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SFM.OQ - Q1 2025 Sprouts Farmers Market Inc Earnings Call

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

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

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

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**Ken Goldman** *JPMorgan - Analyst*

**John Heinbockel** *Guggenheim Securities LLC - Analyst*

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## PRESENTATION

### Operator

Hello, and welcome to the Sprouts Farmers Market, first-quarter 2025 earnings conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

It is now my pleasure to introduce Vice President - Investor Relations and Treasury, Susannah Livingston.

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**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 first-quarter 2025 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 first-quarter 2025 results, the webcast of this call, and financial slides can be accessed through the Investor Relations section of our website at [investors.sprouts.com](https://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 statements.

For more information, please refer to the risk factors discussed in our SEC filings and the commentary on forward-looking statements at the end of our earnings release. Our remarks today include references to non-GAAP financial measures. Please see the tables in our earnings release to reconcile our non-GAAP financial measures to the comparable GAAP figures.

With that, let me hand it over to Jack.

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

Thanks, Susannah, and good afternoon, everyone.

We're delighted with our strong first-quarter results, marking a positive start to the year. Our sales increased 19%, supported by comparable store sales of 11.7%, and robust new store performance. Our diluted earnings per share reached \$1.81 reflecting a 62% increase compared to the same period last year. These results highlight the effectiveness of our differentiated strategy and the excellent execution by our teams across the business.

In the past five years, more consumers have embraced a movement towards health and wellness, leading to a significant growth in our target market opportunity. Now estimated at approximately \$290 billion of the \$1.6 trillion spent on food at home. Our strategic commitment to our health enthusiast target customer is clearly resonating, driving both traffic and sales. Our specialty attribute driven products are performing well, and our knowledgeable team members are ready to assist customers in making informed choices to achieve their health goals.

Customer engagement remains central to our strategy, which is why we're excited to launch our new loyalty program this year. This initiative, combined with our continued store-growth plans, will improve access to fresh, healthy products for our customers across the country.

In the first quarter, we made a significant move to begin self-distributing fresh meat and seafood through our distribution centers. This step allows greater control over our products, enhancing freshness and optimizing the capacity we've built in our supply chain the past few years. We're just beginning to unlock our potential, and I look forward to sharing more about our journey in a few moments.

For now, I'll hand it to Curtis to review our first-quarter financial results, as well as our updated 2025 outlook. Curtis.

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

Thanks, Jack, and good afternoon, everyone. In the first quarter, total sales were \$2.2 billion, up \$353 million, or 19% compared to the same period last year. This growth was driven by an 11.7% increase in comparable store sales and the strong results from new stores. The comp performance across categories, channels, and geography was once again balanced and broad-based, while also being supported by new stores entering into the comp base at a strong rate.

Traffic grew, particularly in our brick-and-mortar locations. Our e-commerce sales grew approximately 28%, representing 15% of our total sales for the quarter, with strong performance from all partners. Additionally, Sprouts brand contributed 24% to our total sales for the quarter.

A few notable events in the first quarter also boosted sales. Our stores in Colorado benefited from a strike at a conventional grocer, and our vitamin department saw increased sales due to the harsh cold and flu season this past winter. We estimate these events accounted for approximately 50 basis points of the comp sales growth.

Our first-quarter gross margin was 39.6%, an increase of 129 basis points compared to the same period last year. This increase was primarily due to leveraging our improvements in inventory management and category management. Supply constraints and strong sales continue to put pressure on our in-stocks, resulting in additional shrink leverage.

SG&A for the quarter totaled \$623 million an increase of \$83 million and \$0.79 basis points of leverage compared to the same period last year. Our strong comp performance led to leverage mainly in labor and occupancy. Store closure and other costs total approximately \$2 million for the

quarter. These are primarily related to costs associated with exiting leases related to our 2023 store closures, as well as disaster recovery charges from the California wildfires.

Depreciation and amortization, excluding depreciation included in the cost of sales was \$35 million. For the first quarter, our earnings before interest and taxes were \$226 million. Interest income was approximately \$1 million and our effective tax rate was 21%. Net income was \$180 million and diluted earnings per share was \$1.81, an increase of 62% compared to the same period last year.

During the first quarter, we opened three new stores, ending the quarter with 443 stores across 24 states. A strong and healthy balance sheet has underpinned our financial performance. During the first quarter of 2025, we generated \$299 million in operating cash flow, which allowed us to self-fund our investments of \$49 million in capital expenditures net of landlord reimbursement to grow a business.

We have also returned \$219 million to our shareholders by repurchasing 1.6 million shares. We have \$232 million remaining under our current share repurchase authorization. We ended the quarter with \$286 million in cash and cash equivalents, zero balance on our \$700 million revolver, and \$22 million of outstanding letters of credit.

More customers are prioritizing quality, healthy options, driving growth faster than the overall food at home market. This momentum fuels our ambition to enter new markets. As we look ahead towards the rest of 2025, we're committed to achieving strong earnings growth and seizing these opportunities.

For 2025, we expect total sales growth to be 12% to 14% and comp sales in the range of 5.5% to 7.5%. 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. Earnings before interest and taxes are expected to be between \$640 million and \$660 million and earnings per share are expected to be between \$4.94 and \$5.10 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 24%.

During the year, we expect capital expenditures, net of landlord reimbursements to be between \$230 million and \$250 million. For the second quarter of the year thus far, we have continued to see solid customer engagement and expect comp sales to be in the range of approximately 6.5% to 8.5%. And earnings per share between \$1.19 and \$1.23. Year-over-year margin rate in both gross margin and SG&A will start to normalize in the second quarter, and we anticipate continued EBIT margin expansion of approximately 60 basis points year over year.

To add some perspective for the back half of 2025, we believe our strong financial position and execution of our strategic initiatives gives us flexibility to navigate uncertainties that may arise from the macro environment. We are effectively managing our expenses while continuing to look for investment opportunities that will drive long-term sustainable earnings growth.

We believe that our momentum and execution will result in comps towards the high end of our low-single-digit comp algorithm and continued expansion of our bottom-line margin in the second half, even as we cycle the robust performance from the last year.

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

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

Thanks, Curtis. In 2025, we will build on the strong foundation we've established over the past few years as we invest and grow our business. In the midst of uncertainty this year, we will concentrate on continuing our successful initiatives, and we are confident that we are well-positioned to compete in any environment. We're committed to enhancing our offerings, increasing customer engagement, optimizing our supply chain, and building stores that provide pleasant shopping experiences.

Additionally, we're focused on developing a dedicated team that is committed to serving our valued customers now and into the future. We're focused on our greatest strength, our differentiation, as has been the case, attribute-driven products continue to lead our sales and are growing

faster than the rest of our business. Trends such as high-protein and heritage meats, grass-fed options, and products free-from-seed oils are driving our success with our target customers.

The foraging team, in collaboration with our merchants, has developed a robust innovation pipeline for both our Sprouts brand and branded products. Our ability to quickly launch and build brands has attracted entrepreneurial vendors from across the country who are eager to partner with us and offer their products in our stores. Additionally, we showcased our differentiation and created assortment through unique events such as the lemon event we hosted in the first quarter, as well as Discovery Day that highlight the attributes of our Sprouts brand products.

In the first quarter, our marketing efforts collectively drove traffic, highlighting our unique value proposition through our storytelling and media strategy. We launched our new brand campaign in January, sharing That Sprouts Feeling and distinguishing ourselves from the typical resolution messages.

At the same time, we continue to leverage our market-based media investment strategy. Social media remains a strong channel for us with both reach and engagement increasing. Additionally, our e-commerce business and partnerships continue to grow, allowing us to support our omnichannel customers on their preferred shopping platforms with Sprouts.

We're also enhancing the in-store customer experience by offering more sampling opportunities, improving in stocks, continuing to improve customer service, and enhancing freshness. Our personalization and loyalty journey continued in the first quarter. Following our expansion to 35 stores in December, we continue to see positive results and strong customer engagement, including increased scans and sign-ups.

We're continued to be more data driven as we analyze new customer information during our test-and-learn phase. In the second quarter, we plan to enhance the customer experience and prepare for our planned launch in the third quarter. We're increasingly confident that loyalty customers engage more frequently, grow faster, and spend more.

Over the past few years, we've implemented new systems, expanded existing space, and built new facilities to prepare our supply chain for greater self-distribution in various categories. This proactive approach has unlocked exciting opportunities as we scale Sprouts for growth. Our systems and process work has already improved our in-stock, shrink, and our produce distribution, increasing freshness for our customers.

Additionally, we're taking control of our own destiny by laying the groundwork to self-distribute our meat and seafood alongside our produce. While every transition presents challenges, particularly with a fresh category, our dedicated team is rising to the occasion and are making progress. We're on track to begin insourcing from our first Sprouts DC in the third quarter.

Additionally, we have begun the process to expand our Northern California DC capacity in 2026, which will complete the initial meat and seafood insourcing journey, as well as supporting future growth in that region. We plan to open at least 35 stores for the year and continue to expand our strong pipeline, with nearly 120 stores approved and more than 85 leases signed.

While the openings in 2025 will enhance store density in our existing footprint, we are also looking towards expansion in new regions as we develop market plans for the Midwest and the Northeast. Our new stores continue to perform exceptionally well and are experiencing strong comps as they enter into the base. We're seeing the success from sea to shining sea, which gives us confidence that our offering will resonate with our target customer in any market.

None of this would be possible without our amazing team. We're committed to our purpose and our values, and our annual team member survey reflects our progress, showing improvements in every metric. When our values align with those of our customers, community, and team members, great things happen.

We recently published our 2024 impact report, which highlights areas that matter to all these stakeholders, such as our partnership with 400 local food banks to which we don't donated almost 30 million fresh meals. Our efforts to reduce plastic have resulted in about 75% of our customers bringing their own reusable bags at the checkout. And the support of our Healthy Communities Foundation provided 500 local nonprofit partners and schools in our communities, brought to us by our team members and our customers in the local stores.

We remain focused on scaling our workforce for our future growth. We continue to recruit, develop, and engage Sprouts team members. We've invested in developing our team members through several leadership programs, including Assistant Store Manager university program, our fast track for internal assistant store managers, in addition to our leadership programs for new hire seasoned assistant managers and store managers. These programs support our retention efforts while filling our leadership pipeline to support our future growth.

In summary, we are excited about the future of Sprouts and the growth opportunities ahead as we continue to execute our strategic initiatives. Our strong business momentum places us in a position of strength, enabling us to navigate an uncertain macro environment while investing in unlocking Sprouts full potential.

Over the past five years, our clear strategy has proven successful, and we are committed to staying on that path. As our target market expands and the demand for healthier option increases, we are witnessing growth that outpaces the overall food-at-home market. This momentum reinforces our commitment to prioritizing our customer needs and helping people live and eat better across the country. We look forward to sharing our journey with you throughout the year.

And with that, I'd like to turn it over for questions. Operator.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Leah Jordan, Goldman Sachs.

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### Leah Jordan - Goldman Sachs - Analyst

Thank you. Good afternoon. So you guys had really nice gross-margin expansion this quarter. So as you look at the decelerating trend in your comp outlook, even on a two-year basis, plus some uncertainty in the macro backdrop, just. How are you thinking through potential reinvestment at this point?

It sounded like Curtis, you said that you were looking for some investment this year, maybe more color on what you were referring to there, or just how are you thinking about the trade-offs between balancing top line and bottom-line growth at this point?

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

Hi, Leah. Good afternoon. Yeah, so we are investing in the business, similar to a level that we invested in last year, but it's into things like loyalty, the supply chain systems, IT, self-distribution. It's still those same pieces, our talent engine getting ready for growth. So it's those areas and if we can find ways to accelerate that we'll look for ways to do that for the long-term sustainable-earnings growth.

As we look ahead, on the growth side, I think we'll start to see that moderate as the year progresses. Have some one-timers in there in Q1 that'll start to normalize, but we see continued expansion here in the second quarter. And again, it'll just start to moderate as we get through the rest of the year.

**Leah Jordan** - Goldman Sachs - Analyst

Very helpful, thank you. And then just Jack, you called out the ongoing consumer shift to health and wellness. It's something we see too. But just given continued outsized growth for the category, do you think this broader trend is becoming too hard for maybe other retailers to ignore at this point? Are you seeing any shift from your competitors or how confident are you that you can retain your differentiated position?

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

Well, we're very focused on sticking to our own agenda, Leah, and making sure that what we do is we maximize the offer for those health-enthusiast customers that we've been so focused on over the last few years, and we'll continue to do that. As we look at other people are clearly bringing some products in across this marketplace, but it doesn't bring them any access to the bit of the market that we've chosen not to approach. And as we've watched this market, it's gone from 200 to 290 billion as we've referenced the total available market in this space.

We're still only 8 billion of that, so there's plenty of room for us to grow, and the reality is there's \$1.3 trillion roughly that we're not focusing in on that the other guys will always be focusing in on more than us. And we're doubling down on what we can do in terms of the attribute. The attributes that are working with this health-enthusiast customer, organic, gluten-free, vegan, vegetarian, dairy free. Those kind of drivers, gluten-free, these drivers are the ones that are that we can be very good at, and the team are continuing to double down. But we'll be as good as we are at this, and the team are focused very much on it. And I think from a competitive point of view, we're in a good place.

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**Leah Jordan** - Goldman Sachs - Analyst

Great, thank you.

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**Operator**

Rupesh Parikh, Oppenheimer.

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

Good afternoon and thanks for taking my question. So I guess the first one just on new stores, so it's at least in my mind, new store productivity seem again very strong. So just any surprises, any I guess, even more incremental positive surprises as you continue to roll out new stores.

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

No, not incremental, Rupesh, just really good performance. The '24's came out strong as we talked about on the last call, and they're continuing to perform well. The '22 and '23 vintages have comps really well, and they're maintaining strong comps. The overall business is good, and they're outperforming that even. And so we've only opened three here in Q1, so it's not a huge change from where we were 60 days ago, but the new stores are performing really well and that's driving that number.

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

Right. And then maybe it's on the loyalty program, so the commentary, still seems upbeat from your team. So same thing there like if you continue to roll it out like any positive surprises you're seeing and I know it's still early, but I don't know if there's a [comp] or anything you can share in terms of what you may be seeing with that small batch of stores. Thank you.

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

And Nick, you can take that one because we're having a lot of confidence in this.

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

Yeah, (inaudible) Nick, Jack mentioned in his comments, we feel very good about where loyalty is. We're really happy with what we're seeing in the 35 stores we're currently in right now across our kind of KPIs in the business. We're meeting or and slightly exceeding those. Jack alluded to some really good uptake on scans and or sign ups and scans.

Our plan moving forward here is to begin the national launch in the second half of the year, starting with our market here in Arizona. We've got a few things to tidy up as far as getting the enterprise lined up and technology put together, but there's a lot of energy behind it here at Sprouts. Team members can't wait to see it come out, and we're excited to share it with them and all of you guys in the second half.

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

Great thank you I'll pass it on.

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

Thanks, Rupesh.

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**Operator**

Ken Goldman, JPMorgan.

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**Ken Goldman** - *JPMorgan - Analyst*

Hi, thank you, I wanted to ask about household additions. I know it's only one data source, but in numerator data that we look at, it seems that your rate of additions is huge to over 20% and seems to be accelerating, and I don't want to suggest that that's the necessarily exact accurate number, but it's far bigger than what we're seeing at other grocers.

And I'm just curious, is it still in line just roughly or at least directionally with kind of what you're seeing in terms of just adding households at a quicker pace than what you're used to. And then how often are these new households becoming loyal customers in comparison to your legacy customers?

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

Hey, Ken, it's Nick. Thanks for the question. You're right, we're seeing really healthy custom metrics overall. So I'd start with both our new customers and existing customers. We're seeing strong behavior. We are seeing strong new customer growth, and what excites me is that we're seeing it both in our new and emerging markets, but also in existing markets where we've been for a while. So we're certainly excited to see that customers like what we're doing in across the country.

The other piece of this I would mention is with our existing customers, we're seeing higher engagement, in turn driving a higher share of wallets. So they're also, certainly, liking what we're doing and voting with their wallet.



We'll continue to drive both of these. Our focus is on continuing to acquire customers across the board and as Jack mentioned with the market size and market segment growing, we think there's an opportunity for us to continue to acquire new and with the customer engagement work we're doing, deep in the engagement we have with our existing customers to drive growth.

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**Ken Goldman** - JPMorgan - Analyst

Great thank you. And then quick follow up. You know some of the other data that we have would suggest that in times when consumers are a little more challenged, they will you know shop in more stores to buy all their groceries. I don't think that's controversial.

But I just wanted to make sure that, going ahead, is there a possibility that if consumers do struggle a little bit more if we head into a recession, that you could potentially pick off even more households just from consumers who are saying look. I got to go to three or four stores instead of one, just, and my fuel costs are really low so maybe I can do that. It's one of the bull feces we hear on you guys ahead is that you can benefit in a recessionary period and I'm just trying to get a little sense of if you would agree with that.

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

Well, I think the context of my remarks a little while ago, Ken, where we think we can thrive in any circumstances going forward. And if there is consumer pressure, the one thing that's clear is people have got to eat and they'll carry on eating, and people with specialist diets are continuing to -- if you're a vegan, you stay being a vegan. So we're pretty confident that the offer we've got in front of people is going to be important even in difficult circumstances.

The other thing that tends to happen when consumers are under pressure, they eat more at home than eating out of home. So we think that's a benefit, potential benefit within the context of the question you've asked there. So yeah, I think we kind of feel almost, if it's tough, we'll do fine, and if it's not tough, we'll do fine. So we're pretty feeling as if that the proposition we're put in front of our target customers is allowing us to be successful in the context of people shopping more or less number of grocery stores.

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**Ken Goldman** - JPMorgan - Analyst

Great. Thank you so much.

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

Thanks, Ken.

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**Operator**

John Heinbockel, Guggenheim.

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**John Heinbockel** - Guggenheim Securities LLC - Analyst

Hey, Jack, or Nick. You guys clearly building on the last question, right? Opportunity with what's for dinner tonight, and I think you think you are under index in that trip. So what do you think is the unlock there? Does that run through the loyalty program you think something else?

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

Well, I'll let you take that, Nick, a little bit. We're certainly confident in the work that we're doing around meals and the investment in space and product and that. But maybe that you can expand on that.

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

Yeah, hey, John. I think a lot of what we're doing is aimed at tackling kind of the thrust of your question. We believe there's a lot of opportunities to gain more share of wallet from our existing customers, and that's by talking to them, sharing them with the things that are important to them from an attribute standpoint, and getting the shop more of our store.

So if you, for instance, if you see our new format, meets at the front of the store intentionally, it's super important to our target customer. They're looking for attribute driven grass-fed, organic protein options. We've been intentional in trying to serve that as a way to take care of the customer, but also to drive more of center of the plate and then turn a larger shop. And as you noted, certainly the loyalty work is aimed at customizing and personalizing everything we do around our vegan shoppers, our organic shoppers, or gluten-free shoppers so we can gain more of their spend and more of their trips.

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

And I think it's fair to say John, loyalty will play a role in that as we get further down and understanding the customers and communicating some of the attributes that Nick was talking about.

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**John Heinbockel** - *Guggenheim Securities LLC - Analyst*

Maybe building on that, I know you want to upgrade, improve, right the loyalty experience as you start to roll this out. What do you think -- what's not in the program today that the shoppers want, if anything, right? And how do you enhance the experience?

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

Sure, where we are -- the good news is we've been asking our customers about the loyalty program in those 35 markets, and we're getting really good marks on the program from the standpoint of getting our customers what they are looking for tailored to their unique needs. I'll be able to answer that question in two pieces short term, John.

I need to -- we're looking to streamline the omnichannel experience for loyalty so that the online experience, the in-store experience, the transfer of the experience across channels is really seamless in the test today it's not quite the level I think we can be. So that's one short term change that will help our customer.

Long term, I think we're going to continue to go where the customer takes us as we learn through this process and use the data and use our insight to do so. I will tell you we will always be committed to making sure we find ways to help customers find and get access to new and unique products as they told us that's what's most important to them.

They look to us for as the place that can introduce them to the unique items that they're looking for. So whether that be through technology, experiences, other ways to engage the customer, that's something you'll continue to see us invest in.

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**John Heinbockel** - *Guggenheim Securities LLC - Analyst*

Thank you.

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

Thanks, John.

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**Operator**

Edward Kelly, Wells Fargo.

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

Yeah. Hi, good morning, everybody, or good afternoon, everybody. I wanted to ask you, probably I guess a follow up maybe on to Ken's question, and it kind of pertains to one cadence of the compliment throughout the quarter. I mean, it seems like it's probably pretty steady. But I'm curious because consumer confidence seems to be changing and as part of that I'm just wondering if you're seeing any behavioral change at all in the store that might pertain to private label or anything else that you potentially would note.

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

Hey, it's Curtis. The cadence, just a little bit better February than the other two months, but that was really around the height of the cold and flu season and a couple of things we call out in the script, the strike that sent some business our way. Outside of that, it was pretty steady throughout. Really, no dramatic changes from the fourth quarter as far as the shape of the comp. It was broad, it was balanced, geography channels, etc. Everything kind of played out as we'd hoped it would and it was pretty steady throughout the quarter.

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

And no note of like behavioral changes at all related to, just you know the macro and the way the consumer's feeling.

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

I think probably somewhat surprisingly we haven't seen any impact from the consumer confidence either regionally or category wise or trading down or different dynamics within it. So that's probably the surprise in some ways. Who knows where consumer confidence is going to lead to in terms of behavior going forward, and we're watching it really carefully, but we haven't seen any significant change in behavior.

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

Okay, and just to follow up on, self-distribution. Jack, you had mentioned something about just beginning to sort of unlock, the benefits associated with that. And I was curious if you could provide a bit more color on both like the margin and the operational benefits, what you're doing on the meat and seafood side. And I'm curious as to whether there is further opportunity beyond those categories down the road.

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

Well, I'll let Nick go into some detail, but the reality of this, we've been investing in space to be able to add in more categories to self-distribution over the last few years, and as we've put DCs, we've built three DCs on the ground and expanded some other ones. As we've done that, the intention was always to bring more categories to bear, and the fresh categories are the most important ones are so important to our customer base.

So the work that we've been doing and we're building, as we talked about in the script is getting our meat and seafood business under our own auspices so that we've got, we can manage it ourselves, and the aspiration behind that will be to have better in stocks, better working dynamic with our vendor base, and enable us to potentially just get more in stock and be better at providing a service to the customer, and we're very hopeful that that's going to help us in both the top line and the bottom line within the meat category. That's not going to pull through until next year when we get this thing fully up and running, and we're working our way through that. The teams are doing a great job.

But maybe, Nick, you could build on that.

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

Yeah. Hey, Ed. The protein focus for us is important strategically because it, as I mentioned, I think in John's earlier question, we have a very differentiated meat-and-protein business in the seafood, meat and seafood side. We offer only attribute-driven products in that space, and the importance of, freshness, control, quality, and in turn also profitability is really important for us in that business. So we chose that we wanted to invest there and bring that in-house with, run that self-distribution and we had the capacity to do so.

We're going to be, as we mentioned, we're going to be spending this year making that transition. And we've already started that process and we'll, as Jack mentioned, continue it towards the end of the year and early in 206. So we're not going to see a ton of the benefit this year, but we should see some of that next year. And right now for me and my team, that's what we're really focused on is how do we execute that really well and not create any major issues for the business and so far, we're doing just that.

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

And with regard to further opportunities, there may be as we come down the line on this side, further categories. It's something we're looking at but at the moment we're really doubling down and getting the meat and seafood thing, right?

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

Great, thank you.

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**Operator**

Krisztina Katai, Deutsche Bank.

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**Krisztina Katai** - *Deutsche Bank - Analyst*

Hi, good afternoon, thanks for taking the question. So Jack, I wanted to ask on attribute-based products and the momentum that you continue to see there. Can you talk about the plants queue launches that you have for 2025 and just plans to further leverage the momentum of the Sprouts brand in particular.

And then two, some of the reformulation efforts that are out there under the new health secretary removing some of the harmful ingredients like dyes. What are your general views on potential changes in competitors' offerings and how that might change your go-to-market strategy?

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

That's a good question. And we're spending a lot of time looking. The one great thing about our company is we're well ahead of most of these kind of dynamics about what's in our food and what the dyes and these kind of things. We've got some work to do, which I'll talk about in a second.

With regard to our Sprouts brand business, we've been delighted at the progress that we've made on that. Our Sprouts brand is very clean, relative to the rest of the marketplace. In fact, I don't think we've got any work to do on the Sprouts brand.

Our business, the business there has been very focused on bringing those attributes to bear. Organic's been a big plus for us. Gluten-free's been a big plus for us, and they're doubling down. The team are doubling down on that. And as we've said, we're not trying to aspire to a bigger percentage of sales in Sprouts brand, but without doing that, we've gone from 16% to 24% of Sprouts brand because we're bringing products that relate to that attribute-based business that you're alluding to.

With regard to ingredients and where this goes, as I said, we're in good place relative to that. There's one or two things that we're taking a really close look at and, I think we'll be better placed than most in terms of managing it. I don't think it's going to change our go to market strategy because I think we're ahead of this relative to the rest of the market.

How it's going to play out with regard to the branded goods and the rest of the market, I think it's going to be an interesting one, but less relevant to us than it will be to many others.

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**Krisztina Katai** - Deutsche Bank - Analyst

Great and if I can just follow up, I have one for Curtis. Just gross margin continues to the price to the upside you obviously noted improvement, and inventory and category management, maybe if you can talk about the sustainability of these, how much is left there to further unlock just trying to understand, the overall ceiling of gross margins that we can see because you continue to just manage that line item really well. Thank you.

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

Yeah. Thanks, Krisztina. Yeah, the teams are doing a great job there. They continue to find more opportunities. We talked a lot in the last four, five, six calls about being a fairly immature business and still having opportunities ahead of us. We're capturing some of those as we go here quarter to quarter to quarter. But we still believe there's leverage to pull there. There's ways to get better, certainly in how we order, how we allocate products, things like that, we'll continue to get better. How we manage the in and out of 7,000 SKUs that we're bringing in and taking out every year, can be better.

And so there's still room to go, clearly not as much as is behind us, but we still have opportunities there, and it's great. It gives us the opportunity to invest in things like loyalty and self-distribution and the things that we're putting our money into, to grow the business in the long term. So expecting it to moderate for sure in the second half of the year, as we go forward and, hopefully, the teams will continue to surprise us with upside, but for now, we're expecting that to come back closer to normal.

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**Krisztina Katai** - Deutsche Bank - Analyst

Great. Thank you. Best of luck.

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

Thanks, Krisztina.

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**Operator**

Mark Carden, UBS.

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**Mark Carden** - *UBS Equities - Analyst*

Good afternoon. Thanks so much for taking the questions. So to start in recent quarters you guys have talked about the opportunity to capture more trade-in from the food away from home channel. Do you think you've seen much of a step up here just given some of the soft restaurant-traffic data that's been out there over the past few months and then do you approach retention any differently with these customers you might be bringing in?

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

Hey, Mark, it's Nick. We certainly have seen that we believe we're getting some of that food-at-home purchase, again, especially from our core target customer who's looking for convenient meals, that are driven by health and attributes, and we're seeing, as I mentioned, some of our center of the plate and meal-driven offerings, certainly perform well, and so we are working hard to capture some of that spend and share.

As far as the question on retention of that, this is where I get back to our opportunity with loyalty. And when people come in and engage with us, whether it's the first time or 10th time, and we understand what they're purchasing and why we can start to serve them all sorts of great options to keep them coming back and expand their baskets. So we're looking forward to that as the loyalty program launches and our capabilities there improve.

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**Mark Carden** - *UBS Equities - Analyst*

That's great, thanks. And then on tariffs, you guys appear to be pretty well-positioned on the food side. How do you think about any potential impacts it could have on your pace of unit growth going forward relative to your algo just given the potential for higher cost to build?

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

Again, it's something we're paying a lot of attention to, Mark. As you say, with regard to the operating selling of our food, we we're pretty well protected in that and that most of our stuff comes from the US and the stuff that comes from Mexico has been protected more and more or less unless something changes. But we're in a relatively good place there.

The thing we are paying attention to is the cost of building our stores. So far, I don't think it's going to have an impact on us this year, but we're going to have to think pretty hard about what the long-term impact might be on that. At this stage we've got plenty of space within our returns that gives us confidence that whatever happens in terms of steel tariffs and lumber tariffs and other things that we're well protected in it. But we are paying a lot of attention to it, as you can imagine.

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**Mark Carden** - *UBS Equities - Analyst*

Great thanks so much. Good luck, guys.

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

Thanks.

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

Thank you.

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**Operator**

Mike Montani, Evercore ISI.

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**Michael Montani** - *EVERCORE ISI - Analyst*

Hey, good afternoon. Thanks for taking the question. I just wanted to ask if I could follow up on the comp side. Can you guys provide some incremental information in terms of transaction size versus transaction count that you experienced within the quarter to drive the comp? And then as we look at the start of, 2Q results, are you comping within the range or does the guidance provide cushion if things were to moderate from here?

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

Hi, Mike, Curtis. Yeah, so traffic in basket, about 70% traffic in Q1, so we continue to see strong traffic results and a pretty normal basket. And the business is in good shape here as we start the quarter. Excuse me, sorry. Q2 is off to a good start and looking similar to Q1, but we're feeling comfortable with the guidance and we'll see where the world goes here over the next few months.

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**Michael Montani** - *EVERCORE ISI - Analyst*

Got it. And if I could just follow up on the margin side. We were getting to about 60 bps of EBIT margin improvement in 2Q and then 40 to 50 bps in the back half. So you had mentioned some moderation in the pace of gross margins. Should we basically look at that and say, it could be roughly equal gross margin expansion versus SG&A leverage or anything you'd say to keep in mind there?

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

Yeah, I think spot on for Q2 in about the 60 range. I think the majority of that will be gross as we continue to see strong results there and some of the supply, things we talked about will probably leak into Q2. As we get to the back half, it'll be probably a little bit more split between the two. We should see leverage in SG&A throughout the year as well, and it'll be a little more balanced between the two as we talk about the second half.

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**Michael Montani** - *EVERCORE ISI - Analyst*

Great, thanks for taking the question and good luck.

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

Thanks, Mike.

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**Operator**

Bill Kirk, Roth Capital Partners.

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**William Kirk** - *Roth Capital Partners - Analyst*

Hey, good afternoon, everybody. So you just posted a quarter with almost 12% EBITDA margins, and I don't think you've ever had a quarter over 10. So I guess my question is, longer term, can Sprouts be a double-digit EBITDA-margin business?

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

Hey Bill, it's Curtis. Certainly we're aspiring to continue to improve the business quarter after quarter and year after year. Obviously, we think about it in terms of stable. We're going to continue to invest in the business to drive those long-term results. And as we've said before, as we kind of catch new watermarks, new high watermarks, we don't expect to go backwards.

And so I'm really pleased with how the business is performing and how the teams are performing and taking care of our target customer, and we're going to continue to drive inefficiency out of our model and look to improve the business, but we're going to continue to invest in the business as well. You can count on us for stable and if it gets better than that, we'll maintain it.

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

I think the exciting thing for us at the moment, Bill, is that we're in the place where, as I've always said, we're a relatively immature business, so there's opportunities for us to improve our business. And as we continue to do that, to reinvest this for the future is so exciting in terms of the work we can do in IT and supply chain and making our better and really investing in our team members as we create this differentiated experience in store.

I'm really excited about where we're at. And giving us the fuel to do that is something that Curtis will navigate our way through how we think this one through. But it's an exciting place to be at the moment.

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**William Kirk** - *Roth Capital Partners - Analyst*

Thank you. And as a follow up, Curtis, I think you mentioned that tight in-stock levels had helped shrink leverage. Have they reached a point or has it reached a point where those tighter inventory levels are impacting sales in any way? Or are there any missed sales out there as those inventory levels that helped shrink leverage have gotten a little tighter?

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

Yeah, good question, Bill. I think, we feel good about we're getting the product we need to keep the sales going. Obviously, it was a good quarter in Q1 and pretty similar to Q2. I think we do want to get back in stock as best we can just to take care of the target customer, are we leaving a little bit on the table there perhaps, but we just really need to be in stock to take care of the customer and that's what we're focused on is getting back to break there.

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

I think it's there's a few categories, sorry, there's a few categories we've looked at that probably as the transition and self-distributions probably helped us a little bit in that space or hindered us whichever way you want to describe it.

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**Operator**

Robbie Ohmes, Bank of America.

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**Kendall Toscano** - *BofA Global Research - Analyst*

Hi, this is Kendall Toscano on for Robbie. Thanks for taking my question. Curious, although grocers probably don't have as much exposure to tariffs we have in place right now, Curious if there's anything you're seeing from years in terms of pricing actions to maybe trying to get ahead of a future tariffs or manage rising costs in other areas.

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

Hi Kendall, it's Nick. No, we're not seeing anything on the product side right now in any pre-emptive response to tariffs. Things have been pretty stable for us on the cost side.

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

Same on SG&A. It's early and I think people are trying to figure out exactly where it's going to be when it's all said and done, so we haven't seen much yet.

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**Kendall Toscano** - *BofA Global Research - Analyst*

Got it thanks. And then apologies if I missed it, but can you give us any more color in terms of the supply constraints you brought up before exactly what categories are driving that? And I know you also had that was a driver of some gross margin expansion, so is that something you expect to continue into the second quarter?

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

Yeah, there's a few things going on there. One, well, clearly the meat transition and self-distribution that's just a challenge with fresh product. And so as we made that transition to kind of our bridge solution before we're ready to do it in our DCs, we had some empty shells and spots that contributed to shrink. And we pulled back a little bit on promo in the second half of the quarter as well as we were just managing supply and working through the transition.

That piece is largely behind us. We're in good shape on the meat front. We've got our bridge solution in place. Our partner's doing great, and we're working through supply with them. And then the other piece is eggs, which just continues to be a challenge, with avian flu, that continues on here.

And then the third part is just generally the business is in great shape and we're running strong comps and so we're chasing inventory in a variety of areas across the business, and that's led to a little bit less shrink, so. We'll see how that plays out in the second quarter. A little bit of that, as I said earlier could leak into Q2, but we're working hard to try and get back to bright and shore those up.

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**Kendall Toscano** - *BofA Global Research - Analyst*

Great, thank you.

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**Operator**

Kelly Bania, BMO Capital Markets.

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**Kelly Bania** - *BMO Capital Markets - Analyst*

Hi, good evening, thanks for, fitting me in. Wanted to follow up on e-commerce. I think you said that your growth was consistent across your three kind of primary partners and just wanted to dig in a little bit more on Instacart and how that's going because I thought it was interesting that they lowered their minimum delivery threshold I believe to \$10 recently.

And so just curious if that contributed to any growth there or if there's any way change in the way that consumers can use Sprouts with that lower threshold there thinking of kind of prepared foods and convenient meal solutions in particular.

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

Hey Kelly, it's Nick. Yeah, as you mentioned, I mean, we did see really strong e-commerce growth of 28% overall. And I think we've talked about our e-commerce growth is driven first and foremost by the fact that we've got a really unique and differentiated offering that's hard to find other places and so people will certainly continue and we continue to see strong transactions and people looking for what we have on e-commerce. And I think as we've noted strategically for us, we're here to serve the customer wherever they want us to. And the good news is those e-commerce customers are omnichannel customers and also high value. So that that growth has a nice tailwind for us.

Regarding Instacart, the good news is we're seeing strong growth across all three of our partners Instacart, DoorDash, and Uber Eats. We're certainly comping over some of the new launches with Uber Eats last year and DoorDash, but they continue to grow and Instacart is still the large majority of our e-commerce business and we're seeing strong growth.

Some of the things you mentioned, we're seeing a little bit of help, but again, I think our customer is more focused on the unique products and attributes, more so than maybe the deal that others on that platform may be looking for. But so far, we're continuing to see strong growth of that partner in all three.

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**Kelly Bania** - *BMO Capital Markets - Analyst*

Thank you.

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

Thanks, Kelly.

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

Thanks, Kelly.

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**Operator**

Scott Marks, Jefferies.

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**Scott Marks** - *Jefferies - Analyst*

Hey, good afternoon, guys. Thanks for taking our questions. First thing I want to ask about, you mentioned earlier that you've kind of seen broad-based growth across all categories, which I think is a little bit different from what we hear from maybe more traditional retailers and some of the suppliers. So I just wondering if you can talk maybe on a relative basis, maybe some areas that are doing a bit better and maybe some that are a little bit weaker.

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

Yeah, I think the reality for us is it's continuing to what we've seen over the course of the last few years. Those categories that are differentiated, those categories that have got different attributes in them. We're seeing a stronger growth in those categories than in categories that are more traditional. So our dairy business is really strong. Our frozen business is really strong, our grocery business is really strong.

Well, at the same time, I think one of the step ups we've had, Nick, has been what's happened in our vitamin business, which Curtis alluded to part of the reason being cold and flu. But part of it is just the way that world is changing in terms of products that are very -- those supplements that are coming in to help people with different issues and different things they're thinking about.

I've been astonished that the new products are coming through there on how well they're doing. So as well as our base business, which is bulk and produce and our meat business, which we're feeling comfortable with. Those are probably the areas that are doing a little bit better.

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

Yeah, I think you're right on, Jack. The only color I would add is where it's innovative and attribute forward for us, Scott, it's winning and our customers voting for that. That's maybe where the outsized growth is coming in those and when it's innovative and new and differentiated with an attribute, that's certainly winning for us overall.

Jack covered some of the categories. I think one of the thing I'm really happy with the work with the team is pockets of the country or parts of our categories that maybe were a little softer last year. We put a lot of work in and helped improve and so we're seeing all the businesses continue to grow. So there isn't a laggard where we look at and go, this is not working for us. There's been a lot of work on execution and the team's done a good job of growing all of our businesses right now.

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**Scott Marks** - *Jefferies - Analyst*

Understood, thanks for that. And then just as a follow up, in your Investor Deck there was a comment in there about having kind of a same-store growth tailwind from some of the new stores, but that being partially offset by some cannibalization which is something I don't believe I've seen alluded to before so just wondering if you can kind of share some insights into that in terms of maybe magnitude and which markets. Thanks.

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

Yeah, I think the cannibalization, it's probably about 100 to 150 basis points, and it just depends on kind of where we're opening stores and how close they are to other stores. That tends to obviously lean a little bit more towards our more established markets in the west and Southwest. As we open stores in the east, we've got a little bit more space and a little bit less cannibalization, but blended together, you're in that 125 basis points.

And on the new-store side, they're coming in and they're folding into the comp really well, really pleased with the new store performance. We just don't have the number of vintages behind us, it was 8% last year, 8% the year before that. Prior to that, we only opened 12 and 16 stores in a couple of years. And so, once we get the full, kind of 10% growth over multiple years, that number will continue to grow. Well, I think the cannibalization will stay in that same range.

Right now they're, a slight benefit if you net them together with the new store comps, partially offset by the cannibalization. I expect the new store comp impact to continue to grow as we get more stores in the base, and again, the cannibalization should stay pretty steady in that 100 to 150 range, as we open in that mix of new markets versus existing more established markets.

**Scott Marks** - *Jefferies - Analyst*

Understood, thanks so much. I'll pass it on.

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

Thanks, Scott.

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**Operator**

Scott Mushkin, R5 Capital.

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**Scott Mushkin** - *R5 Capital - Analyst*

Hey, guys, thanks for fitting me in. So I wanted to go back to a question that kind of came up a little bit, which was just the idea of competition, if we're going to go back in time, I get this question from investors a lot with you guys. It reminds people of Whole Foods. And people ended up copying Whole Foods to a degree to push their margins back down quite a bit.

So the question is, what else can you do to expand the moat from competitors because they're going to come, right? Product differentiation is key, what you're doing, but what else in your mind can really drive an increasingly unique customer experience is a much better customer service, for example, which would actually require some investment and maybe, keep the margins more, not growing as much. But I just want to get your thoughts on that.

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

Well, we're very focused on, as I've used the expression, ploughing our own canoe. We're going to do our, I think everyone laughs at it because I don't quite understand it myself, but it certainly means we're trying to do our own thing and pushing that agenda down the road. I don't see the agenda changing significantly, Scott.

We've got to double down on our produce business, which has always been the important part of it. Organic produce is on fire for us. And I don't see if you, if your organic business is growing as fast as it is for us relative to conventional, it's very hard for the other guys to chase after that. They're going to chase after the basic of that business rather than the organic side of it. So we're excited about the opportunity in that space and doubling down on it. I think we can do more and more in our launching of products. We launched 7.5, we talked to the last call we launched 7,500 products last year. That's an extraordinary number and keeping -- always refreshing our business.

I spent it yesterday with the innovation, with an innovation group in the beverage forum out in California and the number of products that are coming our way. And it literally is very difficult for the other guys to launch as many products as that, so we feel pretty confident in that space. With regard to pricing, we've always looked at pricing and having a price differential with everybody on our fresh produce business, and we continue to have that.

And with regard to the products we're selling, we're pretty well priced on the products outside of the fresh food space. So from a pricing point of view, we think we've got a moat. From a product point of view, we think we've got a moat. And then probably as important is how we create the atmosphere inside our stores. I've been absolutely delighted at the way operations team have taken on board the mantle of trying to be the best service you can possibly be and the best service in the grocery industry in the United States.

And that involves sampling and saying hello to people and greeting people, and we've got some pretty tough measures to make sure our teams are doing that. And that that that I think is a really important part. There isn't a thing that a lot of grocers try to aspire to. And that's part of the

reason that we feel confident that the work that we're doing to take -- drive some efficiency in our business that we can then convert back into service and convert back into product is something that will give us that differentiation going forward.

So it's been working so far, and as I look at what's happening in the marketplace, Scott, I feel pretty confident that we're on the right track.

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**Scott Mushkin** - *R5 Capital - Analyst*

That's perfect, Jack. That was actually a fantastic answer, so I appreciate it. Thank you.

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

Thanks.

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**Operator**

Thank you. And I'm showing no further questions at this time. So with that, I'll hand the call back over to CEO Jack Sinclair for any closing remarks.

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

Well, thanks, everybody, for your attention. We appreciate your support, appreciate your interest in our business and we look forward to updating it through the year. Thanks, everybody.

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