

A low-angle, upward-looking photograph of several modern skyscrapers with glass facades, creating a sense of height and urban density. The image is in grayscale with a dark, moody atmosphere. Two thin, horizontal gold lines are positioned above and below the main title.

Sprouts Farmers Market

Olivia Mathewson, Nicolas Harrison, Connor
Albright, Fawaz Baqer, Ryan Tabsh

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A nighttime photograph of a city skyline, likely Chicago, featuring several illuminated skyscrapers and a bridge over a body of water. The scene is dark, with the city lights providing the primary illumination. A thin orange border frames the central text area.

01

Introduction

Sector

Consumer Staples (30)

- Essential products used by consumers no matter the economic situation
- These products are always in demand so they are non-cyclical

There are 6 main industries within this sector

- Beverages
- Food and Staples Retailing
- Food Products
- Household Products
- Personal Products
- Tobacco

Industry

Food and Staples Retailing (301010)

- Retailing of essential food and staple products, including groceries, beverages, and household goods.
- Retail Types:
 - Supermarkets
 - Convenience stores
 - Hypermarkets
 - Online grocery delivery services.
- Largest Industry (both by company count and revenue size) in the Consumer Staples sector

Company Screening Procedure and Criteria

Analyzed stocks in Sector that met better than Sector Median in the following criteria:

1. ROE ratio
2. Net Profit Margin
3. Asset Turnover
4. Financial leverage
5. Sales growth
6. PE ratio
7. Revenue is greater than \$1 billion USD

gvkey		conm	tic
288	002807	CASEYS GENERAL STORES INC	CASY
1062	009538	SEABOARD CORP	SEB
2292	017934	SPROUTS FARMERS MARKET	SFM
6478	064275	CAL-MAINE FOODS INC	CALM
6512	064655	ALIMENTATION COUCHE-TARD INC	ANCTF

Business Overview

Sprouts Farmers Market is a leading natural and organic grocery store chain in the United States, with a strong emphasis on providing fresh, natural, and organic products at affordable prices.

Sprouts Farmers Market follows a business model centered around offering a diverse range of fresh, natural, and organic products at competitive prices, positioning itself as an affordable option for health-conscious consumers



Market Position and Strategy

The natural and organic grocery retail sector has experienced robust growth in recent years, driven by increasing consumer awareness of the benefits of a healthy lifestyle and the growing demand for sustainable and ethically sourced food products.

The natural and organic grocery retail sector is highly competitive, characterized by the presence of various players, including specialty organic stores, traditional supermarkets, and online retailers.



Market Outlook & Challenges



Within the natural and organic grocery sector, Sprouts Farmers Market holds a distinct position as a value-oriented retailer, targeting consumers seeking affordable and high-quality natural products.



The natural and organic grocery retail sector is poised for continued growth, fueled by evolving consumer preferences, increased health consciousness, and a heightened focus on sustainability



Over the years, Sprouts Farmers Market has demonstrated consistent growth and financial stability, with a track record of strong revenue and earnings performance. The company has strategically managed its expansion while maintaining a focus on operational efficiency and cost control.



The rise of e-commerce platforms has enabled natural and organic retailers to reach a broader consumer base, providing convenience and accessibility to a wider range of products.



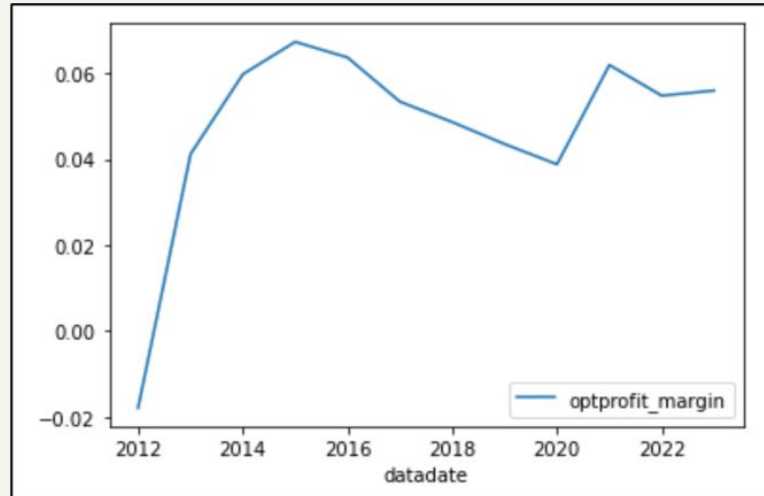
O2 COMPANY RATIO ANALYSIS

Liquidity & Solvency Ratios

RATIOS	Sprouts Farmers Market	Food & Staples Retailing Industry
<u>Balance Sheet</u>		
Current Ratio	1.2899	1.0647
Quick Ratio	0.6954	0.4590
Cash Ratio	0.5651	0.1193
Debt to Equity Ratio	1.4723	1.3202
Long-term Debt to Equity Ratio	1.3417	1.2176
Financial Leverage	2.9341	3.3343

Profitability Ratios

<u>Income Statement</u>	Sprouts Farmers Market	Food & Staples Retailing Industry
Gross Profit Margin	0.3671	0.2038
Operating Profit Margin	0.0560	0.0355
Net Profit Margin	0.0408	0.0228



Efficiency Ratios

<u>Activity Ratios</u>	Sprouts Farmers Market	Food & Staples Retailing Industry
Receivable Turnover Ratio	189.8222	19.3616
Days of Sales Outstanding	1.9229	18.8518
Inventory Turnover Ratio	14.0763	10.4850
Days of Inventory on Hand	25.9302	34.9398
Payables Turnover	25.4293	12.1592
Number of Days Payable	14.3535	30.0305
Cash Conversion Cycle	13.4995	20.6719
Total Assets Turnover	2.1371	2.8469
PPE Assets Turnover	3.5414	7.3968
Working Capital Turnover	62.2776	35.2248



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FOOTNOTES DISCLOSURE

Important Disclosures

Inventory:

- FIFO Inventory Method

Depreciation:

- Straight-line Depreciation

Revenue Recognition:

- When performance obligations are satisfied which is upon transfer of goods

Goodwill:

- Indefinite-lived intangible asset: trade names



M-Score

	gvkey	tic	conm	datadate	m_score
8155	017934	SFM	SPROUTS FARMERS MARKET	2018-12-31	-5.219329
8156	017934	SFM	SPROUTS FARMERS MARKET	2019-12-31	-3.783190
8157	017934	SFM	SPROUTS FARMERS MARKET	2020-12-31	-3.130210
8158	017934	SFM	SPROUTS FARMERS MARKET	2021-12-31	-2.398707
8159	017934	SFM	SPROUTS FARMERS MARKET	2022-12-31	-2.800425

No likely Earnings Manipulation occurring

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FINANCIAL
ANALYSIS

Common-Size Trends

Consolidated Statements of Income - USD (\$) shares in Thousands, \$ in Thousands

Income Statement [Abstract]

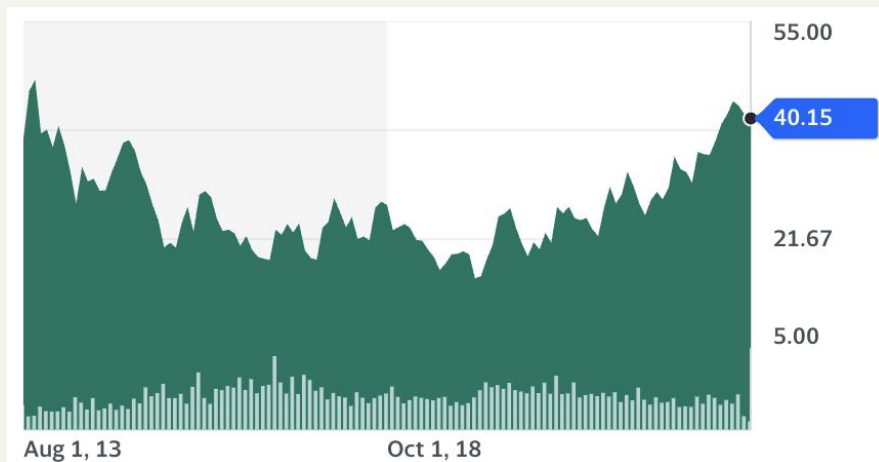
	Jan. 01, 2023	Jan. 02, 2022	Jan. 03, 2021	Dec. 29, 2019
Net sales	114%	108%	115%	100%
Cost of sales	108%	104%	109%	100%
Gross profit	124%	117%	126%	100%
Selling, general and administrative expenses	120%	113%	120%	100%
Depreciation and amortization (exclusive of depreciation included in cost of sales)	103%	101%	103%	100%
Store closure and other costs, net	152%	64%	-5%	100%
Income from operations	165%	154%	180%	100%
Interest expense, net	43%	55%	70%	100%
Income before income taxes	178%	164%	192%	100%
Income tax provision	189%	168%	192%	100%
Net income	175%	163%	192%	100%

DuPont

$$ROE = \text{Profitability} \times \text{Assets Turnover} \times \text{Financial Leverage}$$

<u>DuPont Analysis</u>	Sprouts Farmers Market	Food & Staples Retailing Industry
ROE	0.2496	0.1677
Net Profit Margin	0.0408	0.0293
Assets Turnover	2.0858	1.8500
Financial Leverage	2.9341	3.3299
ROE 2	0.2496	0.1677

Valuation



Using the Free Cash Flow to Firm (FCFF)

Valuation Excel:

Conservative

Growth = 6%

Perpetuity = 3%

Cost of Equity: 6.57%

Cost of Debt: 5.36%

WACC: 6.24%

Intrinsic value per common share

\$

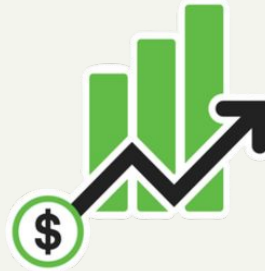
49.53

Factors Going into Buy/Sell Decision:

1. Strong Business Model and Robust Growth within the sector and specifically the grocery industry
 2. Strong Ratio Analysis across the board of liquidity, profitability, efficiency, and solvency
 - a. Both for the company itself as well as within the Food & Staples Retailing Industry
 3. Reliable M-Score
 4. Strong DuPont Analysis results
 5. FCFF Model Undervaluing the Current Stock Price
-

**Sprouts Farmers Market, Inc. (SFM) is
a...**

BUY





THANK YOU!

Sources

- [Inline XBRL Viewer \(sec.gov\)](#)
- [Sprouts Farmers Market, Inc. \(SFM\) Stock Price, News, Quote & History - Yahoo Finance](#)
- [Consumer Staples: Definition, Role in GDP, and Examples \(investopedia.com\)](#)