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EDITED TRANSCRIPT

SFM.OQ - Q4 2024 Sprouts Farmers Market Inc Earnings Call

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Sprouts Farmers Market fourth-quarter and full-year 2024 earnings conference call. At this time, all participants are in a listen-only mode. Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Susannah Livingston, Vice President Investor Relations and Treasury.

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

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

During this call, management may make certain forward-looking statements, including statements regarding our expectations for 2025 and beyond. These statements involve several risks and uncertainties that could cause results to differ materially from those described in the forward-looking statement. For more information, please refer to the Risk Factors discussed in our SEC filings and the commentary on forward-looking statements at the end of our earnings release.

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

With that, let me hand it over to Jack.

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

Thanks, Susannah, and good afternoon, everyone. First, I'd like to extend my deepest gratitude to our dedicated team for their tireless efforts during the past few months. Our stores have been dealing with floods in the Carolinas, the Los Angeles wildfires, and the unfortunate airplane crash near our Philadelphia store. I want to take this opportunity to thank our team members for supporting one another, the communities we serve, and the families devastated by these events. And thank you to the firefighters and other first responders who did so much. I'm proud that the Sprouts Healthy Communities Foundation, along with our customers is supporting firefighters and their families and the rebuilding effort for communities in Los Angeles.

2024 was an outstanding year for Sprouts. It was one of tremendous execution and exceptional teamwork. Our teams across all areas of the business worked together to deliver a 13% increase in sales for the year, a 7.6% comp and a bottom line margin improvement of more than 70 basis points. This success is a testament to the team's focus on our target customers, delivering operational excellence daily and positioning sprouts to capitalize on the ongoing trends towards healthy eating.

Our target customers seek differentiated, attribute-driven healthy products. We believe these customers represent $200 billion of the $1.6 trillion food at home market. By maintaining our focus on their needs, we have established ourselves as a leader in trend-forward health and specialty products. This focus includes all aspects of our business: offering healthy products, and practicing responsible sourcing are fundamental to our purpose: to help people live and eat better.

Whilst we were delighted the Progressive Grocer has recognized our commitment to offering this unique assortment by naming us Retailer of the Year for 2024, what truly matters to us is the recognition we receive from our customers.

In 2024, we introduced approximately 7,100 new items including more than 300 new products under the Sprouts Brand such as grass-fed meatballs, organic pasture raised eggs, and the new Real Root line of premium health and beauty products. Our teams collaborated across functions to execute merchandising events that effectively highlighted our differentiated products such as our Summer Cherry Festival, and we continue to get better at helping our target customers find the right products for them.

We ended the year with the company's best customer service scores, thanks to a service-orientated culture embodied by our store team members. We also streamlined our operations through disciplined inventory management across the stores, distribution channels, and support office, positively impacting our sustainable margin profile.

Our customer engagement has continued to improve resulting in strong traffic across all of our channels and healthy new customer growth. Our marketing is geared to our target customers and is unique and differentiated, much like our product offering. We have seen strong success in leaning away from our conventional seasonal messaging to focusing on unique products and solutions. We continue to improve our ability to engage via social media by utilizing healthy eating trends and working with influencers who share our purpose of helping people live and eat better.

The addition of Uber Eats as a delivery partner has helped us grow our e-commerce sales to above $1 billion, a significant landmark for our e-commerce team.

In 2024, we expanded our footprint from sea to shining sea and added Wyoming as our 24th state. We opened 33 new stores which together performed robustly and surpassed previous year's performance and our early expectations. Our growth created approximately 3,300 new jobs. We promoted almost 20% of our 33,000 team members in 2024, while continuing to cultivate a workplace culture that we believe will sustain a profitable business for years to come. None of our achievements would be possible without our fantastic team.

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In summary, our achievements in 2024 have laid a strong foundation for the future, and we're only just getting started. We have significantly improved the talent in our business, and I'm excited to work alongside our team members as we continue to unlock our incredible potential.

I'll discuss our 2025 journey in a few moments. For now, I'll hand it to Curtis to review our 2024 financial performance in the fourth quarter and the year, as well as our 2025 outlook. Curtis?

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

Thanks Jack, and good afternoon, everyone. For the fourth quarter, total sales were $2 billion, up $298 million or 17.5% (sic - see press release, "18%") from the same period last year. This increase was driven by comparable store sales growth of 11.5% and adding new stores. This strong comp performance was broad based and balanced across channels, geographies, baskets, and traffic.

October was the strongest comp month with both of the other months in the quarter also showing double-digit comp growth. Our e-commerce sales grew approximately 37%, representing 14.5% of our total sales for the quarter with strong performance from all partners.

In addition, Sprouts Brand contributed 23% to our total sales for the quarter. As we have seen throughout the year, the strong performance was in categories with the most differentiation. Sprouts has experienced exponential growth in attribute-driven categories, gaining popularity due to the quality and health benefits these products provide. This makes them a top choice for our customers to prioritize healthy eating year round, resulting in continued growth in our seasonal programs as we make attributes the Story of the Holidays at Sprouts.

This fourth quarter, we saw strength across our core business and seasonal business and that combination was the key to our success. Our fourth-quarter gross margin was 38.1%, an increase of 150 basis points from the same period last year. This is primarily due to leveraging our improvements in inventory management. In addition, our strong sales performance drove leverage in our supply chain and supply constraints further reduced shrink.

SG&A for the quarter totaled $615 million, an increase of $101 million or approximately 60 basis points of deleverage from the same period last year. This deleverage was due to higher incentive compensation for our teams spending against our planned $15 million strategic investment in the business and increased e-commerce fees. This was partially offset by leverage from the higher sales.

Store closure and other costs totaled approximately $4 million for the quarter. These are primarily related to costs associated with exiting leases related to our 2023 store closures. Depreciation and amortization, excluding depreciation included in the cost of sales was $35 million.

For the fourth quarter, our earnings before interest and taxes were $106 million. Interest income was approximately $2 million and our effective tax rate was 26.5%. Net income was $80 million and diluted earnings per share were $0.79, an increase of 61% compared to the same period last year.

For the fiscal year 2024, total sales increased nearly 13% to $7.7 billion, driven by comparable store sales growth of 7.6% and strong new store performance. Comp sales for the entire year were supported by strong traffic and increased basket mainly due to product mix. Our focus on innovation and differentiated product assortments resonated well with our target customers driving overall sales. Additionally, we were thrilled to see the strong performance of our new stores across all regions.

Gross margin was 38.1%, an increase of 120 basis points compared to adjusted gross margin last year. The inventory and category management investments we have made in SG&A over the past few years showed positive results and drove this year's improvements in gross margin. Additionally, our strong sales performance is creating supply chain leverage.

SG&A expenses for the year totaled $2.3 billion, an increase of $300 million or approximately 55 basis points of deleverage compared to adjusted SG&A last year. The deleverage is mainly attributable to higher incentive compensation for the teams, increased e-commerce fees linked to higher sales, and spending against our planned $15 million investment in the business.

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Store closures and other costs totaled $13 million, primarily related to ongoing occupancy costs from our 2023 store closures. Depreciation and amortization, excluding depreciation included in the cost of sales, was $133 million.

For 2024, our earnings before interest and taxes were $504 million. Interest income was $2.2 million. Our effective tax rate was approximately 25%. Net income was $381 million and diluted earnings per share were $3.75, an increase of 32% compared to the prior year's adjusted diluted earnings.

We ended the year with 440 stores across 24 states. For the years ahead, we have over 110 approved new stores and nearly 70 executed leases in the pipeline. A strong and healthy balance sheet has underpinned our financial performance. For the year we generated $645 million in operating cash flow which allowed us to invest $200 million in capital expenditures net of landlord reimbursement to grow our business.

We voluntarily paid down our outstanding balance of $125 million on our credit facility and returned $238 million to our shareholders by repurchasing 2.7 million shares. We ended the year with $265 million in cash and cash equivalents, zero balance on our $700 million revolver, and $20 million of outstanding letters of credit.

Our diluted weighted average shares outstanding were down 2% compared to last year, and we have repurchased 43% of our shares since we started our share repurchase program in 2015. We have $451 million remaining under our current share repurchase authorization. While we're pleased with our progress, significant opportunities remain. As we look ahead to our expectations for 2025, we remain focused on delivering earnings growth while investing to unlock future opportunities. The significant improvements made to our business give us confidence in our ability to drive long-term sustainable earnings growth.

For 2025, we expect total sales growth to be 10.5% to 12.5% and comp sales in the range of 4.5% to 6.5%. We anticipate comp sales to start the year stronger and moderate as we cycle the higher comps from late 2024. We plan to open at least 35 new stores. Adjusted earnings before interest and taxes are expected to be between $590 million and $610 million, and adjusted earnings per share are expected to be between $4.52 and $4.68 assuming no additional share repurchases. That said, we do expect to continue to repurchase shares opportunistically.

We also expect our corporate tax rate to be approximately 25%. During the year, we expect capital expenditures net of landlord reimbursements to be between $230 million and $250 million.

To add a bit more color to the year, we anticipate a continued expansion of our gross margins. We plan to further reduce, shrink and leverage our supply chain, which will help offset the costs associated with the rollout of our loyalty program. Though we still have investments to support our growth, we expect slight SG&A leverage in 2025 as we lap higher incentive compensation from 2024, partially offset by pressure related to new store growth and strong e-commerce sales.

We are effectively managing our expenses while identifying opportunities for improvement. We continue to expect these investments will lead to profitable growth in the future as they have in our recent past.

Most of our CapEx spending will be for new stores, with the remainder focused on supply chain and technology enhancements, store refresh and maintenance, and merchandising initiatives. For the first quarter of the year, we continue to see momentum in the business and expect comp sales in the range of approximately 10% to 11% and adjusted earnings per share between $1.51 and $1.55. We also expect year-over-year improvement in gross margin by approximately 50 basis points as well as improvement in SG&A margin of approximately 75 basis points as we leverage higher sales.

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

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

Thanks, Curtis. Over the past year, we've made significant strides in our performance by continuing to establish a solid foundation for growth, highlighting our uniqueness, and living our purpose of helping people live and eat better. We have prioritized our target customers' needs by

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focusing on differentiated merchandising, marketing, and store formats, which positions us well to compete in any environment. There is more to come from this team.

We're excited for 2025 as we build upon that strong foundation, focus on what's working well, and forge new capabilities for the future. We've got some exciting initiatives underway and that we believe will further propel our growth and success. These plans include showcasing more innovation in our stores, launching our loyalty program, strengthening our advantaged supply chain for fresher products, building exceptional stores that are enjoyable to shop in, and developing a best-in-class team dedicated to serving our customers.

Our target customers are now more engaged than ever before in the role food plays in their health and our ability to support them is a key reason why Sprouts is succeeding. They are discerning shoppers who scrutinize every ingredient, seek wellness benefits, explore culinary trends, and aspire to more sustainable and premium choices while looking to Sprouts as a trusted partner on their journey.

In 2025, product innovation will focus on where we have been winning, specifically attribute-driven products that are unique in the marketplace. The foraging team will continue sourcing the best innovation in our space such as organics, clean ingredients, minimally processed, and pasture raised proteins while staying ahead of evolving trends.

Additionally, they will introduce more innovative Sprouts Brand items such as organic avocado tortilla chips, konjac noodles, organic reduced sugar preserves and organic acai chunks. Our Sprouts Brand is thriving, delivering growth and outpacing company performance while providing customers with products they trust.

The two-year Sprouts rebranding initiative focusing on vibrant and clear messaging on our packaging is yielding positive results and will foster further growth. This year, we will market these exceptional products more effectively by emphasizing storytelling to highlight their uniqueness and attributes. The dedication of our team has led to an impressive product development pipeline planned for the next three years filled with new items tailored for those target customers.

Produce remains nearly 20% of our sales and is at the heart of our farmers market appeal. We have seen this business steadily grow thanks to strong cross functional effort and our commitment to freshness, variety and organics. The produce team is also focused on growing our sourcing partnerships to bring more unique varietals to our customers, inspiring them to explore new items. These initiatives will enhance organic, local, and national supply and most importantly, ensure exceptional freshness.

In 2025, we will continue our strategic investment to attract new health enthusiasts and increase our share of wallets among existing customers. Our strategy focuses on engaging customers in the channels where they want to shop, whether in-store, delivery, or pickup. Our teams will double down on what works in stores by providing seamless customer experiences and educating shoppers through sampling.

Our e-commerce partners will continue to support us on our e-comm journey. Our merchandising team will collaborate with store teams to bring cross functional events to life such as our Sprouts Brand event, making it easy for customers to engage in a healthy living journey.

We embrace our uniqueness, which is reflected in our marketing as well. Our messaging is different. Our media selection is unconventional. Our social is engaging, and our in-store messaging emphasizes key attributes. We're also testing a new marketing campaign called that Sprouts Feeling, capturing the excitement customers feel when discovering something new, fresh, and healthy just for them.

I'm particularly excited about our plans for personalization and loyalty. Customers love shopping at Sprouts, but we have a large opportunity to increase our share of wallet with them. Our loyalty rollout will be a key step in our customer engagement journey, providing invaluable data to help us understand our customers and customize how we serve their needs better. In turn, we expect to see them visit more often and add more items to their baskets.

In our test markets, we've been focusing on sign ups and scans as a key metric of customer engagement and both have met and exceeded our expectations. In December, we expanded our loyalty test into a pilot across 24 additional stores and four markets.

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As we look to the rest of the year, we will continue our pilot through the second quarter as we add additional functionality. In the third quarter, we plan to launch our program in a phased rollout across all regions to continue through the rest of the year.

We have made significant progress in developing an advantaged supply chain supporting our future growth. Over the past few years, we have implemented new systems, expanded existing space, and built new facilities as we prepared to self-distribute more categories. These investments have enabled us to take greater control of our supply chain operations.

Across 2025, we are transitioning to self-distribute our meat and seafood alongside produce, capitalizing on the capacity and capabilities we have created over the past few years. We will move through this transition gradually over the next year with support from third-party distributors as an interim step.

Additionally, in 2025, we will continue to invest in our distribution network as we grow across the country.

As for growth, we plan to open at least 35 stores for the year. These stores will be located entirely in our existing markets, further densifying our current footprint. While 2025 openings will create store density in our existing footprint, we will also set the table for future expansion into new regions as we build our market plans for the Midwest and the Northeast. We are confident in our journey to provide access to Sprouts in as many communities as possible.

Lastly, our team is at the heart of Sprouts, and we are dedicated to their growth and development. We are proud of the culture at Sprouts. It is a privilege to reinvigorate the culture that Sprouts founders created many years ago. As we grow, we will honor our roots and the journey that brought us here.

Our commitment to culture has led to our team member retention reaching all-time highs. In 2025, we will strengthen our coaching and mentorship programs and continue developing future leaders, making Sprouts a place where people can truly flourish and grow. With our expansion through new store openings across the country, we are eager to offer even more career opportunities for our talented Sprouties. Our team is our greatest asset, and we are committed to fostering a culture that supports their success.

In summary, we're excited about the future of Sprouts and the growth opportunities that 2025 will bring. We are even more excited about the years ahead. We have a clear strategic focus and a strong team committed to executing our initiatives at a high level. By taking care of our team members who in turn take care of our customers' needs, we are confident we will achieve strong financial performance and continue creating value for our shareholders. We look forward to sharing our progress with you in the coming quarters.

With that, I'd like to turn it over for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Leah Jordan, Goldman Sachs.

Leah Jordan - *Goldman Sachs - Analyst*

Thank you. Good afternoon, and great job on the quarter. I just wanted to start off on gross margin. You had said you expect continued expansion in the coming year, and I think, there are many things you've talked about, the category management that you've highlighted, but just seeing if you could provide more detail on the magnitude that you're thinking about expansion for this year and any puts and takes as we move through the year, as I know you have some laps with some stronger produce seasons last year?

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

Hi. Thanks, Leah. This is Curtis. Yes, so call it 25 to 30 basis points for the year. We kind of had the first quarter in the script at approximately [50 basis points], and then it will kind of settle to just slight leverage for the rest of the year. It's still shrink and supply chain leverage. Leverage from the sales, especially early in the year will be a factor in driving some of that leverage.

I think the only other note is, you know, late in the year, we certainly some of the supply constraints led to some better shrink this year. So that might put a little bit of pressure on the fourth quarter and later in the year next year from a shrink perspective. But it should be leverage each quarter.

Leah Jordan - *Goldman Sachs - Analyst*

Okay, very helpful. Thank you. And then I just wanted to ask about store growth. I saw you guys are planning to open at least 35 new stores this year. That is a slight acceleration from indoors from last year. But, you know, we're still not at the longer-term target of 10%. I think that's, you know, obviously in line with what you communicated so far, but just maybe an update on where we are and how you view the path back to 10%?Are you still seeing an issue with developers with interest rates still high? And then any color maybe on how we should think about the cadence of store openings this year as well?

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

Yeah. Leah, we remain really focused on growing our business through new stores and we're continuing. We're certainly pushing hard to keep moving faster. We're being very judicious in the stores that we're picking and the sites that we're getting. We know there are 1,200 sites across the United States that could support Sprouts in terms of the target customer. And we also know that we have to get the exactly right place within those geographies to make sure it's going to work. So that's the first stage of it.

Our model has been making sure that the stores that we open are working well, and that's coming to fruition in terms of what's happened in 2024, and we certainly expect that in 2025. So there are still some constraints. We're kind of wondering exactly what's going to happen with developers and what's going to happen with interest rates and what's going to happen with steel tariffs and those kinds of things. But by and large, we're confident in the number that we've talked for this year, and I'm confident we'll start to build more in the years ahead.

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

And then, Leah, just to add on to that, from a timing perspective, we'll do four in the first quarter here and then it's pretty smooth the rest of the year, quarter to quarter to quarter to get you to 35 and on the at least or the plus side ahead of 35 it would be all backloaded, it would be late in the year if we were to get past 35.

Leah Jordan - *Goldman Sachs - Analyst*

Great, thank you.

Operator

John Heinbockel, Guggenheim Securities.

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John Heinbockel - *Guggenheim Securities - Analyst*

So Jack, I wanted to start with your thoughts on the concept of brand tipping point, because you've had this acceleration in comps over the last nine months. And I know that if we take the first quarter and kind of look at 2Q through 4Q, it's sort of like a low-single-digit comp, two or three in the back half of the year, what's your thought on that? And I don't think you're changing the secular algo, but are we hitting a brand tipping point where that low-single digit is conservative because of your engagement and your brand awareness with the consumer broadly?

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

Yeah. It's a great question, John, and I'll let Curtis talk about the algorithm a little bit in terms of how that's working going forward, but significant opportunity in our business. The target customer is there's more of them out there and they can spend more with us.

The share of wallet that we have is such that we believe as we work through our merchandising, our marketing, our loyalty, our personalization that we can get a greater share of wallet than existing customers and there's going to be more health focused customers in the future.

So we're very confident in the underlying opportunity that exists in the business. At the same time, we're being thoughtful and considerate as to what the opportunities are to achieve that in the short-term. But overall we're pretty confident that the number that we put down for 2025 we're comfortable with and there'll be more to come as we go through the course of the next year or two.

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

Yes, John, I'd just add, as Jack said, confident, but it's a long year ahead. There's a lot of macro. The two to four the algo is we'll deliver it every quarter in every environment is kind of the mindset to that. This year will be an interesting year for us. We're going to comp some mid- to high-single digit are now into double digits in the fourth quarter when we get there later this year. So that'd be the first time we've done that in 10-plus years as a company. So we're excited to see how that plays out. And certainly to the extent there's upside, we'll be talking to you about it every quarter from here on out.

John Heinbockel - *Guggenheim Securities - Analyst*

And then maybe as a follow-up, the expansion of the supply chain opportunity, so meat, seafood, what's the thought on how far you can push that? And I don't think you want to do commissary type activity because of the quality and freshness impact, or maybe I'm wrong about that, but how far can you push the potential, what you can do out of your DCs?

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

Well, certainly, as we said in the script there, we've built capacity and capability in our business going forward. So we've got space to do more categories going forward and we've created the infrastructure in terms of having replenishment and being able to forecast the way we want to forecast. So we've got choice going forward.

And very specifically fresh foods, the fresh meat categories and the categories around fresh meat are the ones that we're working on this year. We can go beyond that. I think we've talked in the past. Potentially could we go down private label? Potentially could we go down some other categories? There's some merit, there's a lot of merit in working with some of our partners that help us in this, but we've got some opportunities to go further.

With regard to commissary, you're absolutely right. That's not something we're planning to do when our business has got so many states and so it's a complicated exercise and I think we would take care of it, if we took out of the stores and put it into commissary.

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John Heinbockel - *Guggenheim Securities - Analyst*

Thank you.

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

Thanks, John.

Operator

Mark Carden, UBS.

Mark Carden - *UBS - Analyst*

Good afternoon. Thanks so much for taking the questions, and very nice quarter, guys. To start, just another one on the top line, you guys continue to comp obviously a really strong rate. You're growing at a much faster pace than the industry overall. Do you have a sense of what channels you're taking the most market share from at this point, have you seen any changes? And then are you seeing any differences in the demographic profiles of your new shoppers relative to your existing base, even within that $200 billion bucket that you're going after?

Nicholas Konat - *Sprouts Farmers Market Inc - President, Chief Operating Officer*

Yeah. Hey, Mark, this is Nick. Thanks for the question. As you look at where our growth is coming, it's very balanced. We're seeing a lot of balance in our growth, both whether that be channels, brick and mortar, e-comm or regions and parts of the country, we're seeing that growth, even our new stores and our existing stores both seeing strong growth, so there's good balance there.

And your question on the customer, the good news is we're seeing growth, a lot of new customer growth. We're also seeing our existing customers engage with us more both in the frequency in which they visit and how much they're spending with us. So again, kind of to the same theme of balance from a demographic standpoint, I tell you there hasn't been a lot of change. And for us, the most important thing is almost more the lifestyle and the type of customers we have.

Our customers are looking for ways to live and eat better and it's all about research and labels and things like organic and gluten free for them. So that's the more important sort of segment for us than a demographic. But I think we talked in the past, our core demographic still remains higher educated, higher income, skews a little bit more female, and that's consistent with what we're seeing in our new customer growth as well.

Mark Carden - *UBS - Analyst*

Great, that's helpful. And then just on the potential tariff front, what proportion of your offering do you guys import overall? And then how easily can you mitigate some of the potential sourcing headwinds?

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

Yeah. I think as you kind of understand, Mark, the majority of food that we sell comes from the United States. We've got some dynamics around our fresh produce business from Central and South America. Exactly what's going to happen to tariffs? We've got no idea, and that's something that we will watch and we're ready to move with it. We'll work very closely with our partner growers. We'll work very closely with the opportunity to change sourcing if we need to. And we've got a -- we're going to make sure we manage our business irrespective of what and where comes from us on the tariff front. And that's kind of from a sourcing point of view, we might make a few changes, but I think we'll manage our price gaps and we'll manage our margin as we always do.

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Mark Carden - *UBS - Analyst*

Great. Thanks so much. Good luck, guys.

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

Thanks, Mark.

Operator

Rupesh Parikh, Oppenheimer & Co.

Rupesh Parikh - *Oppenheimer & Co. - Analyst*

Good afternoon. Thanks for taking my question. Also, congrats on a really strong quarter. So just going back to your comp momentum, so comps again accelerating Q4, you're continuing to see strong momentum. It sounds like quarter to date. Just any new factors contributing to the comp momentum acceleration that you're seeing in the business? And also just curious, quarter to date if you're seeing any impact related wildfires?

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

Hey Rupesh, this is Curtis. No real material changes in what's driving the comps. Nick hit on a little bit in the last answer. It's pretty broad and balanced. The acceleration, as we said last quarter, is coming from new stores and is coming from brick and mortar traffic, which we're really pleased with.

And then as it relates to the impact quarter to date from weather events or wildfires, no, those are typically pretty immaterial from us or for us. We don't see a lot there and we haven't seen a lot that would be material to us. I think maybe I'll just let Jack speak to the events in the first quarter there and the team member impact. But from a comp perspective, it's immaterial.

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

Yeah. And I think that, I think from a numbers point of view, you get a little bit of an upside down, a little bit of a downside and all nets off the same in terms of working it. But how our teams, particularly the fires in Los Angeles, we had a lot of people displaced from that. We had a lot of people. We didn't lose any stores, thank goodness. And some of the other people did so. But the way our teams and how resilient they were, as I said in the script, is something that inspires us in terms of how people support their communities through it. And we're continuing to support those team members that have been affected by it and it was a big deal for them.

Rupesh Parikh - *Oppenheimer & Co. - Analyst*

Great, thank you. And then maybe just my follow-up question, just on e-commerce, another strong year. Obviously, you added another partner. As you look at the outlook for 2025, how do you feel about the continued growth there? Are there new initiatives or just overall your feelings on being able to sustain the e-commerce momentum?

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Nicholas Konat - *Sprouts Farmers Market Inc - President, Chief Operating Officer*

Yeah. Hi, Rupesh, it's Nick here. I think as I mentioned, we mentioned in the past that the e-commerce growth is really rooted in our differentiation, the fact that we have a lot of products that you can't find anywhere else lends itself to a lot of our customers who need them or seek them, getting them delivered or coming to our stores to pick them up.

And I think, as we've mentioned for us, we look at it as wherever the customer needs us, we'll be there for them, whether it's in store or online. Across our three key partners on the growth itself, we have seen really, really strong growth, as we noted in the script on e-commerce. And that's been consistent across all three of our partners in the space and that the demand's also been strong in brick and mortar.

The good news that E-comm customer is an omnichannel customer. They shop our stores and they're high value. So to your question on the future, I mean, we think there's e-comm is going to continue to grow a little faster than our core business, which will drive, I think, strong sales both in brick and mortar and e-comm for us and good customer growth.

Rupesh Parikh - *Oppenheimer & Co. - Analyst*

Great, thank you. I'll pass it along.

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

Thanks, Rupesh.

Operator

Kelly Bania, BMO Capital Markets.

Kelly Bania - *BMO Capital Markets - Analyst*

Hi. Thanks for taking our questions. Jack, I think you made a comment you had about 7,100 new items this year. I think that's been similar pace for the past couple years. But I was just curious if you could talk about how many SKUs you have today? Are the same number of SKUs being transitioned out every year and just how you feel about that dynamic and that adoption of, SKUs that maybe are more competitive in mainstream grocery that you kind of pull out and just any change in the pace of that dynamic as you look forward?

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

It's certainly moving fast. And I think it has been moving fast over the last two or three years. We've got about 18,000 to 20,000 SKUs in our business, and we're rotating that kind of number because everyone basically there's only a finite amount of space. So things are coming out and coming in. And that's, I think, one of the things customers really like about us. They're getting a treasure hunt. They're not quite sure what's going to come next.

And when they come into the store, we're using this innovation center really effectively to bring people, bring products into our business and then if they work, they can move into the main site counters.

So we're making, I think, part of the love being different that who we are is constantly changing our assortment. It's part of the excitement of coming into the store. There are some challenges in terms of replenishing and working behind that, but it's something that we're very anxious to do because I think it makes a difference and we can reinvent ourselves.

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We expect products that come into our business sell really, really well, then they'll end up in more conventional retailers going forward and we kind of celebrate that because then we can move on and keep reinventing ourselves. And that's why it's a lot excuse to change and it brings some challenges for the team but it's a really important part of our proposition, Kelly.

Kelly Bania - *BMO Capital Markets - Analyst*

Thank you, that's helpful. I just wanted to dig in a little bit more on the self-distribution comments. It sounds like meat and seafood this year. What is the impact to the P&L as you make this transition and what could be the longer-term benefits whether it's cost savings or additional SKUs or freshness that you can bring to the table?

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

Yeah. So working reverse, Kelly, this is Curtis. But yes, the benefit, you kind of nailed it right. It should be fresher product. More control of that product and at a lower cost, and it'll land in gross margin. So there should be some gross margin upside in the long term there. That'll be a 2026 and beyond story for us.

2025 will be a transition year. We don't expect it to have a material impact. Transitions are always challenging and, fresh product especially. But we don't expect material impact from the transition. But we're not counting on any benefit in 2025 either.

Kelly Bania - *BMO Capital Markets - Analyst*

Thank you.

Operator

Krisztina Katai, Deutsche Bank.

Krisztina Katai - *Deutsche Bank - Analyst*

Hi, good afternoon, and great quarter. So you have shown great progress on the marketing front and on the way Sprouts is now leveraging social media and influencers. How do you see it contributing to the improved customer frequency and overall unaided awareness of the Sprouts banner?

And just with the exceptional strength that you're seeing in attribute-based products, just curious where the penetration of these products stands today and just what is the foraging team most excited about right now?

Nicholas Konat - *Sprouts Farmers Market Inc - President, Chief Operating Officer*

Hi Krisztina, it's Nick. You're right. I'm really proud of the work the marketers have been doing to drive traffic. But it's underneath that a lot of customer growth, new customer growth and visits from existing customers.

I would tell you what's really helping us and driving us is we're differentiating our marketing as much as we differentiated our product offering and standing apart a couple of ways that have really been working well to do that to engage.

One, we're having a lot of fun with authentic storytelling. We're talking to our target customer about what's most important to them. So for example, in the fourth quarter, a lot of traditional retailers will talk about seasonal items and product at a price.

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We spend time talking about vegan cinnamon rolls and our Sprouts Brand pizza kits that are targeted just for our customers. And that activity on social and our channels has gotten a ton of engagement we've talked about in the past. Our tailored media spend and messaging by region and market continues to pay dividends for us in the traffic it's driving.

And then I'm excited about our plans this year. We are launching, as Jack mentioned, a new brand campaign called that Sprouts Feeling. Customer's love shopping us and in our research they've told us when they walk into our store and buy something there's this feeling that they can't describe that's unique that they don't feel anywhere else. And so we're going to bring that to life in our marketing this year and share that with new and existing customers to help continue to drive the traffic momentum we're on.

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

And Krisztina, regarding the foragers, our foragers have got the best job in the world as far as I'm concerned and I would like to do the job. They are very excited about everything, the focus that they go around looking at trade shows and looking for opportunities. I think snacks has been a big opportunity for us. I think drinks have been a big opportunity for us. Non-alc is on fire. This whole non-alcohol space and vitamins and supplements has been a huge about 70% of our product is differentiated now, and we continue to push that agenda, and the foragers are doing a great job for us, Krisztina.

Krisztina Katai - *Deutsche Bank - Analyst*

Great. Thanks. And just as a follow-up on the loyalty, you were doing it in two test markets initially during December. I saw it extend to Georgia where I actually signed up for it. So any of these sort of early inning learnings that you can share as it relates to customer frequency or the basket size, and are you able to measure wallet share changes in these early test markets that would give you excitement for the phase rollout in the back half of the year? Thank you.

Nicholas Konat - *Sprouts Farmers Market Inc - President, Chief Operating Officer*

Thanks, Krisztina, and appreciate you signing up and joining us. Thank you very much. I'm glad you got to see us in Georgia. I'm looking forward to the conference. What I will tell you is and we noted in the script, we're really pleased with the early indicators we're seeing with the program as Jack mentioned, they're exceeding our expectations and these are in areas as we look at like signups and scan rates. So early interest in the program and engagement in the program is really good and we're seeing that. To your question, yes, we certainly measure frequency basket retention in a handful of metrics within that.

And as you mentioned, we feel pretty good about where those numbers are and what we're seeing so far from the 35 stores. We're in pilot, and as we noted, we're looking forward to a national rollout in the second half of the year to bring this to market to all of our customers.

Krisztina Katai - *Deutsche Bank - Analyst*

That's great. Thank you. I'll pass it along.

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

Thanks.

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

Thanks, Krisztina.

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Operator

Edward Kelly, Wells Fargo.

Edward Kelly - *Wells Fargo - Analyst*

Hi, everyone. Good afternoon and nice quarter. I wanted to ask about the gross wanted to ask about the gross margin guidance for Q1. I mean, it's been a long time, but, previously, like sort of pre-pandemic, Q1 was your highest gross margin quarter by quite a bit, at least in a belief that maybe there is some conservatism in the Q1 gross margin guide based upon, sort of how you're talking about it here, I guess. Do those historical trends still hold? Is that a fair assessment?

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

I think it's changed for us, Ed This is Curtis. I think it's changed for us over time. And as we changed our strategy. It used to be stronger, more because of what we did in Q2 and Q3 with price and items diluting our margins. And so as we've changed the strategy and got more consistent day to day, week to week, quarter to quarter, in how we think about our business from a margin perspective that's kind of muted, how much Q1 was better than the other quarters.

And it's more about the other quarters coming up a little bit more and having more opportunity because that's the place where we had, those are the produce seasons, right? So that tended to be our biggest front page, ad price and item type promos in produce seasons in Q2 and Q3. So I think it's a little bit more about that than it is about the Q1 story.

Edward Kelly - *Wells Fargo - Analyst*

Okay. And then just a gross margin follow-up related to shrink. Could you just talk a little bit more about the upside that you've been seeing there? You've been talking about product shortages. I'm sure, a very robust comp is probably helping with that as things normalize or I guess if things normalize from a comp perspective, do you give any of that shrink benefit back? I'm just kind of curious as to how we should be thinking about the outlook for that.

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

I don't think we give back on the shrink line. I think there's a little bit of extra benefit, more so from the supply constraint piece, I think, than it is from the strong sales that is there as well. But I don't think we give the sales leverage piece back when we get to a more normalized comp environment.

I think it's really the supply constraint thing that could put some pressure to it, but it's not dramatic. The majority of what we're experiencing now is process efficiency and the improvement we've made in inventory and category management over the last 12 to 18 months. And again, it surprised us a bit through 2024.

But the teams have done great job taking the tools we developed and the processes we've improved and finding that shrink and getting rid of it in our business. And so proud of the teams are doing a great job. And it's mostly that in 2024 and we should see a normalization of that in 2025.

Edward Kelly - *Wells Fargo - Analyst*

Great, thank you.

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

Thanks, Ed.

Operator

Robbie Ohmes, Bank of America.

Robbie Ohmes - *BofA Global Research - Analyst*

Oh, hey. Thank you. Hey, Jack. I wanted to ask a kind of a follow up question on Kelly Bania's question and it's about the capacity of the stores. I don't get in your stores enough. I wish you would open some over here on the East Coast. But the --

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

The we'll be there soon, sir.

Robbie Ohmes - *BofA Global Research - Analyst*

Thank you. Westchester County, hopefully.

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

Yeah, maybe.

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

In due course. In due course.

Robbie Ohmes - *BofA Global Research - Analyst*

Excellent. I mean, you're opening some, a little bit smaller sized stores. When I look back though, you're like versus 2019 pre-COVID, your sales per store are maybe up like 5% and I'm pretty sure your basket dollars are higher and is there -- how much -- let's say you kept comping at the comp that you just put up for this quarter. Is there -- would you say there's capacity constraint? Are you -- when you think about how strong your comps are, are your stores too small for your opportunity now, or is it they're actually, not too small and the ticket is much higher, and there's not super long lines and things like that?

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

No. I think we've done a really nice job of managing the volumes that are going through the stores. Remember, when we take it made the stores smaller. We didn't take any space away from the customer in that space. We took the space away from non-customer facing space, the back room and in the preparation areas. We cut that back and ended up with virtually some categories with a little bit more SKU and a little bit more space. So we didn't compromise that as we went smaller.

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As we look at the volumes going forward, I think we've got invested in self-checkout, which I think has significantly helped us change the dynamic at the front end. So we've been able to cope with additional volume there because there is a bit more traffic and the basket is growing as well. So I'm not worried about that at this stage.

If we start producing 200 comps then maybe we have to start thinking about it. But the level we're at the moment, we've got plenty of room to grow in the stores that we've got. And we're continuing to build these 23,000 square foot stores and at the numbers we're looking at it's a formula that's working for us at the moment.

Robbie Ohmes - *BofA Global Research - Analyst*

That's helpful. And then just one follow up question also. The e-commerce penetration, do you think that kind of flattens out from here? It's a little bit flattish quarter to quarter here. Do you think it flattens out at around 15% or something of sales or do you kind of grows in line with overall comp, or do you think it continues to gain as a percent of sales?

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

Robbie, this is Curtis. I think it'll continue to gain as a percentage of sales. I think the gain will be maybe smaller as we go forward. Obviously, adding partners the last two years accelerated some of that penetration growth. But we do expect it to outpace overall sales, just not quite like it has the last few years.

Robbie Ohmes - *BofA Global Research - Analyst*

Got it, sounds great. Thanks so much.

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

Ultimately, the customer is going to decide what our e-commerce mix is.

Robbie Ohmes - *BofA Global Research - Analyst*

That makes sense. Thanks so much.

Operator

Mike Montani, Evercore ISI.

Mike Montani - *Evercore ISI - Analyst*

Yeah. Hey, good afternoon. Thanks for taking the questions. I just wanted to maybe ask first off on the revenue side if you could discuss any of the work that you all may be doing, to partner with different healthcare payers to potentially find new pools of revenue that could be directed through that. And then kind of related to that is what you might be hearing on the snap front because there's been some discussion as about the potential to change the dollars in snap and make them more directed towards healthy eating. So I wanted to start with those questions.

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

Yeah, Mike, the question regarding healthcare. Healthcare is a really important factor in terms of our team members and how we work with the space. And I do think the trends in the industry around people thinking more about nutrition and what it does for their health and how that plays into the insurance markets and how that plays into.

It's not something we've got really much to say about right now, but it's certainly something we pay attention to and how that's going to work. And it's probably something we need to take another look at in terms of where we're at specifically going forward.

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

I think -- Mike, this is Curtis, I'd just add, I mean we're pretty heads down, focused on unit growth and getting our proposition out to as many communities as possible. So as Jack said, it's on the radar, but not something we're actively pursuing.

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

On the snap side of things. I think increasingly the jurisdictions that manage snap are evolving in terms of making it more healthy what you can buy on snap, which I think is an appropriate thing. And I think given what's going to happen around that pressure point on nutrition and health, I think that will continue to evolve. Snap's nothing like as big for us as it is for many other people, but it is a factor and we need to keep looking at it.

Mike Montani - *Evercore ISI - Analyst*

Got you. And just on the expense side, if I could quickly, for Curtis, the store closure costs from 2023, do those run off anytime soon? Is there a movement to stop that?

And then on supply chain, have you seen any disruptions there in terms of availability of fresh produce given some of what's going on with immigration and so forth?

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

I'll cover the SG&A piece, and I'll pass it to Nick on the produce side. So from an SG&A perspective or store closure specifically that you asked about. Yeah, that'll taper off over time. I mean we are working to get subleases. Some of those were shorter term end of life type leases and they'll eventually run out. So that should taper over time. I think the run rate late in the year is a decent starting point, but that should get smaller as we go kind of quarter to quarter to quarter, Mike.

And then the only other bit of noise in that line is there's some disaster recovery. So when we do have the weather events and those types of issues that those funds to take care of team members and to get the stores, keep the stores running generators, things like that, that also hits in that bucket.

Nicholas Konat - *Sprouts Farmers Market Inc - President, Chief Operating Officer*

And Mike, it's Nick here. On your question on produce, we really haven't seen any disruption to our source or supply on the produce front across our commodities at this stage.

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Mike Montani - *Evercore ISI - Analyst*

Great. Thank you, and good luck.

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

Thank you.

Operator

Scott Mushkin, R5 Capital.

Scott Mushkin - *R5 Capital - Analyst*

Hey guys, thanks for taking my question. So I wanted to go back to something that John had said at the beginning of the call about a brand inflection and just kind of reflecting on some of the things that you guys are doing, bringing distribution in house, the marketing efforts. I was wondering what else you think you could do to cement that brand, the Sprouts Brand and consumers heads. Is it reinvesting some money into better specs and produce? I mean, what can you do beyond what you're doing that you've said on this call to really inflect the brand in a positive way and resonate with consumers and differentiate yourself in the market marketplace even more so?

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

Yeah. I think the reality of where we're at the moment still a lot of people don't know who Sprouts are and we've got plenty of opportunity to communicate. I'm very excited by what the loyalty and personalization work's going to do in terms of expanding the brand presence to people who should be more interested in it.

And as we get more stores across the country, we're still in only 24 states, so how do we get to more states? So building more stores and communicate.

Do we need to spend a little bit more on marketing going forward? Potentially, Although I think we're going to get much more efficient at our marketing, which I think we've shown over the course of the year that the whole process by which we're buying our media and thinking about our media, I think the work that teams have done in terms of social media, I think has made a big difference to us this year. And there's probably a lot more we can do in that space.

Nick, I don't know whether you want to add on a little bit in terms of what we can do.

Nicholas Konat - *Sprouts Farmers Market Inc - President, Chief Operating Officer*

No, I think you said, Scott, there's still a lot of room ahead of us in the things we're already working on. You mentioned on customer, on loyalty, on store growth and store density, continuing to differentiate our assortment and the partnerships we have long term with people who play in our space. There's certainly a lot of room for us to grow there.

Scott Mushkin - *R5 Capital - Analyst*

Perfect. That's it from me, guys. Thanks.

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

Thanks very much.

Operator

Robert Dickerson, Jefferies.

Robert Dickerson - *Jefferies - Analyst*

Great, thanks so much. I just wanted to circle back to the comp guidance maybe one last time hopefully. There was another very large retailer grocer that spoke earlier today, and clearly, when they guided, it was a little underwhelming. There are a lot of questions in the call and there was this kind of like this idea that there is just a lot of uncertainty in the marketplace.

You speak to some of the larger CPG companies as well, who are just like kind of, right? In the near term, like kind of right now, are feeling a little less certain on kind of how to guide, right? Because of the environment. So with all that said, I'm just curious like, clearly when you guided for 2024, it was a heck of a lot lower than where the year ended.

As we sit here now and we think forward for 2025, with a great result in Q4 and another great result expected for Q1, like what could be a real kind of deciding factor for maybe that growth to not continue. And I realize you have, more challenging comp, but now they're in the base and you're opening up new stores. You open up new stores last year, so you still have new stores. I saw it. Even if the traffic really improved as widespread, like why couldn't that just be more widespread as we get through the back half of the year?

And I'm not suggesting you do double digit comps, but just curious if you kind of agree with the environment is a little chunkier, there's a little less certainty in the marketplace. But clearly, if those trends continue, maybe the year does prove out a little bit better than you're guiding to. That's just the first question.

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

Yeah. I think that I'll pass on to Curtis to talk a little bit about guidance and how we thought about guidance, but the specifics for me is in the nature. I know this sounds a little bit strange, but almost whatever happens, our customer base is so interested in food and what they eat, the nutrition of what they eat. Vegans will stay vegans whatever happens to the economy, and that whole challenge of what people want to buy and how they want to eat, our customers are more discerning than most. I think that shields us a little bit from the vagaries of ups and downs and what other people might or might not do.

So we're pretty confident. We know the share of wallet that we have with our existing customers is relatively small. We just need to do a few things to get them growing. And we feel we'll have some comfort in the numbers going forward. But your challenge is right. There's a lot of uncertainty in the space going forward.

I'll maybe let Curtis talk a little bit about it.

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

I think you kind of got it there, Rob. It's uncertainty. I think that's what we're looking at. And we had two big step changes in our business last year one in May and one in September, where we kind of got to a different plane. I think it's a different year from a guidance perspective.

Certainly, last year sitting here on the call the low-single-digit guide, I don't think anybody anticipated or thought we would accelerate like we did as quickly as we did throughout the year. So, we're just, again it's been 10-plus years since we've seen those types of comps here at Sprouts. We're

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excited to see how we comp over those, but we want to see a little bit of those data, a few of those data points before we get too overclocked about promising something 6, 9, 12 months down the line when there is a bunch of uncertainty.

Robert Dickerson - *Jefferies - Analyst*

Yeah. Okay, makes complete sense. And then just maybe one more from me. Yes. I think you had said maybe in the prepared remarks or maybe it was Q&A. You have kind of line of sight on, let's say about 110 approved new stores kind of in the pipeline. Now, the stores you're opening this year are all within preexisting markets. So I'm just curious, as we kind of think out the next, I don't know, two, three, four years, whatever that timeline is, is the idea kind of post this year that we would still be opening a majority of those stores in those preexisting markets or as you start to build out, the Northeast and the Midwest that a much bigger percent of that 110 new stores are in new markets? That's all, thanks.

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

Yeah. Thanks, Rob. This is Curtis. The 110 that we have in the pipeline, the large majority of those are in the markets we're in today. If not, basically all of them.

And we are starting to plan for the Midwest, we're planning for the Northeast, but that'll be a couple-year journey. So for the next two years they'll all be -- that's including this year, 2025, 2026. They'll all be in our existing markets. And then when we get to 2027 and beyond. That's where we'll start to see some of those newer geographies.

Mix wise, it'll be 50/50 for the next couple of years, and then we'll see when we get to 2027 and you know the plans that we're building in those markets. But I'd expect 50/50 for the next couple of years.

Robert Dickerson - *Jefferies - Analyst*

Okay, perfect. Thank you so much.

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

Thank you.

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

Thanks, Rob.

Operator

Chuck Cerankosky, Northcoast Research.

Chuck Cerankosky - *Northcoast Research - Analyst*

Great quarter, guys. And looking back a little bit, it wasn't too long ago you're looking how to add those incremental items to the basket. And that seems to have been solved. What proportion of the basket now each basket now contains a new item or a recently foraged item. And you guys could define how that -- how you score that. But I'd be very interested to see how the attribute driven products are driving the comps.

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

Well, I don't think we can give a specific answer on that, but the reality is we launched 7,000 new products, and all of them were in the attribute-based space. Everything we're launching is in this attribute-based space. So increasingly, our customers, what they're buying from us, and I think it's 70% of our products are differentiated. So everything we're buying is different to what other people are buying, I think. And the basket, the overall basket numbers are flattened out.

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

Basket is stable. We've talked about that journey over the years and it's a 10 items per basket. And we stabilized there, last five, six quarters have all been in that same range. And so we've seen that MPT units per basket or yes, units per basket flatten out. And we're excited to try to start moving that thing forward with some of the initiatives we have in place, particularly loyalty and personalization.

Chuck Cerankosky - *Northcoast Research - Analyst*

And then a quick question about the self-distribution of proteins. What kind of capital commitment will that be annually?

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

No, annual. Again, we've really made some of those capital investments historically as we've expanded space into the DCs. That really got the room for us. We'll have a few more moves to make there for the long-term scale of the business. But we started the investment last year specifically to prepare the DCs around for meats here this year. So some of that was in last year, the rest of it will hit this year.

And then every opportunity we get to expand the geography from a DC perspective, we'll consider that going forward so it doesn't change the capital story dramatically on from a supply chain perspective and what's in our guidance.

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

And it's all in our capital guidance. And I think the issue, as you know, as you try and do meat in different products, you've got to change the temperature regimes a little bit, which has involved some investment in the DCs on top of the space that we've created.

Chuck Cerankosky - *Northcoast Research - Analyst*

Great. Thanks a lot. Good luck for this year.

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

Thank you.

Operator

Thank you. I would now like to turn the call back over to Jack Sinclair for any closing remarks.

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

Well, thank you, everyone, for their attention on the call. We really appreciate your interest in our business, and we look forward to updating you as the year goes on. Thanks, everyone. Have a good evening.

Operator

Thank you. This concludes the conference. Thank you for your participation. You may now disconnect.

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