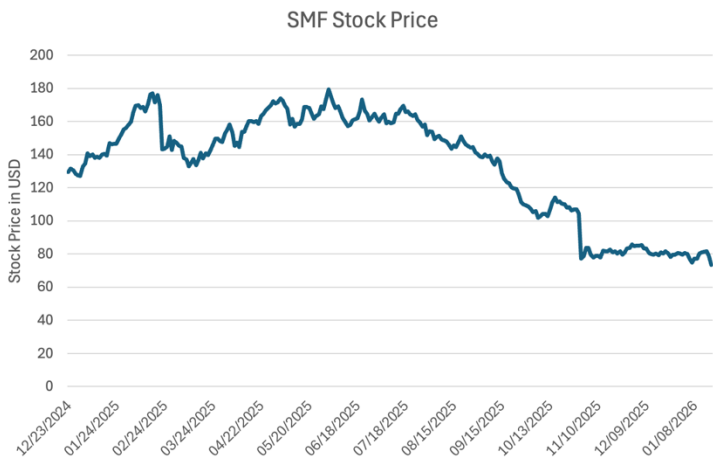


Sprouts Farmers Market



Investment View: Strong Buy | Purchased at Price: \$80.3 | 12-Mo Target Price : \$126 | Upside: 56.9% | Risk Rating: Medium



Market Cap: 7,906 B	Revenue 2024: 7,719
LTM EPS: 5.22	Revenue LTM: 8,653
P/E: 15.38	NI 2024: 380
EV/EBIDTA LTM: 7.79x	NI LTM: 513
EV/EBIT LTM: 11.18x	All in millions USD
Beta: 0.68	

Overview

Q2 Results

The company delivered a **strong third quarter**, with **net sales increasing 13% year over year to \$2.2 billion**, supported by **comparable store sales growth of 5.9%**. Profitability improved meaningfully, as **diluted EPS rose to \$1.22 from \$0.91** in the prior-year period, reflecting operating leverage on higher sales. Store expansion continued during the quarter, with the company opening **nine new locations**, bringing the total store base to **464 stores across 24 states** as of September 28, 2025. From a balance sheet and liquidity perspective, the company entered into a new **\$600 million revolving credit facility** with terms largely consistent with its prior agreement. It ended the quarter with **\$322 million in cash and cash equivalents** and **no outstanding borrowings** under the revolver. Capital allocation remained shareholder-friendly, with authorization of a **new \$1 billion share repurchase program** and **\$50 million deployed toward share repurchases** during the quarter. Year-to-date, the company generated **\$577 million in operating cash flow** and invested **\$194 million in capital expenditures**, net of landlord reimbursements.

FY Guidance

For full-year fiscal 2025, the company expects **net sales growth of approximately 14%**, supported by **comparable store sales growth of roughly 7%** and continued unit expansion. Management guided **EBIT to a range of \$675–\$680 million**, reflecting sustained operating leverage on higher sales volumes. **Diluted earnings per share are projected at \$5.24–\$5.28**, indicating solid year-over-year earnings growth. The company plans to open **approximately 37 net new stores** during the year, reinforcing its expansion strategy. Capital investment remains elevated, with **capital expenditures (net of landlord reimbursements) expected to range from \$230–\$250 million**, supporting new store openings and ongoing infrastructure investments.

Investment Thesis

Sprouts Farmers Market appears materially undervalued following a sharp share price decline in 2025, driven by a temporary earnings miss and cautious guidance. Despite near-term pressure, the company remains well positioned to capture market share through continued store expansion and sustained demand for healthy and organic food. Its differentiated farmers-market format and ability to offer premium products at competitive prices support a resilient long-term growth profile. Under conservative valuation assumptions of 5% revenue growth and normalized capital spending, the analysis implies a target price of approximately **\$126**, suggesting meaningful upside from current levels.

Company Summary

Sprouts Farmers Market is a health-focused grocery retailer founded in 2002 in Arizona. Since its founding, the company has expanded to more than **464 stores across over 24 states**.

Sprouts designs its stores to resemble a traditional farmers market while maintaining operational efficiency for customers. The company focuses on offering healthy food options, with an emphasis on organic products, items with minimal chemical processing, and specialty offerings such as gluten-free and plant-based products. Sprouts generally does not sell many traditional grocery items commonly associated with less healthy consumption, such as conventional sodas. The company’s founding objective was to create a grocery store where customers could purchase healthy food without needing to be highly affluent.

Sprouts targets health enthusiasts and selective shoppers who prioritize better-for-you, organic, and high-quality food and who value how food fits into a healthy lifestyle. This customer base spans a wide range of ages and income levels. The company sees significant growth opportunities by expanding share of wallet through differentiated products and a strong in-store experience.

Store Format & Merchandising Strategy

Sprouts’ stores follow a “flipped” conventional grocery retail model, positioning fresh produce at the center of the store and surrounding it with a complete grocery assortment. Approximately **20% of selling square footage** is dedicated to produce, an increase from 15% in 2018 and a level that Sprouts states is significantly higher than many peers.

Stores are designed with open layouts and low displays to create an easy-to-shop environment that allows customers to view most of the store from a single vantage point, reinforcing the farmers market atmosphere. As of 2024, Sprouts’ stores averaged approximately **28,000 square feet**, while newer store formats introduced from 2021 onward are smaller, ranging from **21,000 to 25,000 square feet**. These newer store prototypes are less expensive to build and generally operate at lower costs.

Figure 2: Sprouts store design, 2024 fiscal year 10K



Product Mix

For fiscal year 2024, **57.3%** of Sprouts’ product mix consisted of perishable items, including produce, meat, seafood, deli, bakery, floral, dairy, and dairy alternatives. The remaining **42.7%** of products were non-perishable items, including grocery, vitamins, bulk items, frozen foods, beer and wine, and natural and body care products.

Supply Chain & Distribution

The company operates **six produce distribution centers**, with two located in California and one each in Arizona, Texas, Colorado, and Florida. Approximately **80% of Sprouts’ stores are located within 250 miles of a distribution center**, supporting supply chain efficiency, product freshness, and service levels.

Sprouts' long-term growth strategy focuses on driving profitable and sustainable growth by deepening engagement with its core health-conscious and selective shopper customer base. This strategy is supported by a differentiated assortment of fresh and better-for-you products and a full omnichannel offering.

Growth is expected to be driven by disciplined market expansion, with an emphasis on smaller, higher-return store formats and geographic expansion aligned with supply chain capabilities. The company targets approximately **10% annual unit growth** over the long term. Additional growth initiatives include strengthening supply chain infrastructure, enhancing customer engagement and personalization through increased use of data analytics and digital tools, and continued investment in technology to improve inventory management, decision-making, and scalability.

Management also emphasizes financial discipline and margin expansion, supported by talent development initiatives and ongoing measurement against key long-term financial and operational metrics.

Industry Overview

The organic food market has expanded steadily over the past decade. According to the Organic Trade Association (OTA), sales of organic food products totaled **\$38.6 billion in 2012** and increased to **\$65.4 billion in 2024**. Fresh fruits and vegetables represent the largest category within organically grown foods, with produce accounting for approximately **33% of total organic food sales in 2024**.

Consumer awareness of organic products has increased in recent years, particularly among younger generations. As of 2024, more than **30% of Gen Z and millennial consumers in the United States** reported that they primarily purchase organic food or prefer to do so.

The Organic Trade Association (OTA) expects this market to grow at a CAR of 5.9% through between now and 2029.

US-Macro

- Macroeconomic conditions continued to pressure discretionary consumer spending toward the end of 2025, though the impact remains uneven across income groups. The University of Michigan Consumer Sentiment Index stood at **52.9 in December 2025**, slightly above November levels but still well below pre-pandemic norms, signaling ongoing consumer caution. Lower- and middle-income households remain most affected, while higher-income consumers—lululemon's core demographic—have shown greater resilience.
- Labor market conditions softened further by year-end. U.S. unemployment reached approximately **4.2% in December 2025**, up from **3.7% in early 2024**, while long-term unemployment remained elevated at roughly **1.9 million individuals**. Although the labor market remains relatively stable, this trend suggests slower discretionary spending growth into 2026.
- Inflation trends improved modestly into year-end. According to the U.S. Bureau of Labor Statistics, **core CPI for December 2025 was 2.7%**. For food the Cpi was of 3.1% for Decemeber.

- **Whole Foods Market** - is a **premium natural and organic grocery retailer** focused on high-quality fresh, prepared, and private-label products. Owned by Amazon, the chain operates **~520 stores**, primarily in the **United States**, with a smaller presence in **Canada and the U.K.** The brand targets higher-income, health-conscious consumers and benefits from Amazon's scale, logistics, and digital ecosystem.
- **Trader Joe's** - is a **value-oriented specialty grocery retailer** known for a curated, predominantly private-label assortment offered at accessible price points. The company operates **~560 stores**, almost entirely in the **United States**, with a limited presence in select international markets. Stores are typically located in **urban and suburban, high-traffic areas**, and the chain generates industry-leading sales per square foot.
- **Natural Grocers** - is a specialty natural and organic grocery chain catering to health-focused consumers, with a strong emphasis on organic produce, dietary supplements, and nutrition education. The company operates approximately **165 stores across roughly 20 U.S. states**, primarily in the Western and Central United States. Its store footprint and product assortment overlap meaningfully with Sprouts, though with a greater emphasis on supplements.
- **The Fresh Market** - is a specialty grocer targeting more affluent, food-focused consumers, offering premium fresh foods, prepared meals, and specialty grocery items. The chain operates approximately **160 stores across the United States**, primarily in suburban markets in the Southeast, Midwest, and East Coast. Stores are smaller format and emphasize a curated, high-touch shopping experience.

Financial Statements

Figure 3 – Sprouts Farmers Market Year Income Statement

Sprouts Farmers Market, Inc.	DEC '10	DEC '11	DEC '12	DEC '13	DEC '14	DEC '15	DEC '16	DEC '17	DEC '18	DEC '19	DEC '20	DEC '21	DEC '22	DEC '23	DEC '24:EP '25 LTM	
	Restate															
Sales	\$517	1,106	1,795	2,438	2,967	3,593	4,046	4,665	5,207	5,635	6,469	6,100	6,404	6,837	7,719	8,654
YoY % Growth		114.0%	62.3%	35.8%	21.7%	21.1%	12.6%	15.3%	11.6%	8.2%	14.8%	-5.7%	5.0%	6.8%	12.9%	12.1%
COGS excluding D&A	\$354	772	1,229	1,664	2,082	2,541	2,864	3,098	3,460	3,740	4,089	3,891	4,056	4,316	4,778	5,144
Gross Profit	\$163	333	566	774	885	1,052	1,182	1,567	1,747	1,895	2,379	2,209	2,349	2,522	2,941	3,510
Gross Margin	31.6%	30.2%	31.6%	31.7%	29.8%	29.3%	29.2%	33.6%	33.6%	33.6%	36.8%	36.2%	36.7%	36.9%	38.1%	40.6%
Depreciation & Amortization Expense	\$14	55	36	49	62	69	81	94	108	120	124	122	124	132	133	295
Depreciation	\$10	22	35	47	61	68										
Amortization of Intangibles	\$4	33	1	1	1	1		1	1	0	0	-	-			
Gross Income	\$149	279	530	725	823	982	1,101	1,473	1,639	1,774	2,255	2,087	2,225	2,396	2,809	3,215
Gross Income margin	28.8%	25.2%	29.5%	29.7%	27.7%	27.3%	27.2%	31.6%	31.5%	31.5%	34.9%	34.2%	34.7%	35.0%	36.4%	37.1%
SG&A Expense	\$138	297	455	578	620	752	888	1,246	1,404	1,550	1,864	1,748	1,856	2,000	2,291	2,537
Other SG&A	\$138	297	455	578	620	752	888	1,246	1,404	1,550	1,864	1,748	1,856	2,000	2,291	2,537
EBITDA	\$25	37	112	196	265	298	294	320	331	338	516	456	482	482	637	973
EBITDA Margin	4.9%	3%	6%	8%	9%	8%	7%	7%	6%	6%	8%	7%	8%	7%	8%	11%
EBIT (Operating Income)	\$11	(18)	76	147	203	229	213	226	223	217	392	334	358	350	504	678
EBIT Margin	2.2%	-1.6%	4.2%	6.0%	6.8%	6.4%	5.3%	4.8%	4.3%	3.9%	6.1%	5.5%	5.6%	5.1%	6.5%	7.8%
Nonoperating Income - Net	(\$2)	(1)	(2)	0	1	0	0	1	1	(0)	4	6	2	-	8	7
Other Income (Expense)	(\$2)	(1)	(2)	0	1	0	0	1	1	(0)	4	6	2	-	8	7
Interest Expense	\$1	20	35	37	25	18	15	21	28	21	19	17	11	6	6	3
Gross Interest Expense	\$1	20	35	37	25	18	15	21	28	21	19	17	11	6	6	3
Unusual Expense - Net	\$0	6	3	26	4	7	0	1	12	7	(0)	5	11	45	13	9
Restructuring Expense	\$0	6	2	2	1	2	0	1	12	7	(0)	5	11	39	13	9
Legal Claim Expense				1												
Excpt Chrgs - Others	\$0	-	1	24	4	5	-							6		
Restructuring of Debt	\$0	-	1	19	1	5	-									
Accelerated Depreciation														6		
Other Unusual Expense				5	3											
Pretax Income	\$8	(45)	35	84	174	206	199	206	196	196	377	322	349	344	507	673
Income Taxes	\$3	(18)	15	33	66	77	74	47	37	47	89	78	88	85	126	160
Income Taxes - Current Domestic	\$1	2	1	19	58	61	54	39	15	45	84	80	86	90	115	
Income Taxes - Deferred Domestic	\$2	(20)	14	14	8	16	21	8	23	2	5	(2)	2	(5)	11	
Consolidated Net Income	\$5	(27)	20	51	108	129	124	158	159	150	287	244	261	259	381	513
Net Income	\$5	(27)	20	51	108	129	124	158	159	150	287	244	261	259	381	513
Net Income available to Common	\$5	(27)	20	51	108	129	124	158	159	150	287	244	261	259	381	513
Net Income margin	0.9%	-2.5%	1.1%	2.1%	3.6%	3.6%	3.1%	3.4%	3.0%	2.7%	4.4%	4.0%	4.1%	3.8%	4.9%	5.9%
Per Share																
EPS (recurring)	\$0	(0)	0	0	1	1	1	1	1	1	2	2	2	3	4	5
EPS (basic)	\$0	(0)	0	0	1	1	1	1	1	1	2	2	2	3	4	5
Basic Shares Outstanding	\$146	146	146	135	150	153	147	135	129	119	118	115	108	102	100	98

Figure 4 – Quarters Income Statement

Sprouts Farmers Market, Inc.										
	DEC '22 FY	DEC '23 FY	MAR '24 Q1	JUN '24 Q2	SEP '24 Q3	DEC '24 Q4	DEC '24 FY	MAR '25 Q1	JUN '25 Q2	SEP '25 Q3
Sales	\$6,404	6,837.4	1,883.8	1,893.5	1,945.7	1,996.2	7,719.3	2,236.4	2,220.6	2,200.4
QoQ Growth			4%	6.70%	8.40%			18.7%	17.3%	13.1%
COGS	\$3,935	4,182.4	1,126.9	1,140.2	1,169.3	1,200.0	4,636.5	1,313.7	1,320.3	1,310.2
Gross Profit	\$2,469	4,182.4	1,126.9	1,140.2	1,169.3	1,200.0	4,636.5	1,313.7	1,320.3	1,310.2
Gross Profit Margin	39%	61.2%	59.8%	60.2%	60.1%	60.1%	60.1%	58.7%	59.5%	59.5%
QoQ Growth								16.6%	15.8%	12.0%
Depreciation & Amortization Expense	\$244	259.1	66.8	66.4	69.9	70.9	274.1	71.5	74.3	78.0
Depreciation	\$244	259.1	66.8	66.4	69.9	70.9	274.1	71.5		
Gross Income	\$2,225	2,395.8	690.1	686.9	706.5	725.3	2,808.7	851.3	826.0	812.2
QoQ Growth								23.4%	20.3%	15.0%
Margin (%)	35%	35%	37%	36%	36%	36%	36%	38%	37%	37%
SG&A Expense	\$1,856	2,000.4	539.8	556.4	580.3	614.9	2,291.4	623.2	645.1	653.3
Other SG&A	\$1,856	2,000.4	539.8	556.4	580.3	614.9	2,291.4	623.2	645.1	653.3
EBITDA	\$614	654.5	217.1	196.9	196.1	181.3	791.5	299.5	255.2	236.9
EBITDA Margin	10%	10%	12%	10%	10%	9%	10%	13%	11%	11%
EBIT (Operating Income)	\$369	395.4	150.3	130.5	126.2	110.4	517.4	228.0	180.9	158.9
QoQ Growth								51.7%	38.6%	25.9%
Margin (%)	5.8%	5.8%	8.0%	6.9%	6.5%	5.5%	6.7%	10.2%	8.1%	7.2%
Nonoperating Income - Net	\$2	-	-	2.2	1.6	2.4	8.0	1.5	1.0	1.6
Other Income (Expense)	\$2	-	-	2.2	1.6	2.4	8.0	1.5	1.0	1.6
Interest Expense	\$11	6.5	0.8	2.0	0.6	0.6	5.8	0.6	0.6	0.9
Gross Interest Expense	\$11	6.5	0.8	2.0	0.6	0.6	5.8	0.6	0.6	0.9
Unusual Expense - Net	\$11	45.2	2.0	3.2	3.7	3.9	12.9	1.7	1.5	1.5
Restructuring Expense	\$11	39.3	2.0	3.2	3.7	3.9	12.9	1.7	1.5	1.5
Excp'l Chrgs - Others		5.9								
Accelerated Depreciation		5.9								
Pretax Income	\$349	343.7	147.4	127.5	123.5	108.3	506.7	227.3	179.8	158.1
QoQ Growth								54.1%	41.1%	28.0%
Margin (%)	5%	5%	8%	7%	6%	5%	7%	10%	8%	7%
Income Taxes	\$88	84.9	33.3	32.2	31.9	28.7	126.1	47.2	46.1	38.0
Income Taxes - Current Domestic	\$86	89.8					115.4			
Income Taxes - Deferred Domestic	\$2	(4.9)					10.7			
Consolidated Net Income	\$261	258.9	114.1	95.3	91.6	79.6	380.6	180.0	133.7	120.1
QoQ Growth								57.8%	40.3%	31.1%
Margin (%)	4%	4%	6%	5%	5%	4%	5%	8%	6%	5%
Net Income	\$261	258.9	114.1	95.3	91.6	79.6	380.6	180.0	133.7	120.1
QoQ Growth								57.8%	40.3%	31.1%
Margin (%)	4.1%	3.8%	6.1%	5.0%	4.7%	4.0%	4.9%	8.0%	6.0%	5.5%
Net Income available to Common	\$261	258.9	114.1	95.3	91.6	79.6	380.6	180.0	133.7	120.1
Per Share										
EPS (recurring)	\$2	2.8	1.1	1.0	0.9	0.8	3.8	1.8	1.4	1.2
EPS (basic)	\$2	2.5	1.1	0.9	0.9	0.8	3.8	1.8	1.4	1.2
Basic Shares Outstanding	\$108	102.5	101.1	100.5	100.1	99.8	100.4	98.5	97.9	97.7
Total Shares Outstanding	\$105	101.2	100.8	100.2	100.0	99.3	99.3	98.2	97.8	97.5
EPS (diluted)	\$2	2.5	1.1	0.9	0.9	0.8	3.8	1.8	1.4	1.2
Diluted Shares Outstanding	\$109	103.4	102.0	101.2	101.0	101.0	101.4	99.7	98.8	98.7
Total Shares Outstanding	\$105	101.2	100.8	100.2	100.0	99.3	99.3	98.2	97.8	97.5
Earnings Persistence	\$93	86.7	88.9	86.8	90.8	91.3	91.3	91.4	91.6	87.8

All figures in millions of U.S. Dollar except per share items.

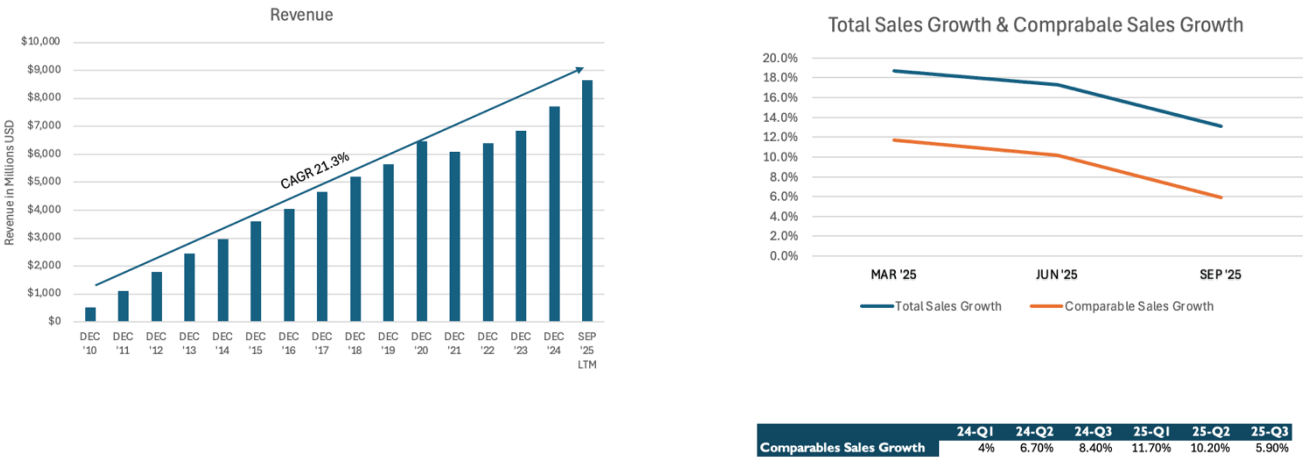
Figure 5- Balance Sheet

Sprouts Farmers Market, Inc.														
	DEC '11	DEC '12	DEC '13	DEC '14	DEC '15	DEC '16	DEC '17 Restate	DEC '18	DEC '19	DEC '20	DEC '21	DEC '22	DEC '23	DEC '24
Assets														
Cash & Short-Term Investments	\$15	67	78	131	136	12	19	2	87	171	245	293	204	267
Cash Only	\$15	67	78	131	136	12	19	2	87	171	245	293	204	267
Short-Term Receivables	\$7	10	10	20	26	27	26	41	16	15	16	22	30	31
Accounts Receivables, Net	\$4	8	5	8	20	25	26	41	16	15	16	22	30	31
	\$3	1	4	12										
Inventories	\$64	98	118	143	165	204	230	264	276	254	265	311	323	343
Finished Goods	\$64	98	118	143	165	204	230	264	276	254	265	311		
Prepaid Expenses & Other Current Assets	\$18	27	26	41	23	22	25	27	11	27	35	54	36	48
	\$1	2	6	5			24	25	9	16				
	\$17	25	20	36			0	2	1	1				
Total Current Assets	\$103	203	232	334	345	264	300	334	388	466	568	674	604	676
Property, Plant & Equipment	\$221	303	349	455	494	605	713	766	1,770	1,772	1,788	1,829	2,122	2,362
PPE excluding operating leases									742	727	716	722	799	895
Intangible Assets	\$390	565	564	562	567	566	564	563	553	554	554	554	590	590
Other Assets	\$4	10	13	18	19	6	5	12	12	15	14	14	12	13
Total Assets	\$762	1,103	1,172	1,369	1,426	1,440	1,582	1,676	2,723	2,806	2,923	3,070	3,327	3,641
Liabilities & Shareholders' Equity														
Current														
ST Debt & Curr. Portion LT Debt	\$3	5	9	37	15	12	9	7	107	137	153	137	127	152
Accounts Payable	\$54	83	111	113	134	158	119	120	123	139	146	173	180	213
Income Tax Payable			6	6	7	9				-				
Other Current Liabilities	\$34	49	50	65	74	80	171	182	187	220	215	213	240	315
Total Current Liabilities	\$91	137	176	221	230	259	300	310	417	496	513	522	547	680
Long-Term														
Long-Term Debt	\$367	529	422	370	276	372	473	573	1,628	1,330	1,356	1,404	1,533	1,528
Long-Term Debt excl Lease Obligations	\$294	425	305	249	160	255	348	453	549	260	260	259	134	7
Capital and Operating Lease Obligations	\$73	104	116	122	116	117	125	120	1,079	1,079	1,096	1,145	1,400	1,520
Provision for Risks & Charges	\$10	16	-	4	20	27	-	-						
Other Liabilities	\$27	35	61	70	78	89	131	153	96	99	94	97	99	111
Other Liabilities (excl. Deferred Income)	\$27	35	51	56	78	89	131	153	42	41	36	36	36	38
Deferred Income	\$0	-	11	14	-	19	27	50	54	58	58	61	62	73
Total Long-Term Liabilities	\$404	580	483	463	373	508	631	776	1,724	1,429	1,450	1,502	1,632	1,639
Total Liabilities	\$494	716	659	684	603	767	931	1,086	2,141	1,925	1,963	2,024	2,179	2,319
Equity														
Common Equity	\$267	387	514	685	823	673	651	589	582	881	980	1,046	1,149	1,322
Common Stock/Par/Carry Value	\$267	387	0	0	0	0	0	0	0	0	0	0	0	0
Additional Paid-In Capital/Capital Surplus			479	543	577	597	621	657	671	687	705	726	775	808
Retained Earnings			34	142	245	76	31	(69)	(84)	203	259	320	374	514
Other Appropriated Reserves							(1)	1	(5)	(8)	(4)	-	-	-
Total Shareholders' Equity	\$267	387	514	685	823	673	651	589	582	881	980	1,046	1,149	1,322
Total Equity	\$267	387	514	685	823	673	651	589	582	881	980	1,046	1,149	1,322
Total Liabilities & Shareholders' Equity	\$762	1,103	1,172	1,369	1,426	1,440	1,582	1,676	2,723	2,806	2,923	3,070	3,327	3,641
Per Share														
Book Value per Share	\$2	3	3	5	5	5	5	5	5	7	9	10	11	13
Tangible Book Value per Share	(\$1)	(1)	(0)		2	1	1	0	0	3	4	5	6	7
All figures in millions of U.S. Dollar except per share items.														

Figure 6- Cash Flow Statement

Sprouts Farmers Market, Inc.	DEC '10	DEC '11	DEC '12	DEC '13	DEC '14	DEC '15	DEC '16	DEC '17	DEC '18	DEC '19	DEC '20	DEC '21	DEC '22	DEC '23	DEC '24	SEP '25 LTM
Operating Activities																
Net Income / Starting Line	\$5	(27)	20	51	108	129	124	158	159	150	287	244	261	259	381	513
Depreciation, Depletion & Amortization	\$14	55	36	47	60	69	81	97	111	205	226	234	244	265	274	295
Depreciation and Depletion	\$10	22	35	47	60										274	295
Depreciation and amrtization						69	80	97	111	123	127	126	127	138	140	
Operating lease assets amortization						0	0	0	1	82	99	109	117	127	134	
Amortization of Intangible Assets	\$4	33	1													
Deferred Taxes & Investment Tax Credit	\$2	(20)	14	25	16	16	21	8	23	(0)	4	(0)	3	(5)	11	9
Deferred Taxes	\$2	(20)	14	25	16	16	21	8	23	(0)	4	(0)	3	(5)	11	9
Other Funds	\$0	5	11	17	10	16	14	16	20	17	18	22	25	51	34	35
Funds from Operations	\$211	13	80	141	194	230	240	280	313	371	535	500	534	569	700	852
Changes in Working Capital	\$1	40	4	20	(13)	10	14	30	(18)	(16)	(41)	(135)	(163)	(104)	(55)	(150)
Receivables	(\$0)	2	(3)	(2)	(4)	(6)	(5)	(5)	(8)	36	26	17	13	3	30	24
Inventories	(\$7)	2	(1)	(20)	(25)	(23)	(39)	(25)	(35)	(12)	22	(11)	(45)	(11)	(20)	(70)
Accounts Payable	\$3	15	(5)	32	(5)	19	16	39	4	29	20	5	13	12	28	26
Income Taxes Payable											(2)	-	-			
Other Accruals	\$5	7	2	6	16	8	8	13	3	0	32	(17)	8	25	63	33
Other Assets/Liabilities	\$0	14	12	3	5	11	34	8	17	(69)	(139)	(128)	(153)	(134)	(155)	(173)
Net Operating Cash Flow	\$22	52	84	161	181	240	254	310	294	355	494	365	371	465	645	702
Investing Activities																
Capital Expenditures	(\$17)	(28)	(46)	(87)	(127)	(131)	(182)	(199)	(177)	(183)	(122)	(102)	(124)	(225)	(230)	(245)
Capital Expenditures (Fixed Assets)	(\$17)	(28)	(46)	(87)	(127)	(125)	(181)	(199)	(177)	(183)	(122)	(102)	(124)	(225)	(230)	(245)
Capital Expenditures (Other Assets)	(\$0)	(0)	-	-	-	(6)	(0)	-	-	-	-	-	-	-	-	-
Net Assets from Acquisitions	\$0	(233)	(130)					-	-	-	-	-	-	(13)	-	-
Sale of Fixed Assets & Businesses	\$0	-	10	1	0	3	1	0	0	-	-	-	-	-	-	-
Other Funds	\$0	-	-	0	0	-	-	-	-	-	-	-	-	-	-	-
Other Sources		-	-	0	0	-	-	-	-	-	-	-	-	-	-	-
Net Investing Cash Flow	(\$17)	(261)	(167)	(86)	(127)	(128)	(181)	(199)	(177)	(183)	(122)	(102)	(124)	(238)	(230)	(245)
Financing Activities																
Cash Dividends Paid	\$0	(275)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common Dividends	\$0	(275)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in Capital Stock	\$0	206	5	52	11	(19)	(292)	(194)	(236)	(171)	1	(186)	(195)	(192)	(225)	(441)
Repurchase of Common & Preferred Stk.	\$0	-	(0)	(300)	-	(26)	(294)	(203)	(258)	(176)	-	(188)	(200)	(203)	(230)	(442)
Sale of Common & Preferred Stock	\$0	206	6	352	11	7	3	9	22	5	1	2	5	11	5	2
Proceeds from Sale of Stock	\$0	206	6	349	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from Stock Options	\$0	-	-	4	11	7	3	9	22	5	1	2	5	11	5	2
Issuance/Reduction of Debt, Net	\$0	294	130	(134)	(60)	(107)	91	90	102	84	(289)	(1)	(4)	(125)	(125)	0
Change in Long-Term Debt	\$0	294	130	(134)	(60)	(107)	91	90	102	84	(289)	(1)	(4)	(125)	(125)	0
Issuance of Long-Term Debt	\$0	321	138	691	1	259	105	154	235	265	-	-	59	-	-	0
Reduction in Long-Term Debt	\$0	(27)	(8)	(825)	(61)	(365)	(14)	(64)	(133)	(181)	(289)	(1)	(63)	(125)	(125)	0
Repayments of Operating Lease Liabilities														(1)	(1)	
Other Funds	(\$7)	(8)	(0)	18	47	20	4	-	(0)	(0)	-	-	-	-	-	(2)
Other Uses	(\$7)	(16)	(0)	-	-	-	-	-	(0)	(0)	-	-	-	-	-	(2)
Other Sources	\$0	8	0	18	47	20	4	-	-	-	-	-	-	-	-	-
Net Financing Cash Flow	(\$6)	218	135	(64)	(2)	(106)	(197)	(104)	(135)	(87)	(287)	(187)	(199)	(318)	(351)	(444)
All Activities																
Net Change in Cash	(\$1)	10	53	10	53	6	(124)	7	(17)	85	85	76	48	(91)	63	14
Free Cash Flow	\$6	25	38	73	54	115	73	111	117	172	372	262	247	240	415	458
Free Cash Flow per Share	\$0	0	0	1	0	1	0	1	1	1	3	2	2	2	4	5
Free Cash Flow Yield (%)				1	1	3	3	3	4	7	16	8	7	5	3	

Figures 7, 8 & 9 – Revenue over the years, 2025 quarters total sales vs comparable sales, 2024 vs 2025 comparable sales



Sprouts Farmers Market has delivered strong growth over the past 15 years, generating a sales CAGR of approximately **21.3%** over this period. This performance has been driven by broader market expansion, increased consumer awareness around food quality, improving brand competitiveness, and consistent store expansion across multiple U.S. states.

In 2025, revenue growth has remained robust, with sales increasing by approximately **19%**, **17%**, and **13%** in the first three quarters, respectively. Comparable-store sales have generally tracked total revenue growth; however, in Q3, comparable sales growth moderated to **5.9%**. This deceleration has raised investor concerns and has contributed meaningfully to the recent decline in the stock price.

Margins

Figure 10 & 11 – Gross Profit overtime & EBIDTA overtime

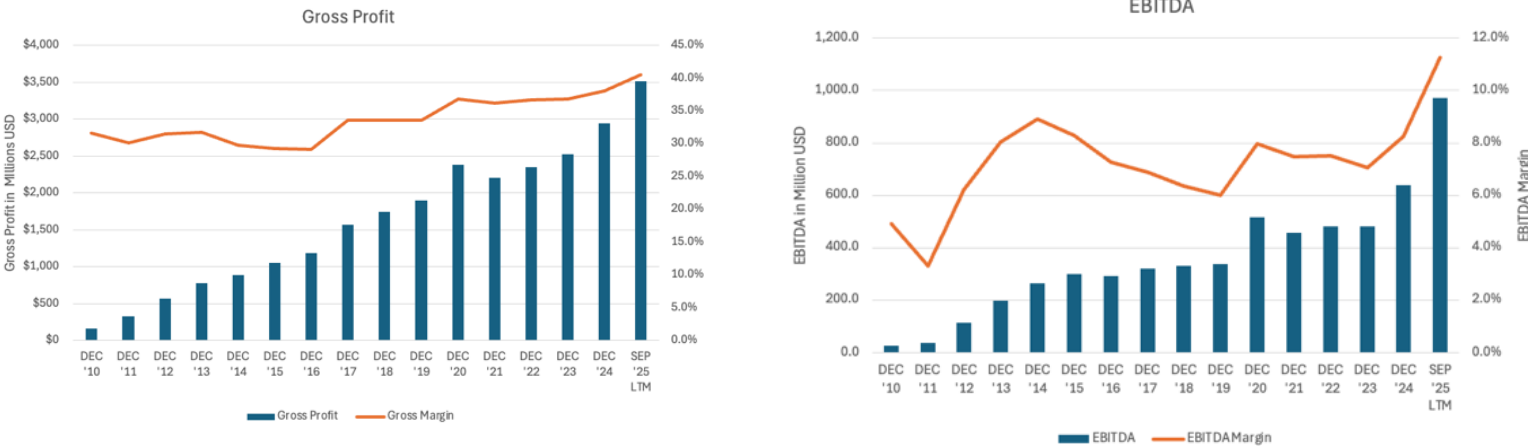
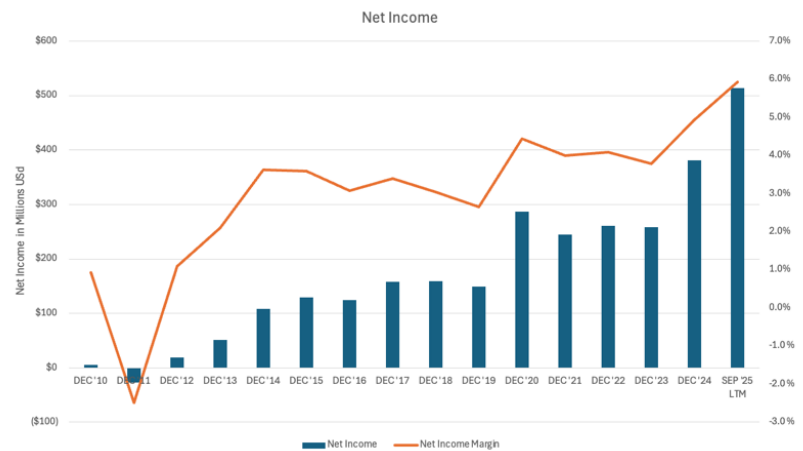
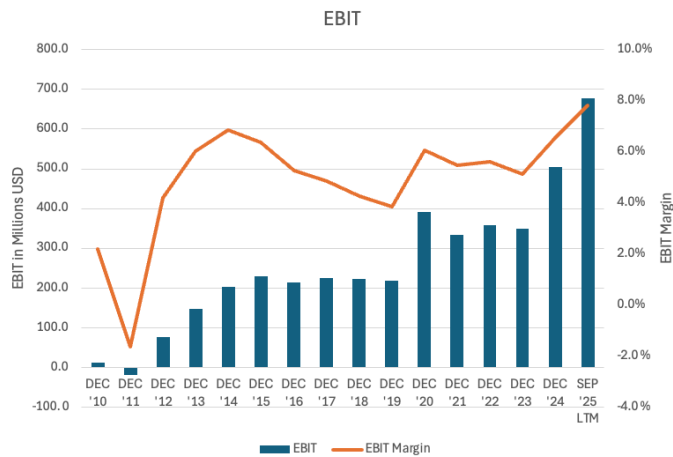


Figure 12 & 13 – EBIT & Net Income



- **Gross Profit Growth** - Gross profit increased from approximately **\$163 million in 2010** to over **\$3.5 billion in 2025**, reflecting significant scale expansion. Over the same period, gross margin improved from roughly **32%** to above **40%**, driven by improved merchandising, pricing discipline, and cost management.
- **EBITDA Growth:** EBITDA grew from approximately **\$25 million in 2010** to nearly **\$1.0 billion in 2025 LTM**, representing substantial operating leverage as the business scaled. EBITDA margins expanded from around **5%** in the early 2010s to approximately **11–12%** in recent years, highlighting improved efficiency and cost absorption.
- **Operating Income (EBIT):** EBIT increased from roughly **\$11 million in 2010** to approximately **\$680 million in 2025 LTM**. EBIT margins expanded from about **2%** to nearly **8%**, reflecting disciplined SG&A control and stronger store-level profitability as the company matured.
- **Net Income Growth:** Net income rose from **\$5 million in 2010** to over **\$500 million in 2025 LTM**, while net margins improved from below **1%** to nearly **6%**. This consistent improvement underscores the company's ability to convert revenue growth into sustainable bottom-line earnings.
- **Overall Assessment:** Over the past decade, Sprouts Farmers Market has transformed from a small, low-margin retailer into a scaled, highly profitable operator. The steady expansion in revenue, margins, and earnings demonstrates a durable business model and strong execution, positioning the company well for continued long-term growth.

- $ROTCE = EBIT / (NWC + NFA)$
 - $NWC = \text{current assest (exc. Cash) } - \text{current liabilities (exc. Short term debt)}$
- $ROIC = (EBIT * (1 - \text{Tax Rate})) / ((\text{Assets} - \text{Cash}) - (\text{non} - \text{interest bearing current liabilities}))$

ROTCE increased sharply between 2012 and 2015, peaking at approximately **45–47%**, driven by rapid EBIT growth combined with a relatively low capital base during the company's early expansion phase. As Sprouts continued to invest aggressively in new stores and infrastructure, ROTCE normalized to the **20–25% range** in recent years, which remains well above typical retail sector averages and reflects strong underlying unit economics.

ROIC has followed a more stable trajectory, improving from low single-digit levels in the early 2010s to a sustained range of approximately **10–13%** in recent years. This improvement reflects higher operating profitability and more disciplined capital deployment as the business matured. The temporary decline in both ROTCE and ROIC around 2019 coincides with increased investment and margin pressure, followed by a recovery driven by improved operating performance and stronger EBIT growth.

Overall, the sustained elevation of both ROTCE and ROIC suggests that Sprouts Farmers Market has been effective in converting incremental investments into profitable growth. These metrics support the view that the company operates with a high-quality capital structure and has demonstrated an ability to generate returns well in excess of its cost of capital over time.

Figure 14 ROTCE & ROIC

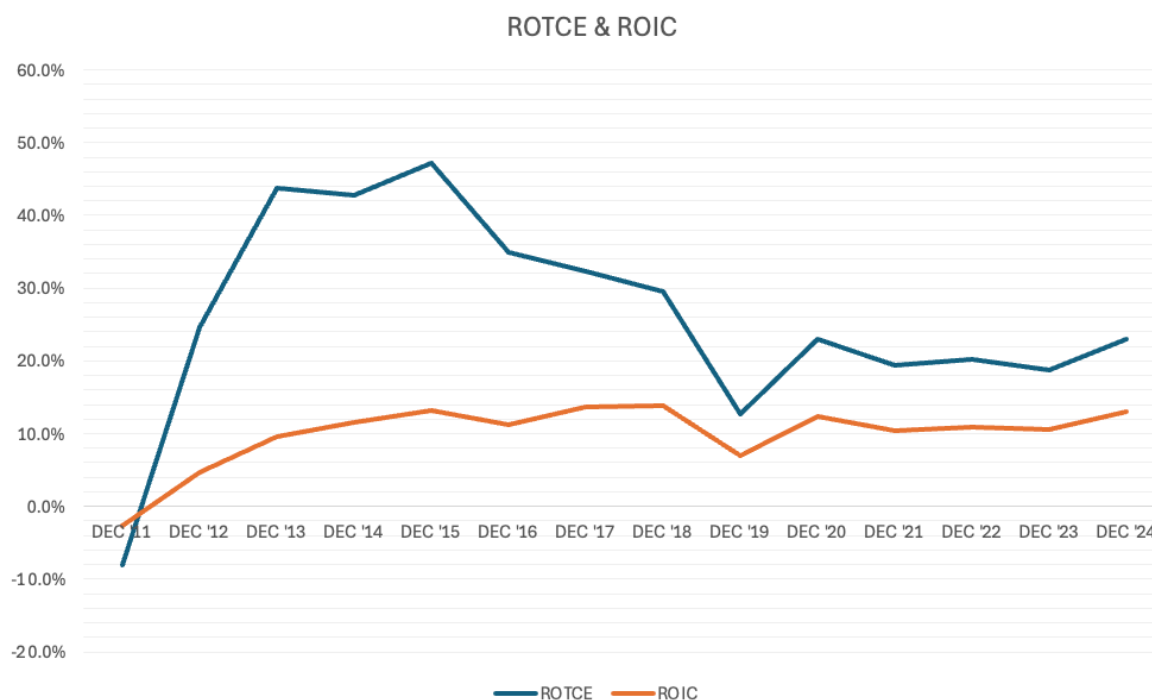
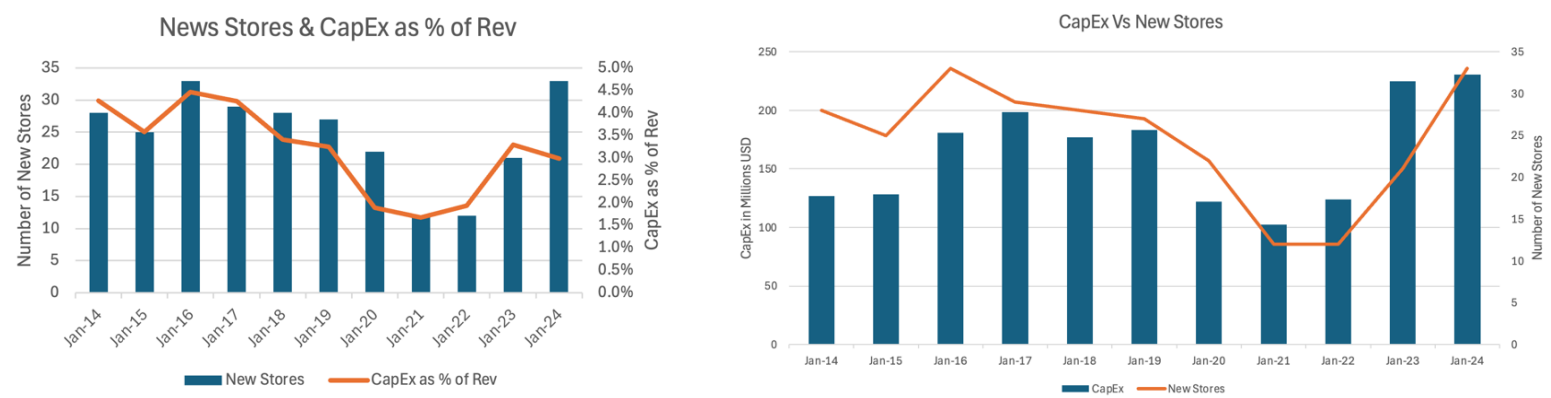


Figure 15 – New Stores & CapEx as % of Rev, CapEx vs New Stores



Sprouts Farmers Market has pursued a consistent and disciplined store expansion strategy over the past decade, steadily increasing its physical footprint while maintaining prudent capital allocation. Total store count grew from approximately **170 locations in 2013** to **440 stores in 2024**, while geographic presence expanded from **12 states to 25 states**, underscoring the company’s long-term national growth opportunity. In 2025 they have already gotten to 464 stores and they expect to finish the years having opened 37 stores this year. This shows their dediactioonn to achieve their long term objective of reaching 1000 stores nationwide.

Recent expansion has been concentrated in high-growth and underpenetrated markets. From 2022 to 2024, the company added **66 net new stores**, with the largest increases in **California (+21)**, **Florida (+18)**, **Texas (+7)**, and **Arizona (+4)**. This targeted approach highlights management’s focus on scaling within regions whee they experience high demand. In addition, in recent years they have taken the initiative to expand to many states and pursing the interest in the North East area.

Capital expenditures have closely tracked store growth but have become more efficient over time. Annual CapEx increased from roughly **\$125–180 million** in the mid-2010s to approximately **\$225–230 million in 2024**, reflecting renewed investment in store openings and infrastructure. Importantly, CapEx as a percentage of revenue has trended downward over the long term, declining from over **4%** earlier in the decade to closer to **3%** in recent years, indicating improved capital efficiency as the business has scaled.

The temporary reduction in new store openings and CapEx during 2020–2021 reflects a period of heightened uncertainty and capital discipline, followed by a clear reacceleration beginning in 2023. The increase to **over 30 new stores in 2024** suggests renewed confidence in demand conditions and the company’s ability to generate attractive returns on incremental investment.

Overall, Sprouts’ store growth strategy demonstrates a balance between expansion and discipline. The company has consistently reinvested in growth while improving capital efficiency, supporting strong returns on invested

Figure 15 - CapEx

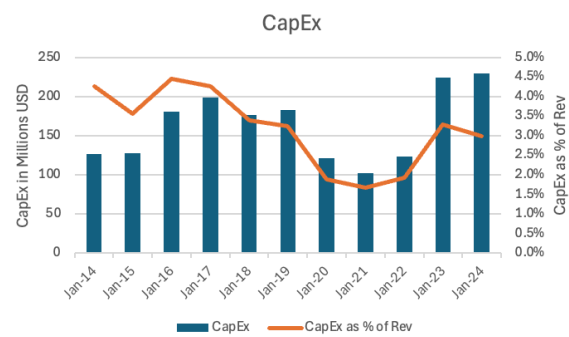
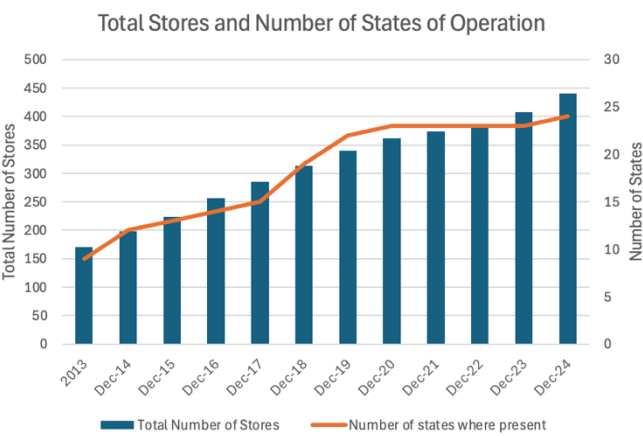


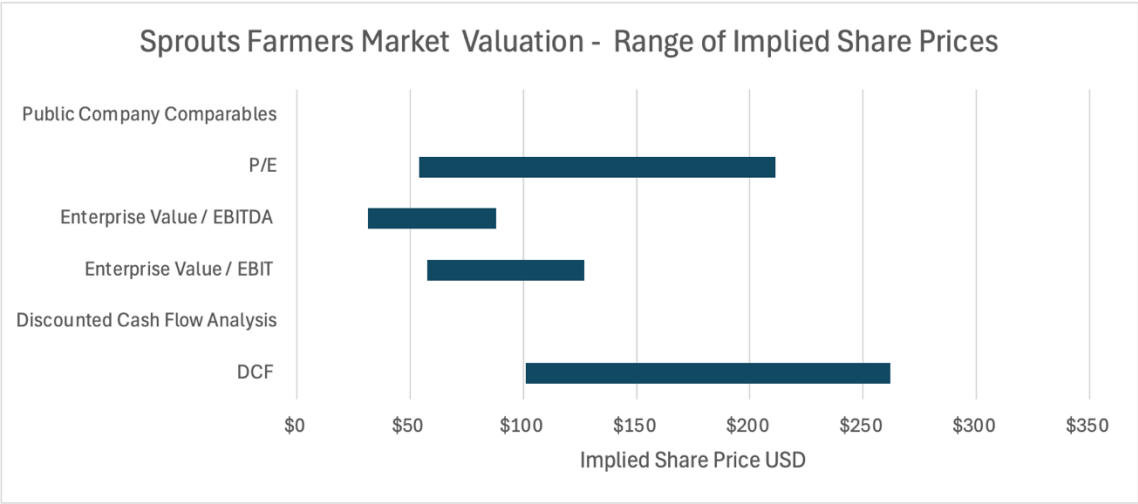
Figure 16 & 17 – Total Stores & Number of States of Operation, Store locations by state



Store locations by state	2024	2022	Change
WA	3	4	-1
WY	1		1
NV	16	14	2
CA	149	128	21
AZ	47	43	4
UT	5	5	0
CO	33	32	1
NM	10	9	1
KS	4	5	-1
OK	11	11	0
TX	54	47	7
LA	1	1	0
MO	3	3	0
TN	8	6	2
AL	3	3	0
GA	17	18	-1
FL	47	29	18
SC	2	1	1
NC	6	5	1
VA	3	1	2
MD	7	5	2
DE	2	1	1
NJ	3	1	2
PA	5	2	3
Total	440	374	66

Target Price:

- Comps: 56
- Discounted Cash Flow: 126**



- The assumed acquisition price is **\$80.3 per share**.
- The investment decision is based primarily on the **discounted cash flow (DCF) analysis**, with less reliance on comparable company analysis; precedent transactions were not considered.
- The target price as mentioned later, in my view, **conservative**, as it assumes growth rates meaningfully below the company’s historical levels over the past several years.

Public Companies Comparables

Figure 18 – Comparable Public Companies

Company Name	Capitalization Market Cap	Price	52 Week High	P/E Ratio	Revenue 2023	Revenue 2024	Revenue CAGR Past 3 years	Revenue CAGR past 5 years	EBITDA LTM	EBIT LTM
Sprouts Farmers Market	7,750	80.3	182.00	15.81x	6,837	7,719	8.16%	6.5%	973.0	678.2
Albertsons Companies A	9,492	17.31	23.20	10.31x	79,238	80,391	3.80%	5.2%	4,393.3	1,848.9
Kroger	40,000	63	74.90	57.61x	150,000	147,000	2.18%	3.8%	8,673.0	4,711.0
Natural Grocers	603	25	61.22	12.61x	1,242	1,331	6.89%	5.1%	96.4	62.7
Average				26.84x	76,826	76,241	4.3%	4.7%	4,388	2,208

Company Name	EBITDA Margin	EBITDA Margin	Enterprise Value/ EBITDA LTM	Enterprise Value/ EBIT LTM	D/E
Sprouts Farmers Market	11.2%	7.8%	7.76x	11.14x	0.36
Albertsons Companies A	5.4%	2.3%	4.03x	9.57x	2.73
Kroger	5.9%	3.2%	6.15x	11.33x	1.18
Natural Grocers	7.2%	4.7%	6.59x	10.14x	0.90
Average	6.2%	3.4%	5.59x	10.35x	1.60

EBITDA Multiple Valuation	55.84
---------------------------	-------

The public company comparables analysis implies a target price of approximately **\$56**, based on **average valuation multiples**. However, I place limited weight on this valuation, as the selected peer group consists primarily of traditional grocery retailers with business models that differ meaningfully from Sprouts'. With the exception of **Natural Grocers**, these companies are less focused on organic and specialty offerings.

In addition, the peer group exhibits materially lower revenue growth than Sprouts Farmers Market and I don't expect the other companies to match the company's expected growth trajectory over the next several years. As a result, the comparable analysis may understate Sprouts' intrinsic value and should be interpreted with caution.

Discounted Cash Flow Analysis

Figure 19 – Discounted Cash Flow Analysis

Unlevered DCF													
	2023	2024	2025	Q1+Q2+Q3	2025	Q4	2025	2026E	2027E	2028E	2029E	2030E	TV
Sales	6,837	\$7,719		6,657	2,143		8,800	9,240	9,702	10,187	10,696	11,231	
COGS		\$4,636		3,944			5,324	5,590	5,870	6,163	6,471	6,795	
Gross Profit		\$3,083		3,944			3,476	3,650	3,832	4,024	4,225	4,436	
Gross ProfitMargin		39.9%		59%			40%	40%	40%	40%	40%	40%	
D&A		\$274		224			270	267	268	271	270	271	
SG&A		\$2,291		1,922			2,502	2,513	2,639	2,771	2,909	3,055	
EBITDA		\$791		792	107		945	1,137	1,193	1,253	1,316	1,381	
EBITDAMargin		10.3%		11.9%	5.0%		10.7%	12.3%	12.3%	12.3%	12.3%	12.3%	
EBIT		\$517		568	107		675	869	925	982	1,046	1,111	
EBITMargin		6.7%		8.5%	5.0%		7.7%	9.4%	9.5%	9.6%	9.8%	9.9%	
EBIT *(1-Tax Rate)		\$389		426	81		507	653	695	738	785	834	
D&A	295	\$274		224	46		270	267	268	271	270	271	
Current assets	400	\$408		495	465		465	489	513	539	566	594	
Current liabilities	420	\$528		610	610		602	632	664	697	732	769	
NW	(20)	(\$120)		(115)	(145)		(137)	(144)	(151)	(158)	(166)	(175)	
CNW		(\$100)		5	(30)		(17)	(7)	(7)	(8)	(8)	(8)	
CapEx		(\$230)		(176)	(69)		(245)	(277)	(291)	(265)	(278)	(292)	
FCF		\$332		479	28		548	650	679	751	785	821	
DFCF					28		536	622	606	624	608	593	9,504
EV	13,063												
Implied Equity Value	12,225												
per share	124												

Revenue Assumptions	
Growth rate	5%
Terminal growth rate	1%
Others	
Gross Profit	40%
D&A % of rev	90%
	10%
Tax Rate	25%
CapEx when expanding	3.0%
Capex normal	2.6%
WACC	7.30%
Fully diluted shares out.	98.46

Year	Discount Rate
2025 Q4	0.125
2026	0.625
2027	1.625
2028	2.625
2029	3.625
2030	4.625
TV	4.625

For the discounted cash flow (DCF) analysis, I assume a **5% revenue growth rate** over the next five years, which is below the company's historical growth rate. This conservative assumption reflects expectations of continued comparable-store sales growth driven by sustained demand in the healthy and organic food segment, as well as ongoing nationwide store expansion.

Growth is supported by new store openings, with capital expenditures assumed at approximately **3.0% of revenue** for the first three years, reflecting the opening of roughly **36 stores per year**. For the subsequent period, I assume a moderation in expansion activity, with new store openings declining to approximately **22 stores per year** and CapEx decreasing to **2.6% of revenue**, consistent with historical levels observed during periods of slower expansion.

For this DCF, operating leases are not capitalized, in line with the company's own reporting treatment. Instead, lease costs are reflected as rent expense within operating expenses.

Based on these assumptions, the DCF analysis yields a **target price of approximately \$126 per share**.

Sensitivity Analysis

		Revenue Next Five Years Growth Rate								
W A C C	126	1%	2%	3%	4%	5%	6%	7%	8%	9%
	5.3%	155	162	170	178	186	194	203	211	221
	5.8%	139	145	152	159	166	173	181	189	197
	6.3%	126	131	137	143	150	157	163	171	178
	6.8%	115	120	125	131	137	143	149	155	162
	7.3%	105	110	115	120	126	131	137	143	149
	7.8%	98	102	106	111	116	121	126	132	137
	8.3%	91	95	99	103	108	113	117	122	128
	8.8%	85	89	93	97	101	105	110	114	119
	9.3%	80	83	87	91	94	99	103	107	112

		Terminal Growth Rate				
W A C C	124	0%	0.5%	1.0%	1.5%	2.0%
	5.8%	140	151	164	180	201
	6.3%	128	137	148	161	178
	6.8%	118	126	135	146	159
	7.3%	110	117	124	133	144
	7.8%	103	108	115	122	131
	8.3%	96	101	107	113	120
	8.8%	91	95	100	105	111

Investment Thesis

I believe **Sprouts Farmers Market** is materially undervalued at current levels. The stock experienced a sharp decline in 2025, driven in part by a miss versus consensus expectations and more cautious forward guidance. As a result, the share price has fallen from approximately **\$173 in 2024 to around \$80 currently**.

Despite this pullback, I expect Sprouts to continue expanding its footprint and capturing incremental market share. The company is well positioned to benefit from sustained consumer demand for healthy and organic food, which provides a competitive advantage given its differentiated product offering and strong brand identity centered on a farmers-market-style store format. Growth is expected to be driven by a combination of improving comparable-store sales and continued nationwide store expansion over the coming years.

In addition, Sprouts' strategy of offering high-quality, premium products at competitive prices enables it to effectively compete across a broad range of grocery retailers while maintaining a differentiated value proposition.

Catalysts

- **Reacceleration in Comparable-Store Sales** A recovery in comparable-store sales growth would alleviate concerns around demand softness and support a re-rating of the stock.
- **Positive Guidance or Store Expansion Updates** More constructive management guidance or evidence of strong unit economics from new stores would reinforce confidence in the long-term growth strategy.

Investment Risks

- **Macroeconomic Sensitivity** - Any deterioration in U.S. economic conditions that negatively affects consumer spending could materially impact Sprouts. Organic food is typically priced at a premium relative to conventional food, and demand may decline during periods of economic slowdown or recession as consumers trade down to lower-cost alternatives
- **Slower New Store Expansion** - If Sprouts' management reduces its focus on new store openings, this could significantly lower the company's forecasted long-term growth. Additionally, underperformance of newly opened stores relative to sales expectations would negatively impact revenue growth and profitability.
- **Competitive Pressure** - As organic and health-focused food becomes more mainstream, increased competition is likely, both from existing grocery chains expanding their organic offerings and from new entrants. Moreover, Whole Foods' recent price reductions reduce one of Sprouts' historical competitive advantages. While Sprouts' exclusive focus on health-oriented products may partially offset this pressure, intensified competition remains a key risk.