeks ended July 2, 2023. The increase in the effective tax rate was primarily due to a prior period refund of interest from amended returns, partially offset by a tempered impact to the effective tax rate for executive compensation due to increased pre-tax income.

## Net income

	Thirteen weeks ended		Change	% Change
	June 30, 2024	July 2, 2023		
Net income	\$ 95,289	\$ 67,334	\$ 27,955	42 %
Percentage of net sales	5.0 %	4.0 %	1.0 %	

Net income increased \$28.0 million primarily due to higher gross profit, partially offset by higher selling, general and administrative expenses for the reasons discussed above.

## Diluted earnings per share

	Thirteen weeks ended		Change	% Change
	June 30, 2024	July 2, 2023		
Diluted earnings per share	\$ 0.94	\$ 0.65	\$ 0.29	45 %
Diluted weighted average shares outstanding	101,196	103,514	(2,318)	

The increase in diluted earnings per share of \$0.29 was driven by higher net income and fewer diluted shares outstanding compared to the prior year, due primarily to the share repurchase program.

## Results of Operations for Twenty-six Weeks Ended June 30, 2024 and July 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.

	Twenty-six weeks ended	
	June 30, 2024	July 2, 2023
<b>Unaudited Quarterly Consolidated Statement of Income Data:</b>		
Net sales	\$ 3,777,327	\$ 3,425,557
Cost of sales	2,336,649	2,149,523
Gross profit	1,440,678	1,276,034
Selling, general and administrative expenses	1,096,138	984,160
Depreciation and amortization (exclusive of depreciation included in cost of sales)	63,721	68,032
Store closure and other costs, net	5,236	30,704
Income from operations	275,583	193,138
Interest (income) expense, net	679	4,360
Income before income taxes	274,904	188,778
Income tax provision	65,515	45,284
Net income	\$ 209,389	\$ 143,494
Weighted average shares outstanding - basic	100,765	103,326
Diluted effect of equity-based awards	882	914
Weighted average shares and equivalent shares outstanding - diluted	101,647	104,240
Diluted net income per share	\$ 2.06	\$ 1.38

	Twenty-six weeks ended	
	June 30, 2024	July 2, 2023
<b>Other Operating Data:</b>		
Comparable store sales growth	5.4 %	3.2 %
Stores at beginning of period	407	386
Closed	—	(11)
Opened	12	14
Acquired	—	2
Stores at end of period	419	391

### Comparison of Twenty-six Weeks Ended June 30, 2024 to Twenty-six Weeks Ended July 2, 2023

#### Net Sales

	Twenty-six weeks ended		Change	% Change
	June 30, 2024	July 2, 2023		
Net sales	\$3,777,327	\$3,425,557	\$ 351,770	10 %
Comparable store sales growth	5.4 %	3.2 %		

Net sales during the twenty-six weeks ended June 30, 2024 totaled \$3.8 billion, an increase of \$351.8 million, or 10%, over the same period of the prior fiscal year. The sales increase was primarily due to new stores opened in the last twelve months and a 5.4% increase in comparable store sales. Comparable stores contributed approximately 94% of total sales for the twenty-six weeks ended June 30, 2024 and approximately 96% of total sales for the twenty-six weeks ended July 2, 2023.

#### Cost of sales and gross profit

	Twenty-six weeks ended		Change	% Change
	June 30, 2024	July 2, 2023		
Net sales	\$3,777,327	\$3,425,557	\$ 351,770	10 %
Cost of sales	2,336,649	2,149,523	187,126	9 %
Gross profit	1,440,678	1,276,034	164,644	13 %
Gross margin	38.1 %	37.3 %	0.8 %	

Gross profit totaled \$1.4 billion during the twenty-six weeks ended June 30, 2024, an increase of \$164.6 million, or 13%, compared to the twenty-six weeks ended July 2, 2023, driven by increased sales volume. Gross margin increased to 38.1% for the twenty-six weeks ended June 30, 2024, compared to 37.3% for the twenty-six weeks ended July 2, 2023, due to improved inventory management and continued promotional optimization efforts as well as leverage on our supply chain from higher sales.

#### Selling, general and administrative expenses

	Twenty-six weeks ended		Change	% Change
	June 30, 2024	July 2, 2023		
Selling, general and administrative expenses	\$1,096,138	\$ 984,160	\$ 111,978	11 %
Percentage of net sales	29.0 %	28.7 %	0.3 %	

Selling, general and administrative expenses increased by \$112.0 million, or 11%, compared to the twenty-six weeks ended July 2, 2023. The increase was primarily driven by the increase in new stores opened since the prior year period. As a percentage of net sales, selling, general and administrative expenses increased due to higher incentive compensation costs and ecommerce fees driven by strong sales performance and higher professional fees and other costs incurred related to strategic initiatives.

### Depreciation and amortization

	Twenty-six weeks ended		Change	% Change
	June 30, 2024	July 2, 2023		
Depreciation and amortization	\$ 63,721	\$ 68,032	\$ (4,311)	(6)%
Percentage of net sales	1.7 %	2.0 %	(0.3)%	

Depreciation and amortization expense (exclusive of depreciation included in cost of sales) was \$63.7 million for the twenty-six weeks ended June 30, 2024, compared to \$68.0 million for the twenty-six weeks ended July 2, 2023. Depreciation and amortization expenses (exclusive of depreciation included in cost of sales) primarily consists of depreciation and amortization for buildings, store leasehold improvements, and equipment. Depreciation and amortization for the twenty-six weeks ended July 2, 2023 was inclusive of \$5.9 million in accelerated depreciation in connection with the closing of certain underperforming stores during 2023. See Note 12, "Store Closures" of our unaudited consolidated financial statements.

### Store closure and other costs, net

	Twenty-six weeks ended		Change	% Change
	June 30, 2024	July 2, 2023		
Store closure and other costs, net	\$ 5,236	\$ 30,704	\$ (25,468)	(83)%
Percentage of net sales	0.1 %	0.9 %	(0.8)%	

Store closure and other costs, net decreased \$25.5 million to \$5.2 million, compared to \$30.7 million for the twenty-six weeks ended July 2, 2023. Store closure and other costs, net during the twenty-six weeks ended June 30, 2024 was primarily related to ongoing occupancy costs associated with our closed store locations. Store closure and other costs, net during the twenty-six weeks ended July 2, 2023 primarily consisted of \$27.8 million of impairment losses related to the write-down of leasehold improvements and right-of-use assets as well as other costs incurred in association with the closing of 11 underperforming stores during 2023. See Note 12, "Store Closures" of our unaudited consolidated financial statements.

### Interest (income) expense, net

	Twenty-six weeks ended		Change	% Change
	June 30, 2024	July 2, 2023		
Long-term debt	\$ 3,843	\$ 6,800	\$ (2,957)	(43)%
Finance leases	386	412	(26)	(6)%
Deferred financing costs	386	386	—	0 %
Interest income and other	(3,936)	(3,238)	(698)	22 %
Total interest (income) expense, net	\$ 679	\$ 4,360	\$ (3,681)	(84)%

Interest (income) expense, net decreased to \$0.7 million for the twenty-six weeks ended June 30, 2024, compared to \$4.4 million for the twenty-six weeks ended July 2, 2023 primarily due to lower average debt outstanding and higher interest income earned as a result of higher interest rates. 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:

	Twenty-six weeks ended	
	June 30, 2024	July 2, 2023
Federal statutory rate	21.0 %	21.0 %
Change in income taxes resulting from:		
State income taxes, net of federal benefit	4.9 %	5.0 %
Enhanced charitable contributions	(1.0)%	(1.2)%
Federal Credits	(0.4)%	(0.4)%
Share-based payment awards	(1.8)%	(1.6)%
Non-deductible Executive Compensation	1.0 %	1.2 %
Other, net	0.1 %	— %
Effective tax rate	<u>23.8 %</u>	<u>24.0 %</u>

The effective tax rate decreased to 23.8% for the twenty-six weeks ended June 30, 2024 from 24.0% in the same period last year. The decrease in the effective tax rate was primarily due to an increase in excess tax benefits associated with share-based payment awards and a tempered impact to the effective tax rate for executive compensation due to increased pre-tax income, partially offset by a prior period refund of interest from amended returns.

**Net income**

	Twenty-six weeks ended		Change	% Change
	June 30, 2024	July 2, 2023		
Net income	\$ 209,389	\$ 143,494	\$ 65,895	46 %
Percentage of net sales	5.5 %	4.2 %	1.3 %	

Net income increased \$65.9 million primarily due to higher gross profit and lower store closure and other costs, partially offset by higher selling, general and administrative expenses for the reasons discussed above.

**Diluted earnings per share**

	Twenty-six weeks ended		Change	% Change
	June 30, 2024	July 2, 2023		
Diluted earnings per share	\$ 2.06	\$ 1.38	\$ 0.68	49 %
Diluted weighted average shares outstanding	101,647	104,240	(2,593)	

The increase in diluted earnings per share of \$0.68 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	
	June 30, 2024	July 2, 2023
	(dollars in thousands)	
Net income <sup>(1)</sup>	\$ 324,751	\$ 254,355
Special items, net of tax <sup>(2), (3)</sup>	1,780	32,492
Interest expense, net of tax <sup>(3)</sup>	2,122	5,800
Net operating profit after tax (NOPAT)	<u>\$ 328,653</u>	<u>\$ 292,647</u>
Total rent expense, net of tax <sup>(3)</sup>	185,268	162,916
Estimated depreciation on operating leases, net of tax <sup>(3)</sup>	(102,355)	(92,339)
Estimated interest on operating leases, net of tax <sup>(3), (4)</sup>	82,913	70,577
NOPAT, including effect of operating leases	<u>\$ 411,566</u>	<u>\$ 363,224</u>
Average working capital	193,808	271,139
Average property and equipment	791,193	712,167
Average other assets	602,910	582,423
Average other liabilities	(98,037)	(98,788)
Average invested capital	<u>\$1,489,874</u>	<u>\$1,466,941</u>
Average operating leases <sup>(5)</sup>	1,524,427	1,321,289
Average invested capital, including operating leases	<u>\$3,014,301</u>	<u>\$2,788,230</u>
ROIC, including operating leases	<u>13.7 %</u>	<u>13.0 %</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):

	Twenty-six weeks ended	
	June 30, 2024	July 2, 2023
Cash, cash equivalents and restricted cash at end of period	\$ 179,475	\$ 261,658
Cash flows from operating activities	\$ 311,295	\$ 294,781
Cash flows used in investing activities	\$ (108,925)	\$ (111,725)
Cash flows used in financing activities	\$ (226,765)	\$ (216,590)

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 2046. 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 \$16.5 million to \$311.3 million for the twenty-six weeks ended June 30, 2024 compared to \$294.8 million for the twenty-six weeks ended July 2, 2023. The increase in cash flows from operating activities was primarily a result of higher net income adjusted for non-cash items of \$50.2 million, partially offset by a decrease in cash flows provided by operating activities from changes in working capital of \$16.8 million and higher payments on our operating lease liabilities of \$15.0 million due to growth.

Cash flows provided by operating activities from changes in working capital were \$36.4 million in the twenty-six weeks ended June 30, 2024 compared to \$53.2 million in the twenty-six weeks ended July 2, 2023. This \$16.8 million decrease in cash flow from changes in working capital was primarily attributable to a \$33.9 million change in accounts payable and accrued liabilities, primarily due to timing differences of payments for goods and services, partially offset by a \$10.4 million change in accounts receivable driven by the timing of collections. Certain other immaterial items combined to result in an additional \$6.7 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 \$108.9 million and \$111.7 million, for the twenty-six weeks ended June 30, 2024 and twenty-six weeks ended July 2, 2023, respectively. Cash flows used in investing activities during the twenty-six weeks ended July 2, 2023 included our acquisition of Ronald Cohn, Inc. See Note 13, "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 \$226.8 million for the twenty-six weeks ended June 30, 2024 compared to \$216.6 million for the twenty-six weeks ended July 2, 2023. During the twenty-six weeks ended June 30, 2024, cash flows used in financing activities primarily consisted of \$125.0 million in payments on our Credit Agreement and \$104.5 million for stock repurchases, partially offset by \$3.3 million in proceeds from the exercise of stock options.

During the twenty-six weeks ended July 2, 2023, cash flows used in financing activities primarily consisted of \$148.3 million for stock repurchases and \$75.0 million in payments on our Credit Agreement, partially offset by \$7.2 million in proceeds from the exercise of stock options.

### **Long-Term Debt and Credit Facilities**

The Company had no long-term debt outstanding as of June 30, 2024. Long-term debt outstanding as of December 31, 2023 was \$125.0 million.

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 June 30, 2024:

Effective date	Expiration date	Amount authorized	Cost of repurchases	Authorization available
March 2, 2022	December 31, 2024	\$ 600,000	\$ 480,715	\$ —
May 22, 2024	May 22, 2027	\$ 600,000	\$ 15,393	\$ 584,607

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		Twenty-six weeks ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
Number of common shares acquired	639,538	1,437,932	1,597,318	4,476,343
Average price per common share acquired	\$ 70.07	\$ 35.10	\$ 65.86	\$ 33.43
Total cost of common shares acquired	\$ 44,812	\$ 50,470	\$ 105,192	\$ 149,641

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 June 30, 2024 and through the date of this filing, we repurchased an additional 0.1 million shares of common stock for \$7.4 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. Except as otherwise disclosed in Note 4, "Long-Term Debt and Finance Lease Liabilities" of our unaudited consolidated financial statements, there have been no material changes outside the normal course of business as of June 30, 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.

### **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 and twenty-six weeks ended June 30, 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. As of June 30, 2024, we had no outstanding borrowings under our Credit Agreement.

### **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 June 30, 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 June 30, 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 June 30, 2024.

Period <sup>(1)</sup>	Total number of shares purchased	Average price paid per share <sup>(2)</sup>	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 <sup>(3)</sup>
April 1, 2024 - April 28, 2024	309,660	\$ 63.61	309,660	\$ 128,683,000
April 29, 2024 - May 26, 2024	136,209	\$ 71.93	136,209	\$ 599,600,000
May 27, 2024 - June 30, 2024	193,669	\$ 77.42	193,669	\$ 584,607,000
Total	<u>639,538</u>		<u>639,538</u>	

- (1) Periodic information is presented by reference to our fiscal periods during the second 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 May 22, 2024, our board of directors authorized a new \$600 million share repurchase program of our common stock. The shares may be purchased on a discretionary basis from time to time through May 22, 2027, 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 May 21, 2024, Stacy Hilgendorf, our Vice President - Controller and Principal Accounting Officer, terminated a written plan for the sale of our common stock that was 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 was entered into on March 11, 2024 and provided for the sale of up to 4,951 shares of the Company's common stock beginning June 10, 2024 through March 11, 2025.

During the second 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
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">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</a>
32.2	<a href="#">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</a>
101	The following financial information from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 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: July 29, 2024

By: /s/ Curtis Valentine

Name: Curtis Valentine

Title: Chief Financial Officer

(Principal Financial Officer)