



Q4 & Full-Year 2020 Earnings

February 2021

Forward-Looking Statements

Certain statements in this presentation are forward-looking as defined in the Private Securities Litigation Reform Act of 1995. Any statements contained herein (including, but not limited to, statements to the effect that Sprouts Farmers Market, Inc. (the "Company") or its management "anticipates," "plans," "estimates," "expects," "believes," or the negative of these terms and other similar expressions) that are not statements of historical fact should be considered forward-looking statements, including, without limitation, statements regarding the Company's guidance, outlook, strategy, financial targets, growth and opportunities. These statements involve certain risks and uncertainties that may cause actual results to differ materially from expectations as of the date of this presentation. These risks and uncertainties include, without limitation, risks associated with the COVID-19 pandemic; the Company's ability to execute on its long-term strategy; the Company's ability to successfully compete in its competitive industry; the Company's ability to successfully open new stores; the Company's ability to manage its rapid growth; the Company's ability to maintain or improve its comparable store sales and operating margins; the Company's ability to identify and react to trends in consumer preferences; product supply disruptions; general economic conditions; accounting standard changes; and other factors as set forth from time to time in the Company's Securities and Exchange Commission filings. The Company intends these forward-looking statements to speak only as of the date of this presentation and does not undertake to update or revise them as more information becomes available, except as required by law.

Non-GAAP Financial Measures

We refer to EBITDA, adjusted EBITDA, EBITDA Margin, EBIT, adjusted EBIT, adjusted EBIT Margin, adjusted diluted earnings per share and ROIC, each of which is a Non-GAAP Financial Measure. These measures are not prepared in accordance with, and are not intended as alternatives to, generally accepted accounting principles in the United States, or GAAP. The Company's management believes that such measures provide useful information to management, analysts and investors regarding certain additional financial and business trends relating to its results of operations and financial condition. In addition, management uses these measures for reviewing the financial results of the Company, and certain of these measures may be used as components of incentive compensation.

The Company defines EBITDA as net income before interest expense, provision for income tax, and depreciation, amortization and accretion and adjusted EBITDA as EBITDA excluding the impact of special items. The Company defines EBIT, as net income before interest expense and provision for income tax, and adjusted EBIT as EBIT, excluding the impact of special items. EBITDA Margin and adjusted EBIT Margin reflect adjusted EBITDA and adjusted EBIT respectively, divided by net sales for the applicable period. The Company defines adjusted diluted earnings per share as diluted earnings per share excluding the impact of special items. The Company defines ROIC as net operating profit after tax ("NOPAT"), including the effect of capitalized operating leases, divided by average invested capital.

Non-GAAP measures are intended to provide additional information only and do not have any standard meanings prescribed by GAAP. Use of these terms may differ from similar measures reported by other companies. Because of their limitations, non-GAAP measures should not be considered as a measure of discretionary cash available to use to reinvest in the growth of the Company's business, or as a measure of cash that will be available to meet the Company's obligations. Each non-GAAP measure has its limitations as an analytical tool, and you should not consider them in isolation or as a substitute for analysis of the Company's results as reported under GAAP.

To the extent forward looking non-GAAP financial measures are provided herein, they are not reconciled to comparable forward-looking GAAP measures due to the inherent difficulty in forecasting and quantifying certain amounts that are necessary for such reconciliation.



Jack Sinclair
CEO

Record Earnings & Robust Cash Flow in 2020



Earnings
Growth



Cash
Generation

+ 99%

EPS⁽¹⁾

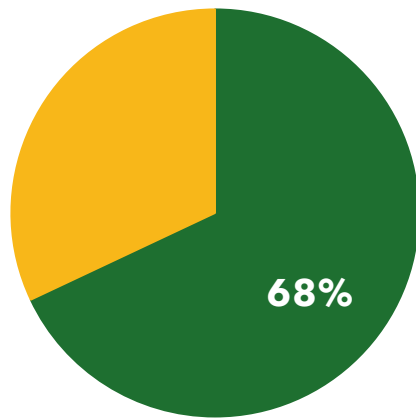
\$494M

Cash from
Operations



Innovative & Differentiated Products with Lifestyle Friendly Ingredients

Sales



■ Attribute Based ■ Other

Attributes include⁽¹⁾: Organics, Paleo, Keto, Plant Based, Non-GMO, Gluten Free, Vegan, Dairy-free, Grass Fed, Raw

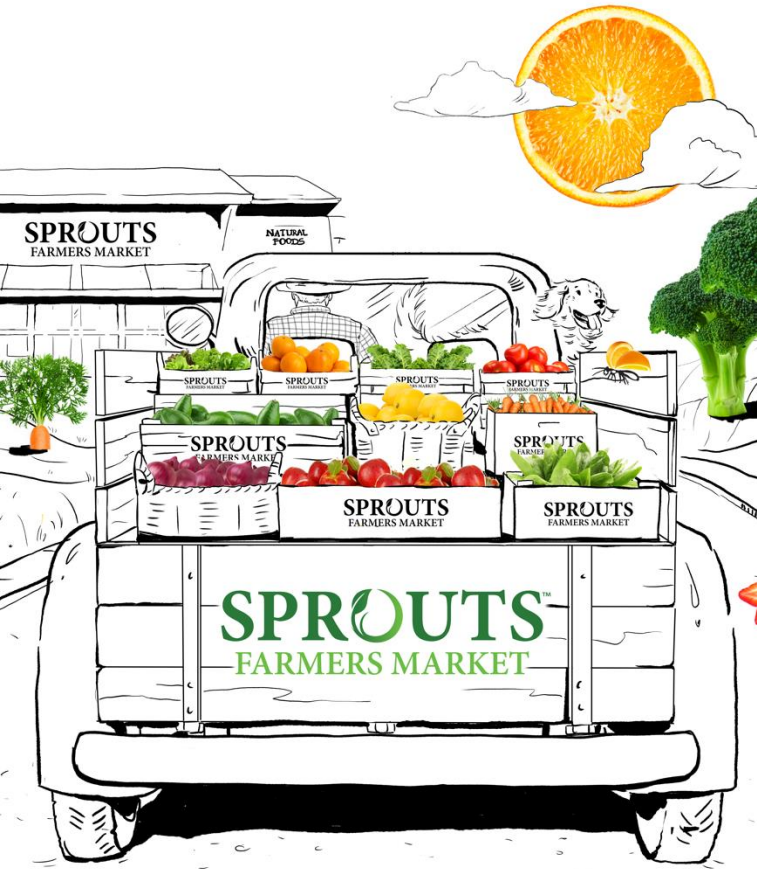
Organics represent 23% of total sales

⁽¹⁾ Includes all produce





Changed our Go-to-Market Approach



- Good value every day, complemented by meaningful basket-driving promotions
- Convenient omnichannel offerings
 - Delivery in every market
 - Pick-up in every single store
 - Owned Shop.sprouts.com
- Amplified fresh produce heritage - through better buying & smarter promotions
- Greatly increased our reach through targeted digital advertising

50%

Growth in customer email database

SPROUTS, WHERE GOODNESS GROWS™



Sprouts' Multi-Year Business Strategy

In 2020, we laid the foundation...

...in 2021, the strategy starts to come to life for our customers

Win with Target Customer



- Operationalize target customer focus across business
- Refined category strategies steeped in innovation, focused on target customers

- Product innovation will bring the newness to life in our store and online assortment

Refine Brand and Marketing Approach



- Shifted media mix dramatically from print to digital
- Relunched the brand

- Focus marketing on target customers and increase share of wallet

Update Format and Expand in Select Markets



- Designed new format store focused on target customers
- Expanded real estate team to prepare for store growth

- Our new format will make its debut
- Roll out innovation centers in some existing stores

Create an Advantaged Fresh Supply Chain



- Started construction for 2 new DCs towards our vision of all stores within 250 miles of a DC

- Both new DCs will be operational by the end of May
- Fresher product to customer in over 100 stores

Deliver Financial Targets and Box Economics



- Margin reset thru promo, shrink improvements & buying

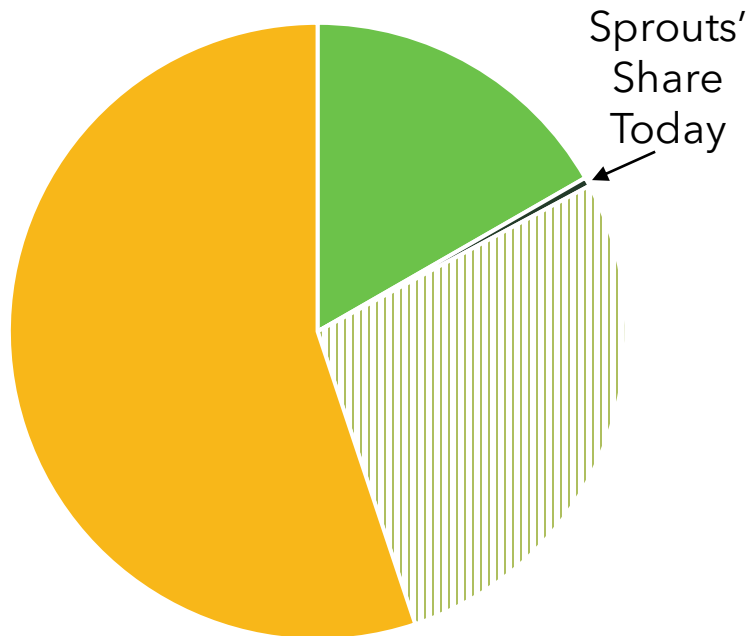
- Capability Improvements Continue:
- shrink/labor efficiencies & customer analytics
 - Inventory management



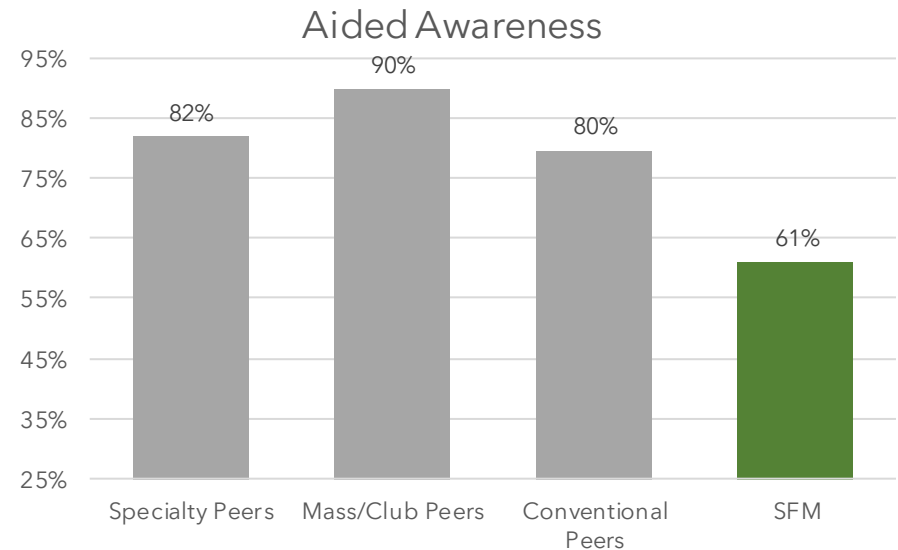
Tremendous Opportunity to Gain Share in Winning Target Customer Segments

Consumers Spend \$1.2T on Food at Home

We still have Significant Opportunity to Introduce Target Customers to Sprouts



■ **Sprouts Target Customers** ■ Sprouts Share Today
▨ Halo Customers ■ All Other

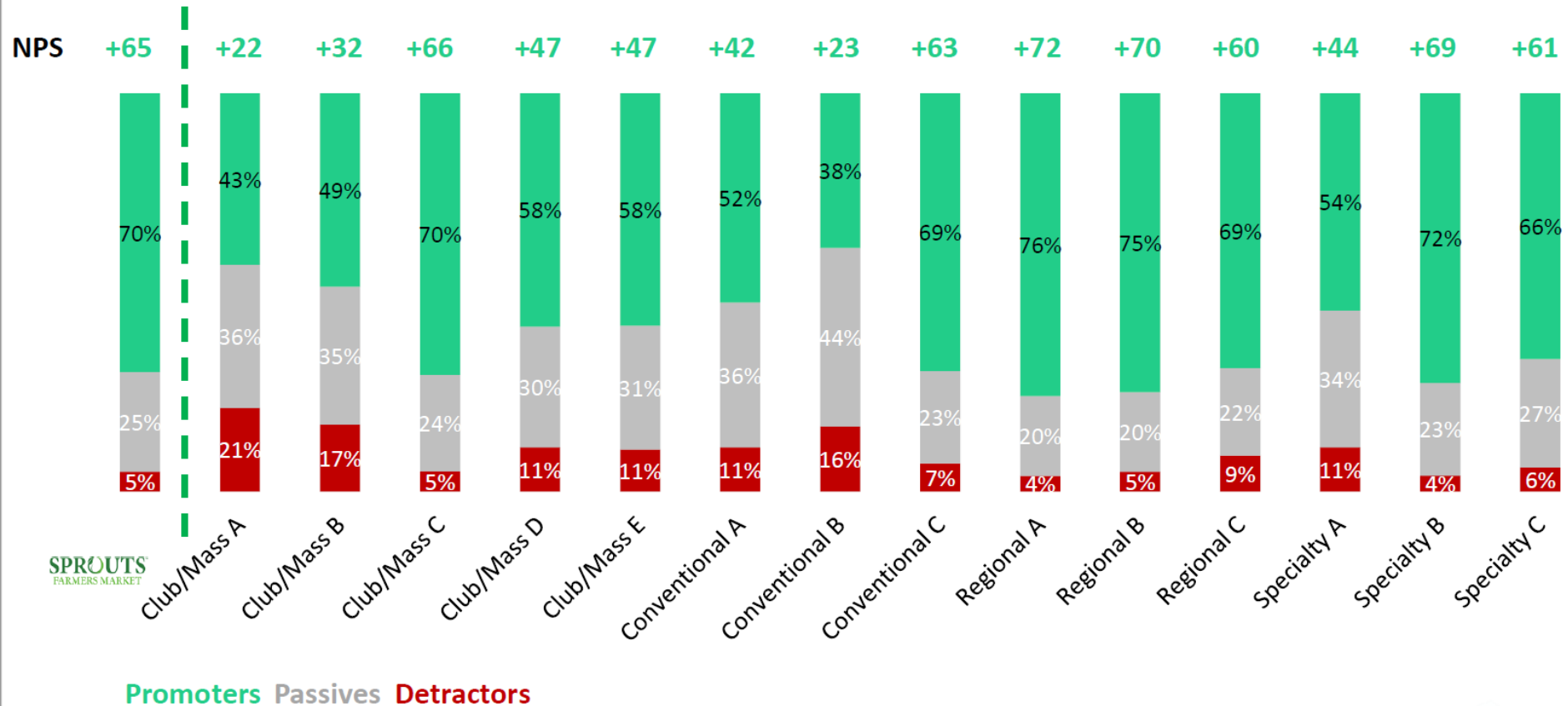




Once Acquired, Sprouts' Customer Affinity is Very Strong and Inline with Best-in-Class Peers

Net Promoter Score (NPS) – Among Frequent Shoppers

Frequent as defined as in Respondent's Top 3 Most Visited for Grocery



Pivoting Our Marketing Strategy to Drive More Profitable Growth with a Broader Reach



OUR DIGITAL-FIRST MARKETING PLATFORM IS FOCUSED ON CONNECTING WITH OUR MOST IMPORTANT CUSTOMERS

HIGHER VALUE CUSTOMERS



Target Audience:

Connect with Health Enthusiasts and Experience Seekers

HYPER-PRECISION TARGETING



Geo-Targeting:

Align media investments with our most valuable trading zone zip codes

DATA-DRIVEN MEDIA



Continuous Optimization:

Improve customer connections in real-time across all their screens

TAPPING INTO CONSUMER NEEDS



Personal Relevance:

Employ data-driven comms addressing target audience's needs and affinities



Providing Value to our Customers, but in a Way that Builds the Sprouts Brand in a More Meaningful Way



OLD

Garden of Life 20% off
Packaged Dates 25% off

Cuties California Mandarins 2 LB. BAG \$1.77 ea.

Peel, Yellow or Orange Bell Peppers 98¢ ea.

Honeycrisp Apples 98¢ ea.

Red Mangoes or Maradol Papayas 98¢ ea.

Organic - Organic - Organic
Organic Strawberries or Blackberries 2.46 lb. per box

Sprouts Salads 2 for \$5

Sprouts Popcorn, Puffs, Potato or Tortilla Chips 3 for \$5

Sprouts Cage Free Eggs 2 for \$5

Talenti Gelato or Sorbetto 3 for \$5

Whole or Dark Chocolate Cashews \$5.99 lb.

EXPERIENCE THE DIFFERENCE
Skillfully prepared, high-quality meats hand-trimmed and packaged in-store every day.

All-Natural Pork Shoulder 99¢ lb.

SALE PRICES VALID MARCH 18, 2020-MARCH 25, 2020

NEW

SPROUTS FARMERS MARKET

LEARN MORE

SEAFOOD SHOWCASE
MARCH 27-28

Reel in the best deals on specialty and seasonal seafood—Saturday & Sunday only!

SPROUTS FARMERS MARKET

SAVE \$10
WHEN YOU SPEND \$75
THIS WEEKEND ONLY!

GET OFFER

Terms and conditions apply. Click GET OFFER above for full details.

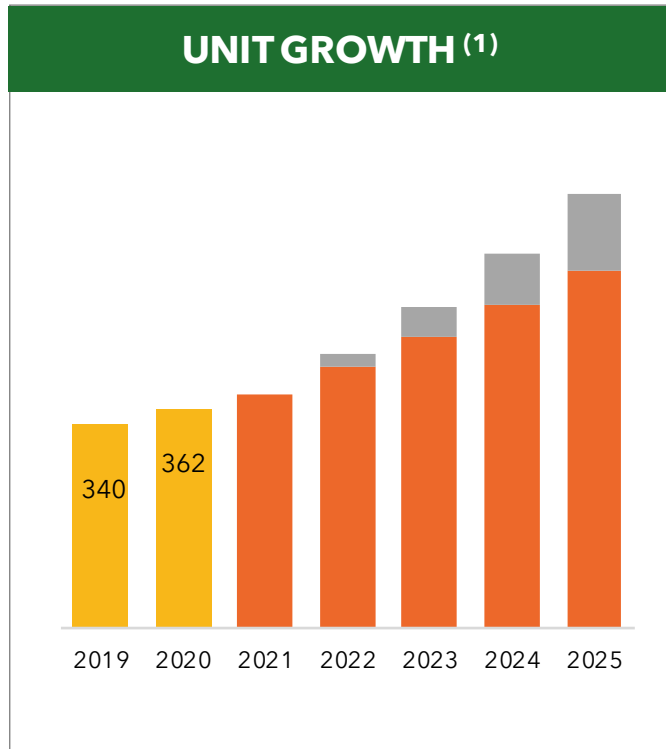
SPROUTS FARMERS MARKET

CELEBRATE CITRUS
Explore the season's best tasting, most-refreshing and colorful citrus—for a limited time!

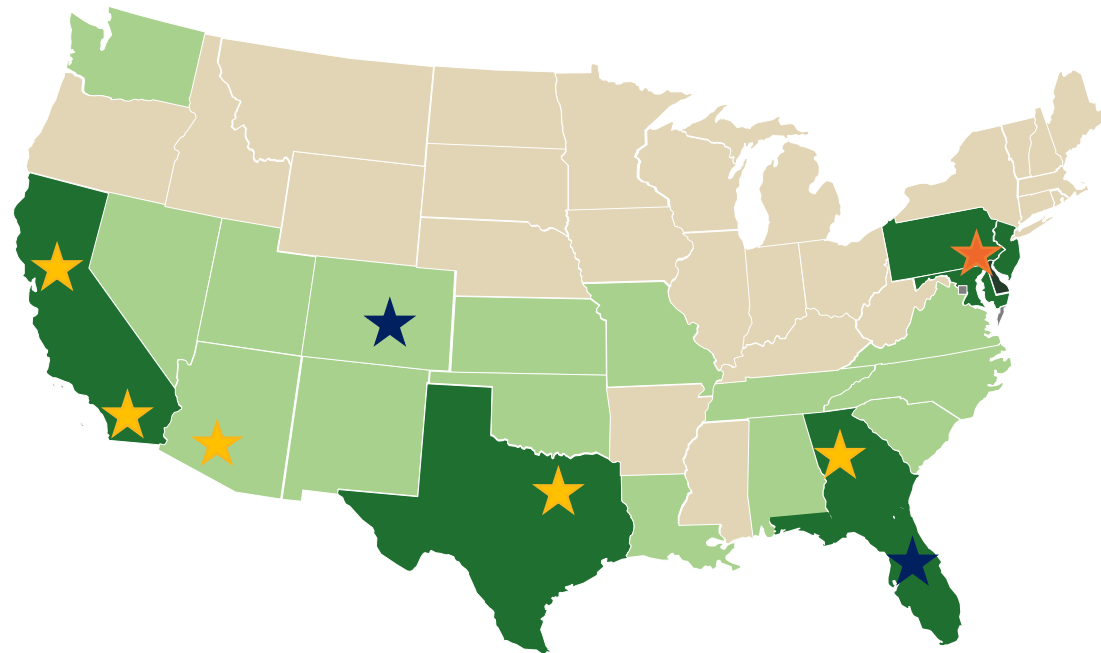
SHOP NOW



High Growth Retailer - Annual Unit Growth Target of 10% or More Beyond 2021



(1) 2019 & 2020 actual unit growth, 2021 outlook, 2022 and beyond represent a range of potential growth



- Existing Markets
- Expansion Markets
- Existing DCs
- DCs opening in 2021
- Future DCs

300 - 400 New Stores in Expansion Markets





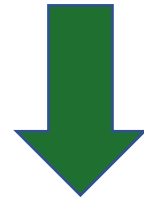
Creating an Advantaged Fresh Supply Chain within 250 Miles of the Majority of Stores



In 2021...

2

New DCs - **CO & FL**



Transportation & Shrink



Freshness & Local Produce

Savings of nearly 3000 Metric Tons of Carbon Dioxide Equivalent



Denise Paulonis
CFO



Sprouts is on a Stronger Foundation than Beginning of 2020

NET SALES

\$6.5B

+15% YOY

ADJUSTED DILUTED
EARNINGS PER SHARE⁽¹⁾

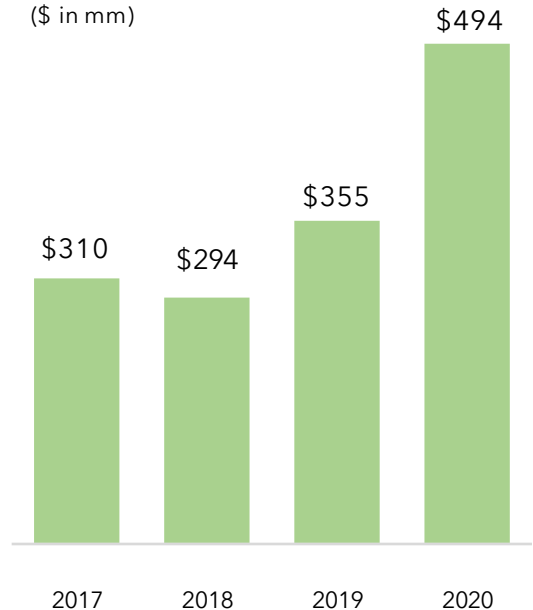
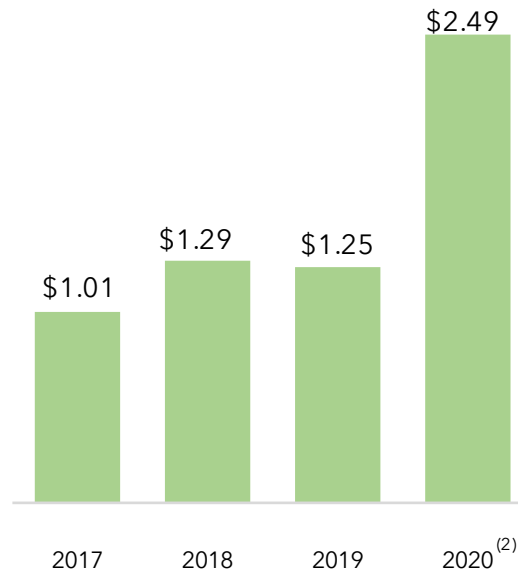
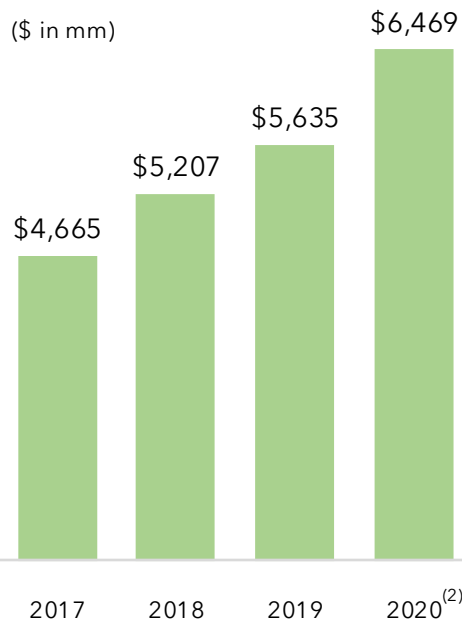
\$2.49

+ 99% YOY

NET CASH PROVIDED BY
OPERATIONS

\$494M

+ 39% YOY



(1) See the Appendix to this presentation for a reconciliation of adjusted diluted EPS to net income
(2) 2020 is presented on a 53-week basis.





One of the Best Grocery Ecommerce Growth Stories

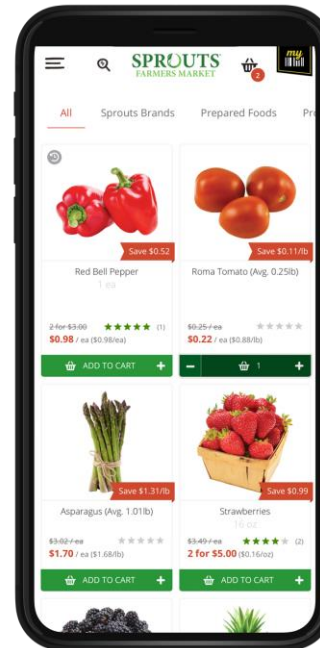
340%

YoY Ecommerce Growth

9.5%

Ecommerce Penetration

Customers can now shop how they like –
In-Store, Pick-up, or Delivery



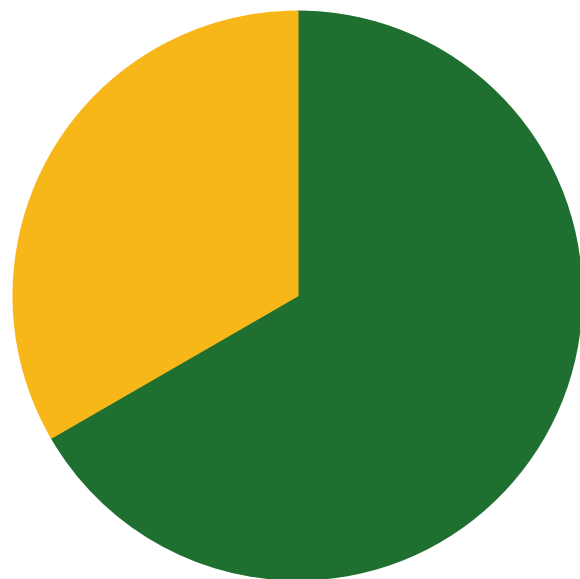
**THE BEST IN FRESH IS
JUST A TAP AWAY!**





Structurally Changed Gross Margin

2020 GM Improvement



■ Promo/Buying ■ Shrink

In 2021...

Modest Give back from:

- Buying/cost benefits from abrupt restaurant closures
- Shrink leverage from faster moving product during COVID
- Short-term shrink benefit from extreme out-of-stocks early in pandemic
- Strategic investments

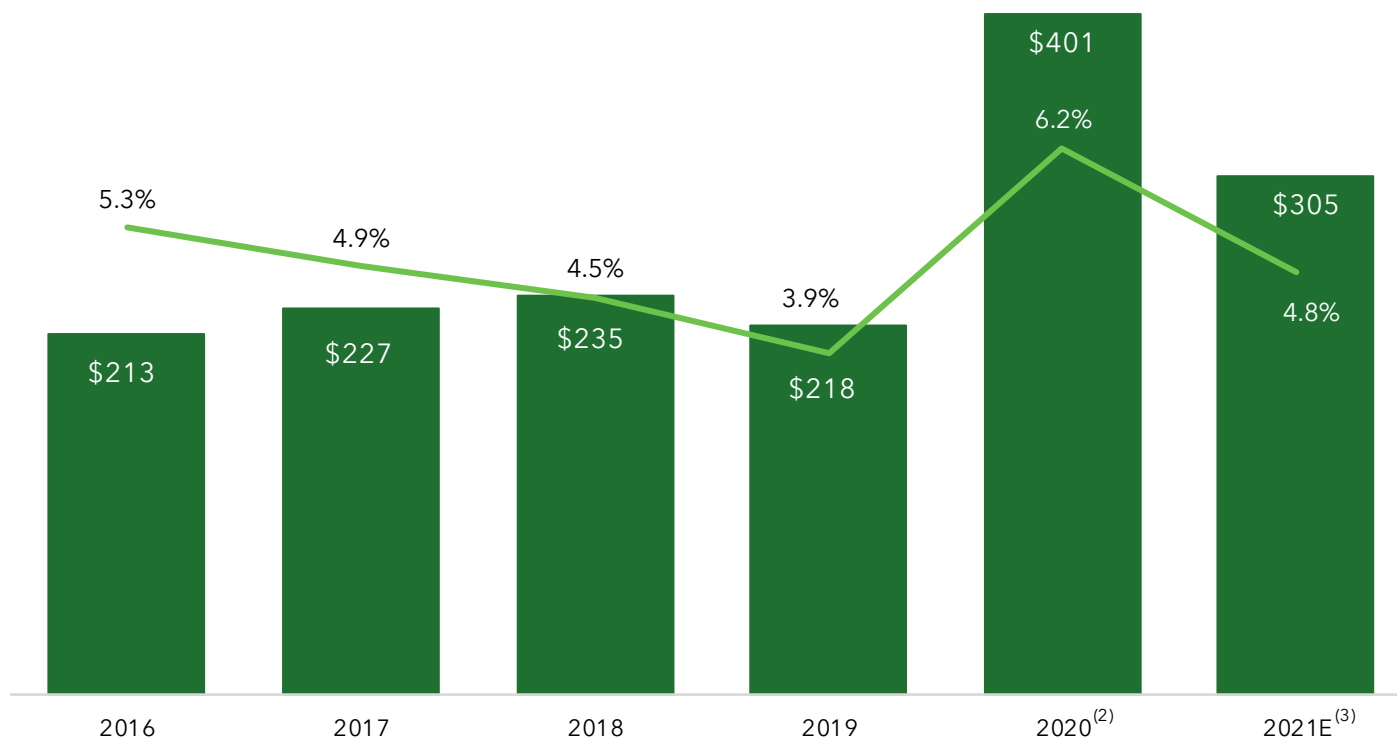




Structurally Improved Margin Profile

ADJUSTED EBIT & ADJUSTED EBIT MARGIN⁽¹⁾

(\$ in mm)



(1) See the Appendix to this presentation for a reconciliation of EBIT to adjusted EBIT. For 2016-2017, adjustments to EBIT were immaterial; thus only EBIT is presented.

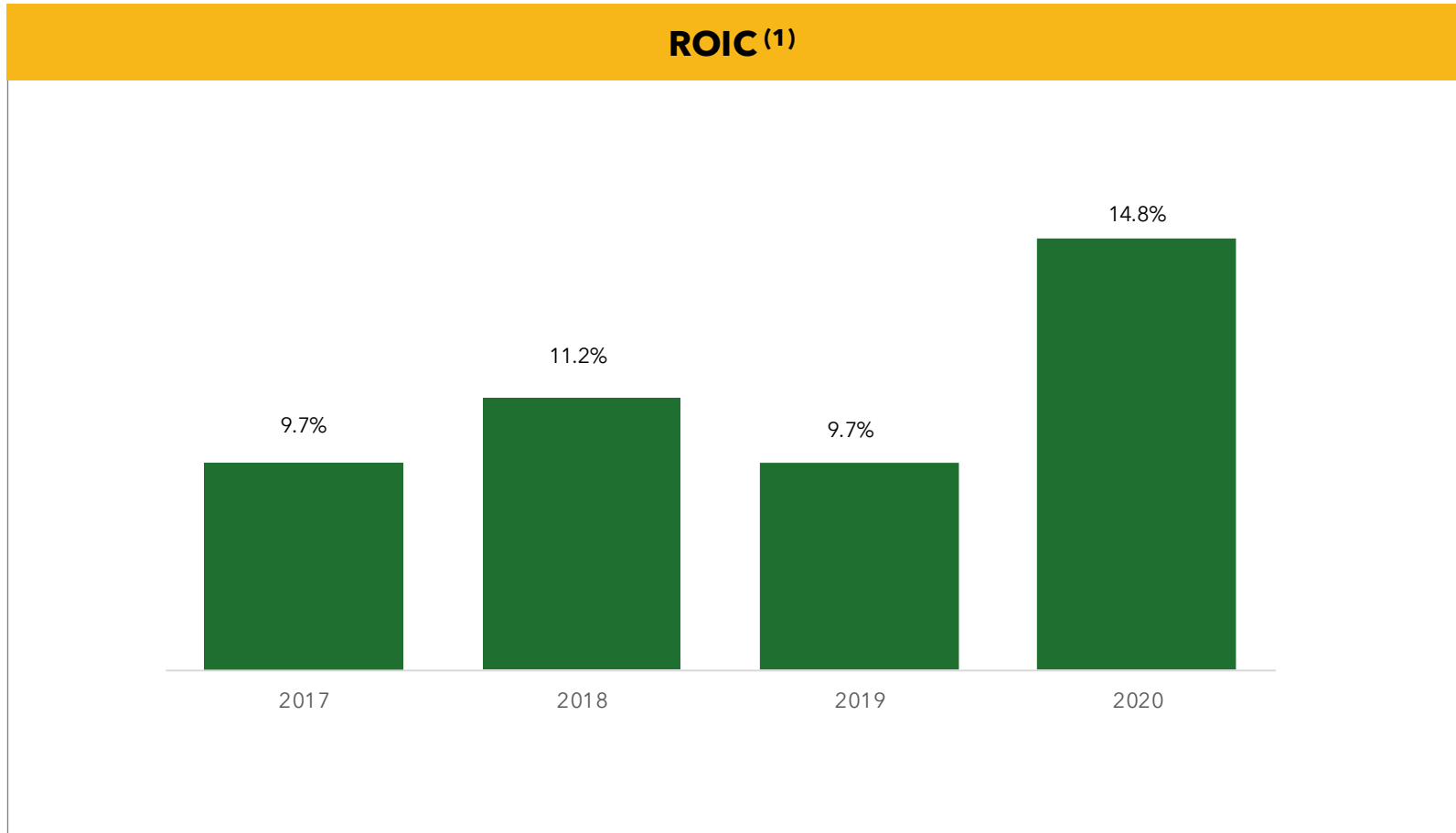
(2) 2020 is presented on a 53-week basis

(3) 2021E represents the mid-point of our 2021 outlook





In-line with Strategic Goals...Improving ROIC



(1) ROIC is a non-GAAP measure that we define as net operating profit after taxes divided by average invested capital. See the Appendix to this presentation for a reconciliation of ROIC to net income.



2021 Outlook

Flat to up Slightly Sales Growth

Approximately 20 New Stores

Down Low to Mid Single Digit Comps

Adjusted EBIT \$295M to \$315M

Adjusted EPS \$1.78 to \$1.91

Capex \$140M to \$160M

Approximately 26% Corporate Tax Rate



Appendix

Appendix

The following table shows a reconciliation of EBITDA and adjusted EBITDA to net income, as well as a reconciliation of net income and diluted earnings per share to adjusted net income and adjusted diluted earnings per share for the fifty-three weeks ended January 3, 2021, fifty-two weeks ended December 29, 2019, December 30, 2018, December 31, 2017, and January 1, 2017:

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES
NON-GAAP MEASURE RECONCILIATION
(UNAUDITED)
(IN THOUSANDS)

	Fifty-three Weeks Ended	Fifty-two Weeks Ended	Fifty-two Weeks Ended	Fifty-two Weeks Ended	Fifty-two Weeks Ended
	January 3, 2021	December 29, 2019	December 30, 2018	December 31, 2017	January 1, 2017
Net income	\$ 287,450	\$ 149,629	\$ 158,536	\$ 158,440	\$ 124,306
Income tax provision ⁽¹⁾	89,428	46,539	37,260	47,078	74,286
Interest expense, net	14,787	21,192	27,435	21,176	14,791
Earnings before interest and taxes (EBIT)	391,665	217,360	223,231	226,694	213,383
Special Items:					
Strategic initiatives ⁽²⁾	8,835	-	-	-	-
Executive Compensation ⁽³⁾	-	-	3,618	-	-
Store closures ⁽⁴⁾	-	508	7,961	-	-
Total Special Items - pre tax	8,835	508	11,579	-	-
Adjusted EBIT	400,500	217,868	234,810	226,694	213,383
Depreciation, amortization and accretion	126,508	122,804	110,749	96,987	80,723
Adjusted EBITDA	\$ 527,008	\$ 340,672	\$ 345,559	\$ 323,681	\$ 294,106
Net income	\$ 287,450	\$ 149,629	\$ 158,536	\$ 158,440	\$ 124,306
Special Items:					
Strategic Initiatives, net of tax	\$ 6,565	\$ -	\$ -	\$ -	\$ -
Executive Compensation, net of tax ⁽³⁾	-	-	5,652	-	-
Store closures, net of tax ⁽⁴⁾	-	377	5,921	-	-
Adjusted Net income before one time tax benefits	\$ 294,015	\$ 150,006	\$ 170,109	\$ 158,440	\$ 124,306
Income tax benefit related to Tax Act and other one time tax benefits ⁽⁵⁾	-	-	(2,573)	(18,692)	-
Adjusted Net income	\$ 294,015	\$ 150,006	\$ 167,536	\$ 139,748	\$ 124,306
Diluted EPS	\$ 2.43	\$ 1.25	\$ 1.22	\$ 1.15	\$ 0.83
Adjusted Diluted EPS	\$ 2.49	\$ 1.25	\$ 1.29	\$ 1.01	\$ 0.83
Diluted Weighted Average Shares Outstanding	118,224	119,742	129,776	137,884	149,653

Appendix

- (1) Income tax provision includes approximately \$12 million (or \$0.10 per diluted share) benefit during the fifty-two weeks ended December 30, 2018 and \$10 million (or \$0.08 per diluted share) in the fifty-two weeks ended December 31, 2017, in excess federal and state tax benefits for share based compensation primarily associated with the exercise of expiring pre-IPO options. Prior to 2017, these tax credits were credited to stockholders' equity.
- (2) Includes professional fees related to our ongoing strategic initiatives. After-tax impact includes the tax benefit on the pre-tax charge.
- (3) During the fifty-two weeks ended December 30, 2018, the Company recorded one-time pretax compensation charges of \$4 million, associated with the resignation of the former CEO. The after-tax impact includes incremental tax expense associated with certain nondeductible executive compensation costs.
- (4) Includes the direct costs associated with store closures and relocation. During the fifty-two weeks ended December 30, 2018, in connection with the closure of two stores, the Company recorded one-time non-cash pre-tax charges of \$8 million primarily related to the estimated fair value of the lease termination obligations and asset impairments. After-tax impact includes the tax benefit on the pre-tax charge.
- (5) During the fifty-two weeks ended December 30, 2018, the Company adopted a tax calculation method change for the accelerated deduction of certain items, resulting in a discrete tax benefit of \$3 million. During the fifty-two weeks ended December 31, 2017, the Company recorded a one-time benefit associated with the adoption of the 2017 Tax Cuts and Jobs Act.

Appendix

The following table shows a reconciliation of ROIC to net income for the Company's 2017, 2018, 2019 and 2020 fiscal years.

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES
NON-GAAP MEASURE RECONCILIATION
(UNAUDITED)
(IN THOUSANDS)

Net income	\$ 287,450	\$ 149,629	\$ 158,536	\$ 158,440
Income Tax Adjustment ⁽²⁾		-	(2,573)	(18,693)
Special Items, net of Tax ^(3,4)	6,565	377	11,573	
Interest expense, net of tax ⁽⁴⁾	11,272	16,214	22,178	14,373
Net operating profit after tax (NOPAT)	<u>\$ 305,286</u>	<u>\$ 166,220</u>	<u>\$ 189,714</u>	<u>\$ 154,120</u>
Total rent expense, net of tax ⁽⁴⁾	146,630	129,748	111,401	82,285
Estimated depreciation on capitalized operating leases, net of tax ⁽⁴⁾	(80,944)	(61,898)	(49,016)	(36,205)
Estimated interest on capitalized operating leases, net of tax ^(5,6)	65,686	67,850	62,385	46,080
NOPAT, including effect of capitalized operating leases	<u>\$ 370,972</u>	<u>\$ 234,070</u>	<u>\$ 252,099</u>	<u>\$ 200,200</u>
Average working capital	101,622	37,505	26,877	5,652
Average property and equipment	735,651	737,851	754,380	668,576
Average other assets	567,188	567,554	574,968	570,859
Average other liabilities	(100,531)	(120,521)	(199,233)	(158,193)
Average invested capital	<u>\$ 1,303,930</u>	<u>\$ 1,222,389</u>	<u>\$ 1,156,992</u>	<u>\$ 1,086,894</u>
Average operating leases ⁽⁷⁾	1,196,822	1,185,080	1,103,128	968,201
Average invested capital, including the effect of capitalized operating leases	<u>\$ 2,500,752</u>	<u>\$ 2,407,469</u>	<u>\$ 2,260,120</u>	<u>\$ 2,055,095</u>
ROIC, including operating leases	<u>14.8%</u>	<u>9.7%</u>	<u>11.2%</u>	<u>9.7%</u>

¹ Fiscal 2020 includes 53 weeks

² \$2.6M credit in 2018 related to adopted tax accounting method changes and \$18.7M credit due to tax cuts & jobs act enacted in 2017

³ Special items include \$6.6 for strategy related charges in 2020, \$0.4M for store closures in 2019 and \$5.9M for store closures & \$5.7M for executive severance in 2018.

⁴ Net of tax amounts are calculated using the normalized effective tax rate for the period presented.

⁵ Represents the add back to operating income driven by hypothetical interest expense we would incur if the property under our operating leases were accounted for as financing leases; 2020 & 2019 calculated by multiplying operating leases by a 7.2% & 7.5% discount rate for each lease recorded as rent expense within direct store expense.

⁶ 2018 and 2017 interest on operating leases calculated as trailing 4 quarter rents x 8 x 7.0% interest rate factor.

⁷ 2020 average operating leases represents the average net present value of outstanding lease obligations over the trailing 4 quarters. 2019 average operating leases represents the net present value of outstanding operating lease obligations. 2018 & 2017 average operating leases is calculated as the trailing four quarters' rent expense multiplied by 8.