

Sprouts Farmers Market, Inc.

Upgrade to Buy: Differentiation driving sales & EPS upside; Raise PO to \$70

Rating Change: BUY | PO: 70.00 USD | Price: 60.34 USD

Upgrade to Buy on traffic, margin & unit growth outlook

We upgrade SFM to Buy from U/P and raise our PO to \$70 (was \$30) based on 22x (was 11x) our raised 2025E EPS of \$3.15 (was \$2.95). Our higher multiple reflects SFM's shift to a higher store growth rate (~9% unit growth, with return to +10% target by 25E), higher sustained gross margin outlook (37%+ for SFM today vs. 21-23% and 27-29% for KR & ACI, respectively – Exhibit 7) and unique specialty position in Food Retail.

Despite our previous concerns...

Our prior Underperform rating reflected concerns over SFM's lack of sales and traffic strength following its implementation of a less promotional strategy (beginning in 2019) that resulted in the loss of 25% of its customer base in 2020. We also saw sales and margin risk as SFM raised prices amidst normalizing industry promos (post-Covid) and given availability of natural, organic & specialty items at conventional & mass peers.

Reset customer base & margin profile appear sustainable

SFM has moved beyond customer traffic challenges, with store & online traffic positive since 2Q23 & Bloomberg Second Measure data (Exhibit 1) through 1H Feb. showing acceleration (both sales & transactions) into 1Q. SFM continues to rebuild its new higher margin customer base with support from continued assortment enhancements, geographic expansion & marketing. We see potential for traffic/unit sales to strengthen beyond 2024 given SFM's focus on private label, loyalty and personalization initiatives.

SFM is gaining scale & lessening competition

SFM now operates 400+ stores (vs. Whole Foods 517) & faces lessening competition with its increasingly differentiated assortment of attribute-based (organic, grass-fed, vegan, keto) products, in our view. SFM's offering (15% newness in 2023 supported by test & react approach) should continue to gain visibility as a specialty shop for highly profitable customers, while historical competitors vie for traditional grocery customers.

Raising estimates for 2024 post strong 4Q earnings

Post strong 4Q earnings (see inside for recap), we raise 24E EPS +15c to \$2.90 in line with guide for \$2.85-\$2.95. This reflects our 24E outlook for: +2.4% comps (vs. +1.5-3.5% guide), 35 new stores weighted in 2H, SG&A pressure, & higher y/y gross margins. We see 1Q24 EPS of \$0.99 (vs. \$0.98-\$1.02 guide) & +3% comps (vs. +2.5-3.5% guide).

| Estimates (Dec) (US\$) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------|-------|-------|-------|-------|-------|
| EPS | 2.39 | 2.84 | 2.90 | 3.15 | 3.50 |
| GAAP EPS | 2.39 | 2.50 | 2.90 | 3.15 | 3.50 |
| EPS Change (YoY) | 13.8% | 18.8% | 2.1% | 8.6% | 11.1% |
| Consensus EPS (Bloomberg) | | | 2.89 | 3.10 | 3.36 |
| DPS | 0 | 0 | 0 | 0 | 0 |
| Valuation (Dec) | | | | | |
| P/E | 25.2x | 21.2x | 20.8x | 19.2x | 17.2x |
| GAAP P/E | 25.2x | 24.1x | 20.8x | 19.2x | 17.2x |
| EV / EBITDA* | 15.5x | 14.1x | 13.9x | 13.0x | 12.1x |
| Free Cash Flow Yield* | 3.8% | 3.6% | 3.2% | 3.4% | 3.6% |

* For full definitions of *IQmethod*SM measures, see page 9.

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Timestamp: 27 February 2024 06:00AM EST

27 February 2024

Equity

Key Changes

| (US\$) | Previous | Current |
|---------------|--------------|---------|
| Inv. Opinion | B-3-9 | B-1-9 |
| Inv. Rating | UNDERPERFORM | BUY |
| Price Obj. | 30.00 | 70.00 |
| 2024E Rev (m) | 7,296.1 | 7,302.0 |
| 2025E Rev (m) | 7,915.4 | 7,914.3 |
| 2026E Rev (m) | 8,588.2 | 8,645.8 |
| 2024E EPS | 2.75 | 2.90 |
| 2025E EPS | 2.95 | 3.15 |
| 2026E EPS | 3.30 | 3.50 |

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Stock Data

| | |
|--------------------------------|-----------------------|
| Price | 60.34 USD |
| Price Objective | 70.00 USD |
| Date Established | 27-Feb-2024 |
| Investment Opinion | B-1-9 |
| 52-Week Range | 30.20 USD - 60.93 USD |
| Mkt Val (mn) / Shares Out (mn) | 6,107 USD / 101.2 |
| Free Float | 99.1% |
| Average Daily Value (mn) | 71.45 USD |
| BofA Ticker / Exchange | SFM / NAS |
| Bloomberg / Reuters | SFM US / SFM.OQ |
| ROE (2024E) | 22.5% |
| Net Dbt to Eqty (Dec-2023A) | -2.5% |
| ESGMeter™ | High |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

Key terms: SFM = Sprouts Farmers Market, DC = distribution center, U/P = Underperform, P/E = price-to-earnings ratio

iQprofileSM Sprouts Farmers Market, Inc.

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | 10.2% | 10.7% | 9.5% | 8.8% | 8.2% |
| Return on Equity | 26.0% | 26.7% | 22.5% | 19.5% | 17.3% |
| Operating Margin | 5.6% | 5.8% | 5.5% | 5.4% | 5.3% |
| Free Cash Flow | 231 | 218 | 194 | 205 | 217 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--------------------------|-------|-------|-------|--------|--------|
| Cash Realization Ratio | 1.4x | 1.5x | 1.5x | 1.5x | 1.5x |
| Asset Replacement Ratio | 1.0x | 1.6x | 1.7x | 1.7x | 1.7x |
| Tax Rate | 25.2% | 24.8% | 26.0% | 26.0% | 26.0% |
| Net Debt-to-Equity Ratio | -1.4% | -2.5% | -9.0% | -14.1% | -18.2% |
| Interest Cover | 39.6x | NM | NM | NM | NM |

Income Statement Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------------|-------------|--------------|--------------|-------------|-------------|
| Sales | 6,404 | 6,837 | 7,302 | 7,914 | 8,646 |
| % Change | 5.0% | 6.8% | 6.8% | 8.4% | 9.2% |
| Gross Profit | 2,349 | 2,525 | 2,710 | 2,936 | 3,199 |
| % Change | 6.3% | 7.5% | 7.3% | 8.3% | 8.9% |
| EBITDA | 485 | 534 | 542 | 580 | 623 |
| % Change | 5.6% | 10.0% | 1.5% | 6.9% | 7.4% |
| Net Interest & Other Income | (9) | (6) | (6) | (6) | (6) |
| Net Income (Adjusted) | 261 | 293 | 292 | 311 | 332 |
| % Change | 7.0% | 12.2% | -0.5% | 6.5% | 6.9% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|--------------|--------------|---------------|-------------|-------------|
| Net Income from Cont Operations (GAAP) | 261 | 293 | 292 | 311 | 332 |
| Depreciation & Amortization | 127 | 138 | 141 | 153 | 167 |
| Change in Working Capital | 33 | (12) | (1) | (2) | (2) |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | (66) | 25 | 3 | 3 | 4 |
| Capital Expenditure | (124) | (225) | (240) | (260) | (285) |
| Free Cash Flow | 231 | 218 | 194 | 205 | 217 |
| % Change | -4.6% | -5.7% | -11.0% | 5.7% | 5.8% |
| Share / Issue Repurchase | (175) | (191) | 0 | 0 | 0 |
| Cost of Dividends Paid | 0 | 0 | 0 | 0 | 0 |
| Change in Debt | (1) | (125) | 0 | 0 | 0 |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 293 | 202 | 416 | 644 | 885 |
| Trade Receivables | 16 | 30 | 32 | 35 | 38 |
| Other Current Assets | 364 | 372 | 399 | 432 | 472 |
| Property, Plant & Equipment | 722 | 799 | 898 | 1,005 | 1,122 |
| Other Non-Current Assets | 1,674 | 1,925 | 2,057 | 2,203 | 2,363 |
| Total Assets | 3,070 | 3,327 | 3,802 | 4,319 | 4,881 |
| Short-Term Debt | 1 | 1 | 1 | 1 | 1 |
| Other Current Liabilities | 386 | 420 | 450 | 488 | 533 |
| Long-Term Debt | 259 | 134 | 134 | 134 | 134 |
| Other Non-Current Liabilities | 97 | 99 | 99 | 99 | 99 |
| Total Liabilities | 743 | 653 | 684 | 721 | 766 |
| Total Equity | 2,327 | 2,674 | 3,119 | 3,598 | 4,115 |
| Total Equity & Liabilities | 3,070 | 3,327 | 3,802 | 4,319 | 4,881 |

* For full definitions of iQmethodSM measures, see page 9.

Company Sector

Supermarkets/Food Retailers

Company Description

Sprouts Farmer's Markets (SFM) is a specialty, natural and organic grocer with a small store format. After opening its first store in 2002, Sprouts has established itself as a large natural & organic grocer, with 2023 sales of \$6.8bn. With a differentiated assortment and stores that appear to be able to work across a wide variety of regions, SFM has the opportunity to expand its store base in both new and existing markets.

Investment Rationale

We have a Buy rating on SFM as we believe its highly differentiated and evolving assortment should continue to drive improved customer traffic and support a sustained reacceleration in annual store growth to 8-10% (vs. 3-5% the last 3 years). We also see potential for traffic and unit sales to strengthen beyond 2024 on support from new private label, loyalty and personalization initiatives as well as scale benefits as SFM is now operating 400+ stores in the US.

Stock Data

Average Daily Volume 1,184,182

Quarterly Earnings Estimates

| | 2023 | 2024 |
|----|-------|-------|
| Q1 | 0.98A | 0.99E |
| Q2 | 0.71A | 0.70E |
| Q3 | 0.65A | 0.68E |
| Q4 | 0.49A | 0.53E |

4Q Earnings Recap

4Q23 EPS, comps & gross margin ahead of forecast

4Q23 \$0.49 EPS beat Street \$0.45. Comps of 3.3% (vs. Street ~3%) reflected positive inflation and traffic, partially offset by cont'd (but stabilizing) unit declines. Digital sales grew 17% y/y, while private label and differentiated products continued performing well. Gross margin of 36.5% (vs. Street 36.3%) was +19bp y/y on favorable merch. margins that were partially offset by pressure from new/expanded DCs. SG&A ratio of 30.2% (vs. Street 30.4%) was +24bp y/y on wages & benefits, partially offset by holiday pay timing.

Raising estimates for 2024, see +3% comps in 1Q24

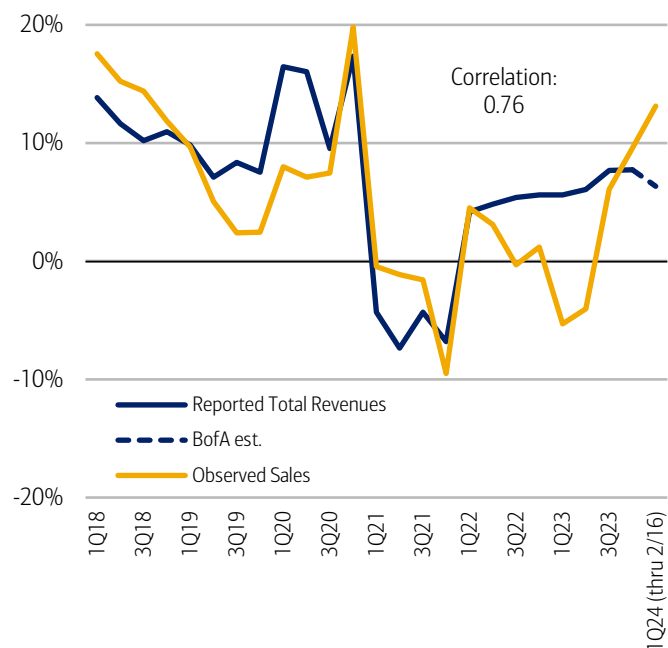
We raise 24E EPS +15c to \$2.90 in line with guide for \$2.85-\$2.95. This reflects our 24E outlook for: +2.4% comps (vs. +1.5-3.5% guide); 35 new stores weighted in 2H; SG&A pressure from wages, strategic investments, supply chain and new store costs; higher y/y gross margins from improving shrink & promo optimization. We see 1Q24 EPS of \$0.99 (vs. \$0.98-\$1.02 guide) & +3% comps (vs. +2.5-3.5% guide). We note Bloomberg Second Measure data thru 2/16 implies 1Q sales are running ahead of our forecast (Exhibit 1).

Charts and Tables

Bloomberg Second Measure credit and debit card data shows SFM observed sales and transaction trends have accelerated into 1Q-to-date (based on data through 2/16).

Exhibit 1: SFM observed sales have accelerated 1Q-to-date vs. our 1Q forecast that implies a deceleration vs. 4Q

Bloomberg Second Measure credit and debit card data – Observed Sales

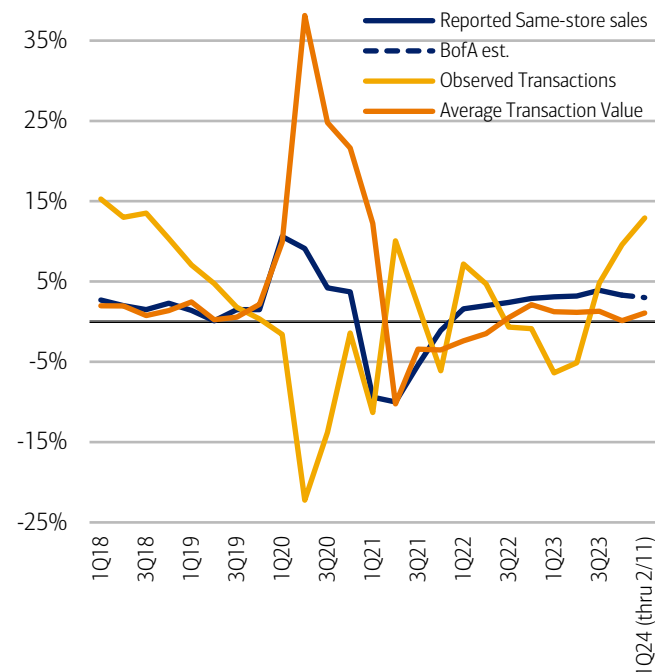


Source: Bloomberg Financial LP – ALTD <GO>, BofA Global Research estimates

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Exhibit 2: The improvement in SFM's Observed Sales was driven by a pickup in Observed Transactions

Bloomberg Second Measure credit and debit card data – Observed Transactions & ATV



Source: Bloomberg Financial LP – ALTD <GO>, BofA Global Research estimates

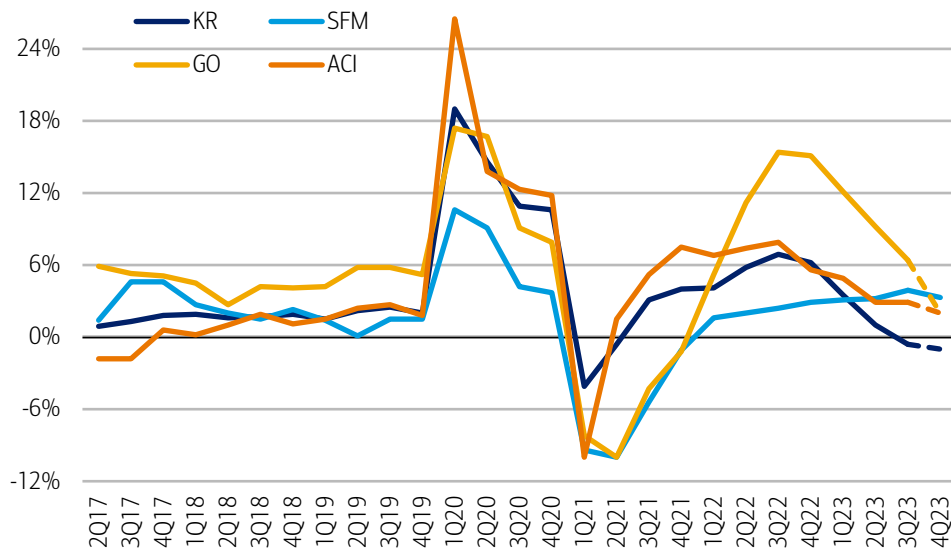
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SFM same-store sales and traffic trends are no longer underperforming Food Retail peers on a y/y basis

Exhibit 3: SFM same-store sales trends are no longer underperforming peers

Food Retailer same-store sales trends

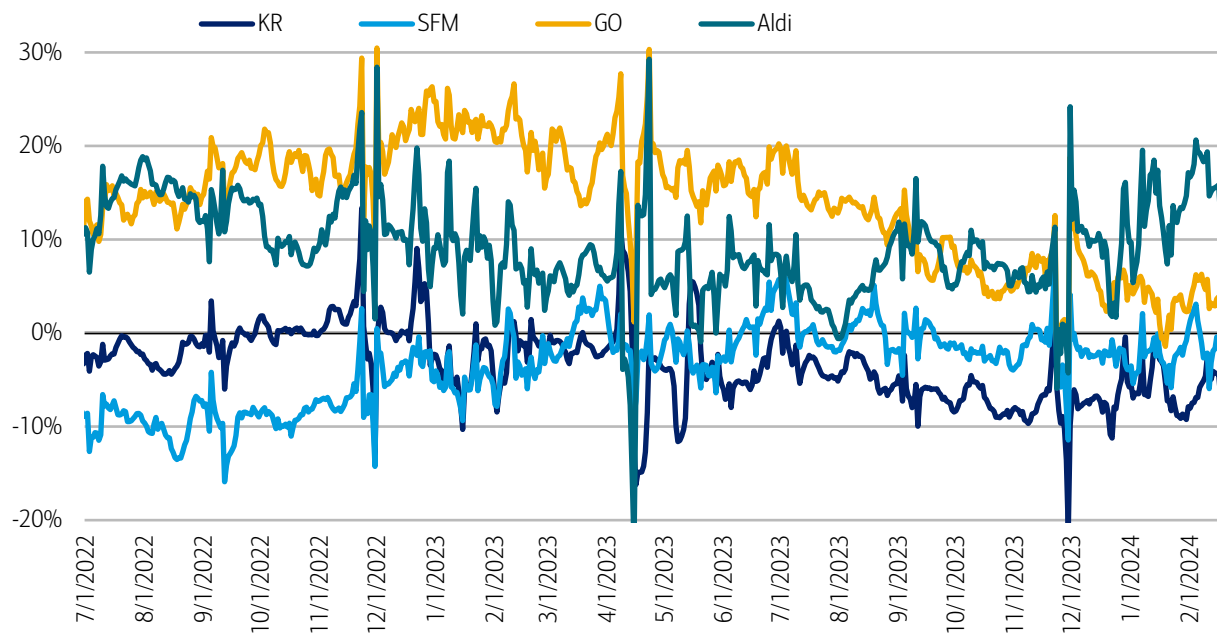


Source: Company filings, BofA Global Research estimates. Note: 4Q23 values are estimates for all companies excl. SFM

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Exhibit 4: Store foot traffic for SFM is outperforming KR, though trends remain strongest for value players GO & Aldi

Placer Foot Traffic, daily data through 2/20/24 (trailing 7-day y/y % change)

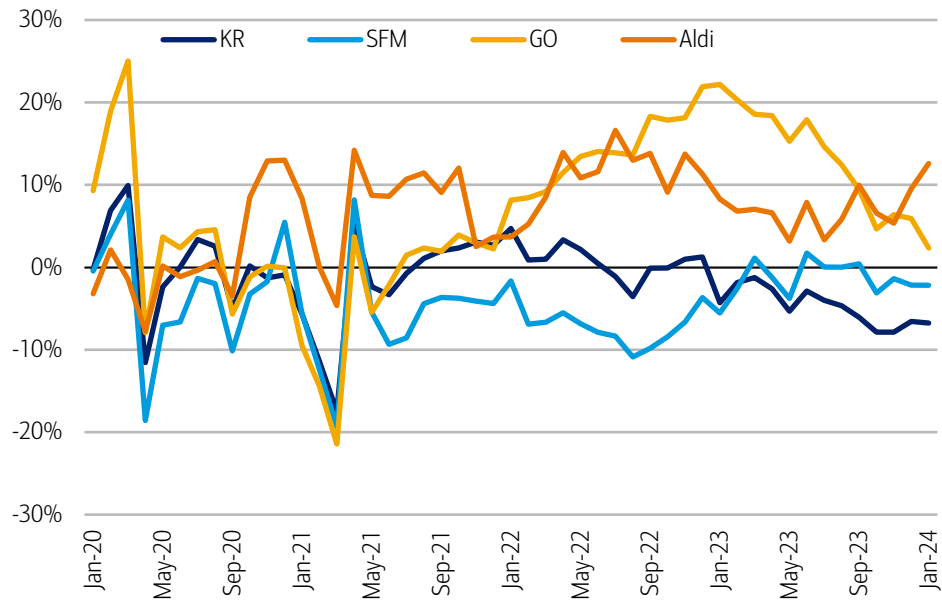


Source: Placer.ai, BofA Global Research

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Exhibit 5: Placer store foot traffic in January was +13% y/y for Aldi, +2% for GO, -2% for SFM & -7% for KR

Placer Store Foot Traffic: Food Retailers

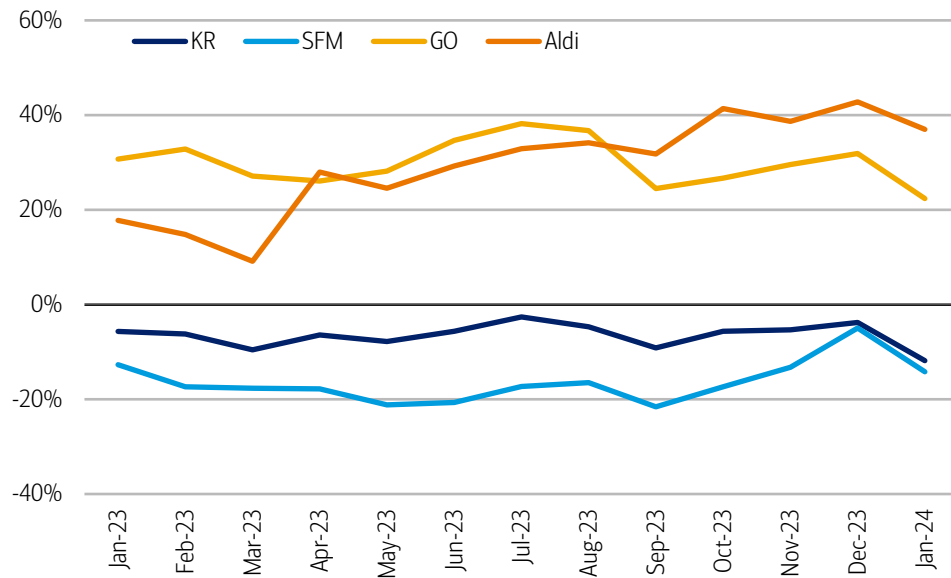


Source: Placer.ai, BofA Global Research

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Exhibit 6: On a 4-year basis, Placer foot traffic for SFM -14% in January, now tracking much closer to conventional grocery peer KR (-12% in Jan.)

Placer foot traffic 4-year trends: KR, SFM, GO & Aldi



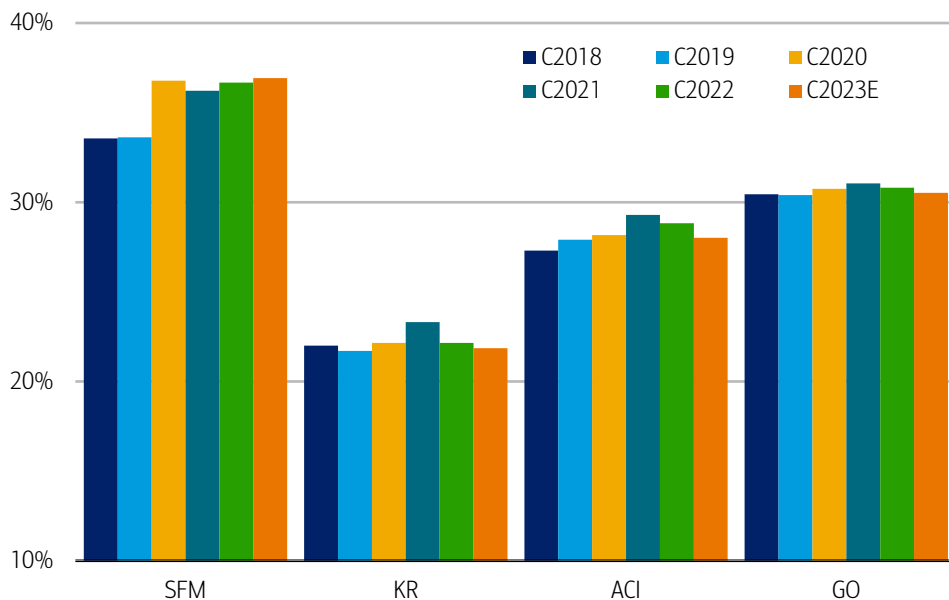
Placer.ai, BofA Global Research

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SFM's higher gross margin profile vs. pre-Covid and vs. peers should be sustainable, in our view, as the company's differentiated and attribute-based assortment appeals to a more profitable customer demographic (following SFM's implementation of a less promotional strategy beginning in 2019 – moving away from less profitable "coupon clipper" customers).

Exhibit 7: SFM has supported sustained higher gross margins since 2019 by rebalancing its pricing/promotional strategy (moving away from less profitable "coupon clipper" customers), with SFM's 2023 full-year gross margin of 36.9% up +330bp vs. 2019

Food Retailer annual gross margin %



Source: Company filings, BofA Global Research estimates. Note: C2023 is an actual reported # for SFM, and a BofA estimate for all other companies (who have not yet reported 4Q results)

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Exhibit 8: SFM quarterly earnings analysis

Post 4Q23 earnings, we raise our 2024E adj. EPS +15c to \$2.90

| | Total Revenues | COGS | Occup. & SG&A | D&A | Store Clos. & Other. | EBIT | Int. Exp. (Inc.) | Other Exp (Inc) | Pre-Tax Inc. | Inc. Tax | Net Inc bef. Extra | Gain (Loss) | Reported Net Inc. | Op. EPS | Reported EPS | Sh O/S MM |
|-------|----------------|-----------|---------------|---------|----------------------|---------|------------------|-----------------|--------------|----------|--------------------|-------------|-------------------|---------|--------------|-----------|
| 1Q22 | \$1,641.2 | \$1,029.4 | \$459.9 | \$31.8 | \$0.4 | \$119.6 | \$3.0 | \$0.0 | \$116.6 | \$28.3 | \$88.3 | \$0.0 | \$88.3 | \$0.79 | \$0.79 | 111.8 |
| 2Q22 | \$1,595.5 | \$1,015.1 | \$462.1 | \$31.2 | \$0.5 | \$86.5 | \$2.7 | \$0.0 | \$83.9 | \$21.9 | \$62.0 | \$0.0 | \$62.0 | \$0.57 | \$0.57 | 109.6 |
| 3Q22 | \$1,591.0 | \$1,007.4 | \$460.8 | \$30.3 | \$2.2 | \$90.3 | \$2.0 | \$0.0 | \$88.4 | \$22.6 | \$65.7 | \$0.0 | \$65.7 | \$0.61 | \$0.61 | 108.1 |
| 4Q22 | \$1,576.6 | \$1,003.7 | \$472.8 | \$30.2 | \$8.0 | \$61.9 | \$1.4 | \$0.0 | \$60.5 | \$15.4 | \$45.1 | \$0.0 | \$45.1 | \$0.42 | \$0.42 | 106.8 |
| 2022 | \$6,404.2 | \$4,055.7 | \$1,855.6 | \$123.5 | \$11.0 | \$358.4 | \$9.0 | \$0.0 | \$349.3 | \$88.1 | \$261.2 | \$0.0 | \$261.2 | \$2.39 | \$2.39 | 109.1 |
| 1Q23 | \$1,733.3 | \$1,083.2 | \$482.9 | \$29.9 | \$0.3 | \$137.0 | \$2.2 | \$0.0 | \$134.8 | \$32.1 | \$102.7 | (\$26.5) | \$76.2 | \$0.98 | \$0.73 | 104.9 |
| 2Q23 | \$1,692.2 | \$1,064.6 | \$493.6 | \$32.0 | \$2.4 | \$99.7 | \$2.1 | \$0.0 | \$97.5 | \$24.2 | \$73.3 | (\$6.0) | \$67.3 | \$0.71 | \$0.65 | 103.5 |
| 3Q23 | \$1,713.3 | \$1,086.5 | \$501.7 | \$31.8 | \$3.2 | \$90.0 | \$1.7 | \$0.0 | \$88.3 | \$21.3 | \$67.1 | (\$1.8) | \$65.3 | \$0.65 | \$0.64 | 102.7 |
| 4Q23 | \$1,698.5 | \$1,078.2 | \$513.5 | \$32.1 | \$5.4 | \$69.4 | \$0.4 | \$0.0 | \$69.0 | \$19.0 | \$50.0 | \$0.0 | \$50.0 | \$0.49 | \$0.49 | 102.2 |
| 2023 | \$6,837.4 | \$4,312.6 | \$1,991.6 | \$125.7 | \$11.3 | \$396.2 | \$6.5 | \$0.0 | \$389.7 | \$96.6 | \$293.1 | (\$34.3) | \$258.9 | \$2.84 | \$2.50 | 103.4 |
| 1Q24E | \$1,843.3 | \$1,148.0 | \$525.9 | \$33.1 | (\$0.7) | \$137.1 | \$2.2 | \$0.0 | \$134.8 | \$35.1 | \$99.8 | \$0.0 | \$99.8 | \$0.99 | \$0.99 | 101.2 |
| 2Q24E | \$1,803.5 | \$1,132.6 | \$537.1 | \$35.2 | \$1.4 | \$97.2 | \$2.1 | \$0.0 | \$95.1 | \$24.7 | \$70.4 | \$0.0 | \$70.4 | \$0.70 | \$0.70 | 100.7 |
| 3Q24E | \$1,830.7 | \$1,157.0 | \$542.9 | \$35.0 | \$2.2 | \$93.7 | \$1.7 | \$0.0 | \$92.0 | \$23.9 | \$68.1 | \$0.0 | \$68.1 | \$0.68 | \$0.68 | 100.2 |
| 4Q24E | \$1,824.5 | \$1,154.4 | \$557.6 | \$35.3 | \$4.4 | \$72.8 | \$0.4 | \$0.0 | \$72.4 | \$18.8 | \$53.6 | \$0.0 | \$53.6 | \$0.53 | \$0.53 | 100.2 |
| 2024E | \$7,302.0 | \$4,592.0 | \$2,163.5 | \$138.5 | \$7.3 | \$400.8 | \$6.5 | \$0.0 | \$394.3 | \$102.5 | \$291.8 | \$0.0 | \$291.8 | \$2.90 | \$2.90 | 100.6 |
| 2025E | \$7,914.3 | \$4,978.1 | \$2,353.8 | \$148.5 | \$7.3 | \$426.6 | \$6.5 | \$0.0 | \$420.1 | \$109.2 | \$310.9 | \$0.0 | \$310.9 | \$3.15 | \$3.15 | 98.6 |

PERCENTAGE CHANGE

| | Same-store sales | Total Revenues | SG&A Exp | D&A | EBIT | Net Inc. Bef Extra | EPS |
|-------|------------------|----------------|----------|--------|--------|--------------------|--------|
| 1Q22 | 1.6% | 4.2% | 4.6% | 1.9% | 5.7% | 6.3% | 12.8% |
| 2Q22 | 2.0% | 4.8% | 5.9% | 2.7% | 3.4% | 1.6% | 9.2% |
| 3Q22 | 2.4% | 5.4% | 8.8% | (0.2%) | 5.3% | 2.9% | 9.3% |
| 4Q22 | 2.9% | 5.6% | 5.4% | (0.2%) | 20.4% | 24.5% | 31.5% |
| 2022 | 2.2% | 5.0% | 6.1% | 1.0% | 7.3% | 7.0% | 13.7% |
| 1Q23 | 3.1% | 5.6% | 5.0% | (6.1%) | 14.5% | 16.3% | 24.0% |
| 2Q23 | 3.2% | 6.1% | 6.8% | 2.3% | 15.2% | 18.2% | 25.2% |
| 3Q23 | 3.9% | 7.7% | 8.9% | 4.9% | (0.3%) | 2.1% | 7.4% |
| 4Q23 | 3.3% | 7.7% | 8.6% | 6.3% | 12.2% | 10.9% | 15.9% |
| 2023 | 3.4% | 6.8% | 7.3% | 1.8% | 10.6% | 12.2% | 18.4% |
| 1Q24E | 3.0% | 6.3% | 8.9% | 10.7% | 0.0% | (2.8%) | 0.7% |
| 2Q24E | 2.8% | 6.6% | 8.8% | 10.0% | (2.5%) | (4.0%) | (1.4%) |
| 3Q24E | 2.0% | 6.9% | 8.2% | 10.1% | 4.0% | 1.5% | 4.0% |
| 4Q24E | 2.0% | 7.4% | 8.6% | 10.0% | 4.9% | 7.1% | 9.2% |
| 2024E | 2.4% | 6.8% | 8.6% | 10.2% | 1.2% | (0.5%) | 2.3% |
| 2025E | 2.5% | 8.4% | 8.8% | 7.2% | 6.4% | 6.5% | 8.7% |

MARGIN ANALYSIS (% OF NET SALES)

| | GM% | SG&A Exp | D&A | EBIT Margin | Tax Rate | Net Inc. | Total Stores |
|-------|-------|----------|------|-------------|----------|----------|--------------|
| 1Q22 | 37.3% | 28.0% | 1.9% | 7.3% | 24.3% | 5.4% | 379 |
| 2Q22 | 36.4% | 29.0% | 2.0% | 5.4% | 26.1% | 3.9% | 378 |
| 3Q22 | 36.7% | 29.0% | 1.9% | 5.7% | 25.6% | 4.1% | 379 |
| 4Q22 | 36.3% | 30.0% | 1.9% | 3.9% | 25.4% | 2.9% | 386 |
| 2022 | 36.7% | 29.0% | 1.9% | 5.6% | 25.2% | 4.1% | 386 |
| 1Q23 | 37.5% | 27.9% | 1.7% | 7.9% | 23.8% | 4.4% | 395 |
| 2Q23 | 37.1% | 29.2% | 1.9% | 5.9% | 24.8% | 4.0% | 391 |
| 3Q23 | 36.6% | 29.3% | 1.9% | 5.3% | 24.1% | 3.8% | 401 |
| 4Q23 | 36.5% | 30.2% | 1.9% | 4.1% | 27.5% | 2.9% | 407 |
| 2023 | 36.9% | 29.1% | 1.8% | 5.8% | 24.8% | 3.8% | 407 |
| 1Q24E | 37.7% | 28.5% | 1.8% | 7.4% | 26.0% | 5.4% | 413 |
| 2Q24E | 37.2% | 29.8% | 1.9% | 5.4% | 26.0% | 3.9% | 418 |
| 3Q24E | 36.8% | 29.7% | 1.9% | 5.1% | 26.0% | 3.7% | 432 |
| 4Q24E | 36.7% | 30.6% | 1.9% | 4.0% | 26.0% | 2.9% | 442 |
| 2024E | 37.1% | 29.6% | 1.9% | 5.5% | 26.0% | 4.0% | 442 |
| 2025E | 37.1% | 29.7% | 1.9% | 5.4% | 26.0% | 3.9% | 482 |

Source: Company filings, BofA Global Research estimates



Price objective basis & risk

Sprouts Farmers Market, Inc. (SFM)

Our \$70 price objective is based on 22x our 2025E EPS of \$3.15 as we see multiple expansion from SFM's highly differentiated and evolving assortment of attribute-based (organic, grass-fed, vegan, keto) products that should continue to drive improved customer traffic and support a sustained reacceleration in annual store growth to 8-10% (vs. 3-5% the last 3 years). We also see potential for traffic and unit sales to strengthen beyond 2024 on support from new private label, loyalty and personalization initiatives as well as scale benefits as SFM is now operating over 400 stores in the US.

Downside risks to our PO are: 1) worse than expected same-store sales, 2) a less favorable inflationary environment, 3) worse than expected margins, 4) slower/delayed new store growth, and 5) weaker comp maturation curve for new stores.

Analyst Certification

I, Robert F. Ohmes, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Broadlines, Hardlines, Food Retailers & Leisure Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|------------------------------|-------------|------------------|----------------------|
| BUY | | | | |
| | Academy Sports + Outdoors | ASO | ASO US | Robert F. Ohmes, CFA |
| | BJ's Wholesale Club Holdings | BJ | BJ US | Robert F. Ohmes, CFA |
| | Costco Wholesale Corporation | COST | COST US | Robert F. Ohmes, CFA |
| | Grocery Outlet Holding Corp. | GO | GO US | Robert F. Ohmes, CFA |
| | Harley-Davidson | HOG | HOG US | Alexander Perry |
| | Life Time | LTH | LTH US | Alexander Perry |
| | Planet Fitness, Inc. | PLNT | PLNT US | Alexander Perry |
| | Sprouts Farmers Market, Inc. | SFM | SFM US | Robert F. Ohmes, CFA |
| | Sysco Corporation | SY | SY US | Kendall Toscano |
| | Target Corp. | TGT | TGT US | Robert F. Ohmes, CFA |
| | The Kroger Co. | KR | KR US | Robert F. Ohmes, CFA |
| | Topgolf Callaway Brands Corp | MODG | MODG US | Alexander Perry |
| | Walmart Inc | WMT | WMT US | Robert F. Ohmes, CFA |
| NEUTRAL | | | | |
| | Dick's Sporting Goods | DKS | DKS US | Robert F. Ohmes, CFA |
| | Fox Factory Holding Corp | FOX | FOX US | Alexander Perry |
| | Xponential Fitness | XPO | XPO US | Alexander Perry |
| | YETI Holdings, Inc. | YETI | YETI US | Robert F. Ohmes, CFA |
| UNDERPERFORM | | | | |
| | Canada Goose Holdings Inc | YGOOS | GOOS CN | Alexander Perry |
| | Canada Goose Holdings Inc | GOOS | GOOS US | Alexander Perry |
| | Columbia Sportswear | COLM | COLM US | Alexander Perry |
| | Dollar General Corporation | DG | DG US | Robert F. Ohmes, CFA |
| | Dollar Tree, Inc. | DLTR | DLTR US | Robert F. Ohmes, CFA |
| | Hibbett Sports, Inc. | HIBB | HIBB US | Alexander Perry |
| | National Vision | EYE | EYE US | Robert F. Ohmes, CFA |

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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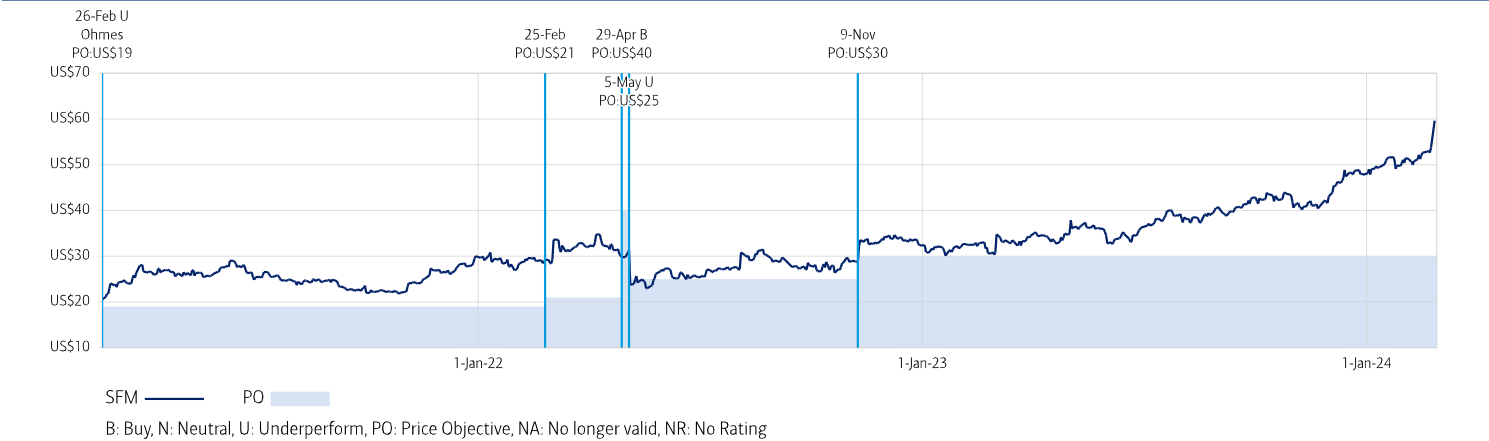
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Sprouts Farmers Mkt (SFM) Price Chart



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Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 96 | 57.83% | Buy | 39 | 40.63% |
| Hold | 32 | 19.28% | Hold | 12 | 37.50% |
| Sell | 38 | 22.89% | Sell | 18 | 47.37% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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