



SPROUTS FARMERS MARKET

NASDAQ: SFM

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01

INVESTMENT THESIS





SPROUTS FARMERS MARKET

- Health-focused
- Product Differentiation
- Fast Expansion

PRICE	TARGET PRICE	MARKET CAP (B)
\$28.81	\$30.99	\$3.23



02

COMPANY OVERVIEW



OVERVIEW



Sprouts Farmers Market is a **supermarket chain** across the US .

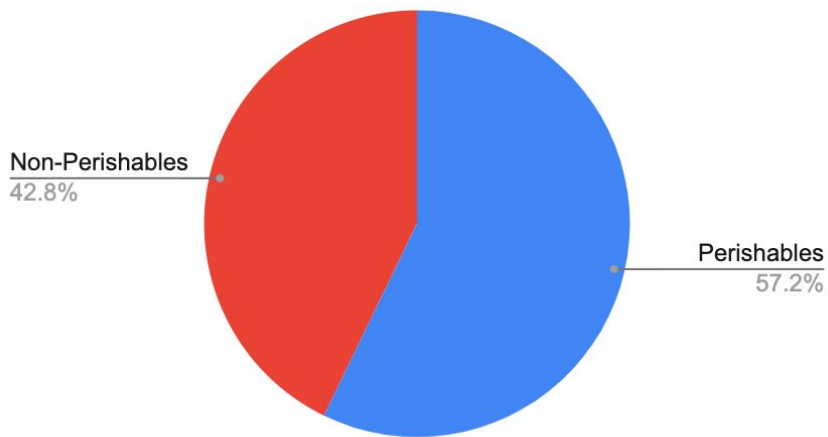
It prides itself in providing **high-quality, fresh foods**, serving a **wide selection of natural and organic products**.

SFM is committed to **sustainability**



REVENUE BREAKDOWN

Product Categories



Private Label

- **16%** revenue in 2020
- ~ 3 500 products

PROVIDING

“HEALTHY LIVING FOR LESS”



COMPANY OVERVIEW

DEPARTMENTS



PACKAGED GROCERIES

FROZEN FOODS

BULK ITEMS

DAIRY

MEAT AND SEAFOOD

DELI

BAKED GOODS

VITAMINS AND SUPPLEMENTS

NATURAL HEALTH AND BODY CARE

BEER AND WINE

Legend:

Price Inelastic

Moderate

Price elastic

INDUSTRY OVERVIEW



NEW ENTRANTS

- Barriers to entry are moderate to increasing
- High initial capital investment



BUYERS

- Household disposable income
- Little product differentiation
- Convenience



COMPETITORS

- Highly saturated
- The Kroger Company (13.4%), Albertsons (8.3%), Publix Super Markets Inc. (4.9%)



03

INVESTMENT POINTS



Focus on healthy, natural food

The health and wellness market share is expected to increase by **USD 1.39 trillion** from 2020 to 2025, and the market's growth momentum will accelerate at a CAGR of **6.29%**
~ Technavio

In 2020, our sales of products labeled to promote health and nutrition attributes increased by 22%, resulting in annual sales of over \$1.2 billion.

GLOBAL HEALTH AND WELLNESS MARKET 2020-2024



Market growth will **ACCELERATE** at a **CAGR** of over

6%



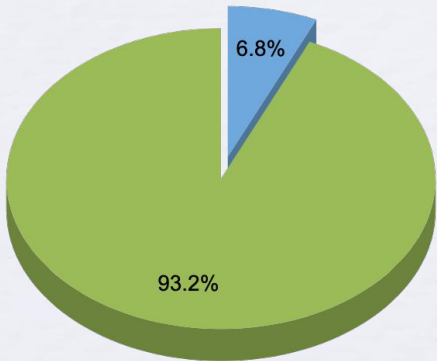
Incremental growth (\$B)

1,299.84

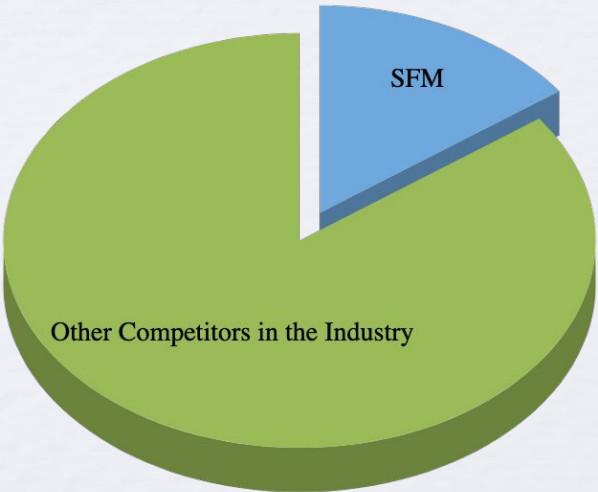
Current Global Health & Wellness Food Market Size (2020) ~ 95.56 B
Current SFM Total Sales (2020) ~ 6.47 B

SFM Market Share ~ 6.77%

(Current) Market Share of SPF in the Health & Wellness Foods Industry



● SFM ● Other Competitors in the Industry



● SFM ● Other Competitors in the Industry

Product Differentiation



PRODUCT DIFFERENTIATION



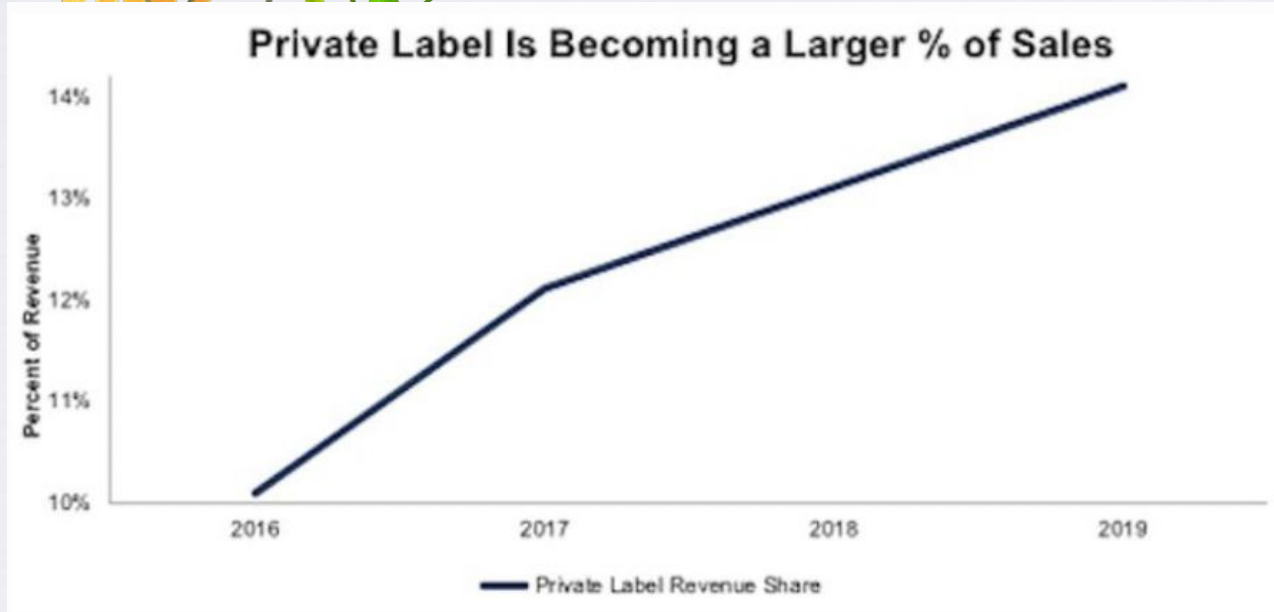
HEALTHY LIVING BRAND

- Market higher-margin goods (vitamins, oils, natural beauty products)
- Over 5100 unique branded and private products launched in 2020

PRIVATE LABEL

- Specialty offerings
- Brand loyalty

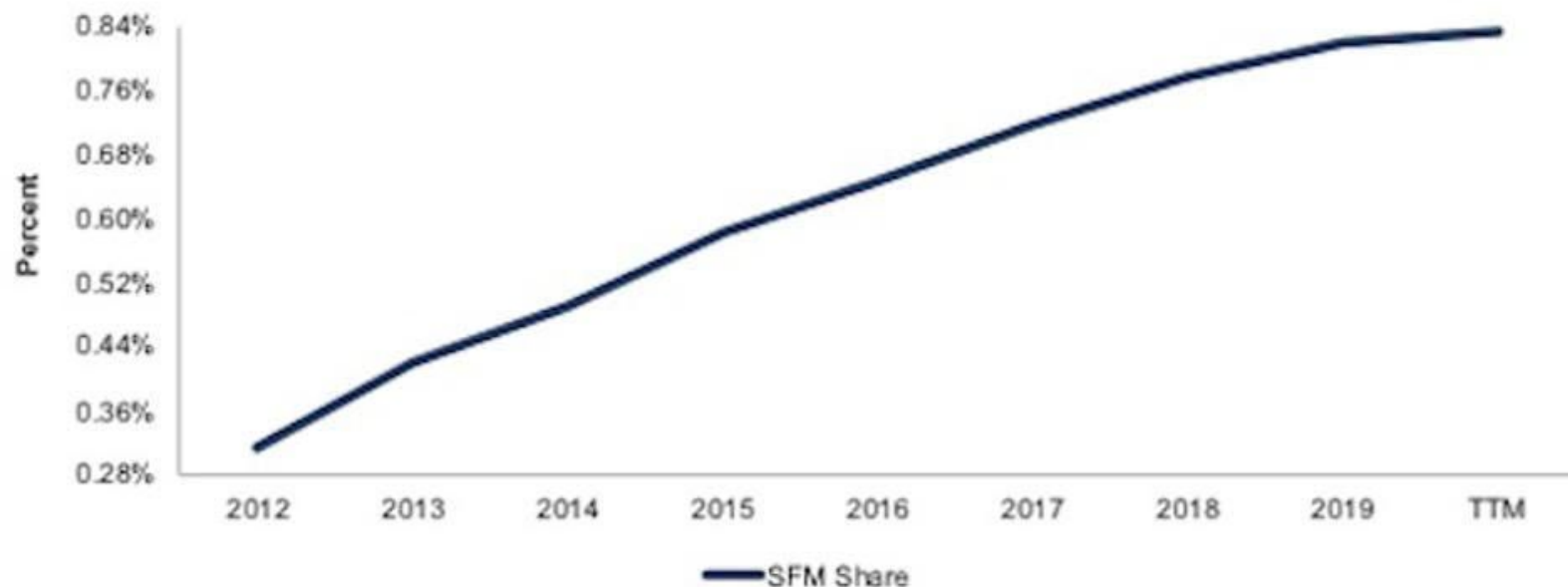




- Accounts for **16%** of total sales in 2020



Sprouts Is Gaining Market Share



Expansion and Growth



STORE COUNT GROWTH

STORE COUNT

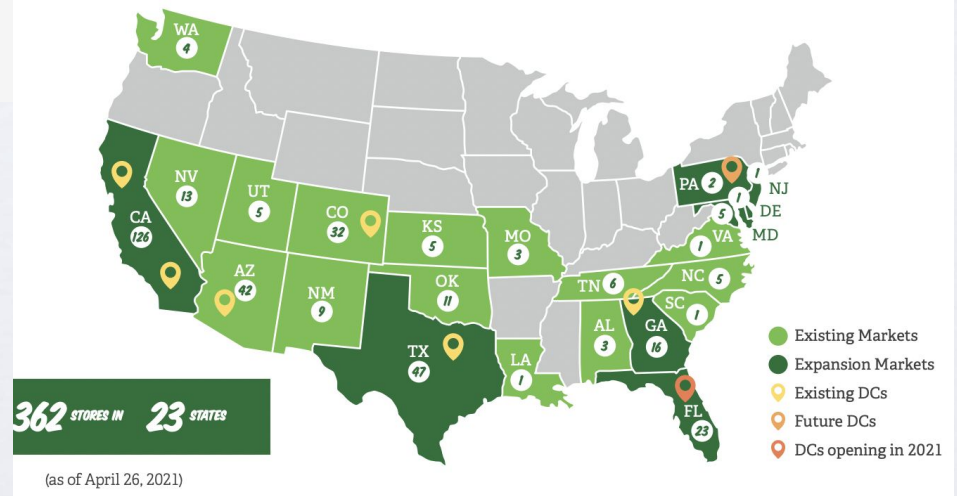
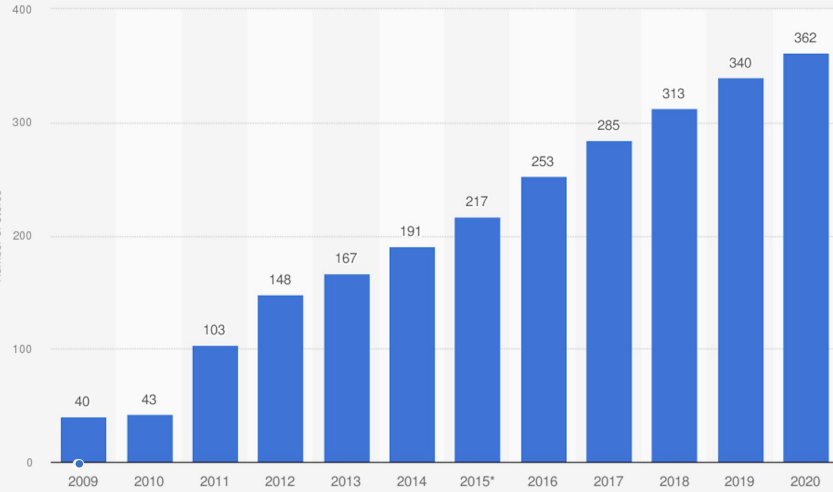
- 170 (2013) → 362 (2020)
- 20 new stores amidst pandemic
- 21 new stores in 2021

IMPROVED LOGISTICS

- Trial of smaller store format
- New local distribution centers within 250 miles of stores



Sprouts Farmers Market's number of stores in the United States from 2009 to 2020



SALES GROWTH



Sales Growth of SFM from 2014-2020 (in millions)



15% Increase in net sales from 2019 alone



CATALYSTS

EXPANSION TO E-COMMERCE

337%

YOY increase of digital sales

11%

Of total sales in 2021



FAST-GROWING MARKET

16.4%

Growth of global organic food
and beverages market

6.3%

Growth of health and
wellness products market



CONSUMER DEFENSIVE GOODS

Stable

Consumer base

Necessity

Of products



04

RISKS (& REBUTTALS)



MARKET COMPETITION



RISK 1



RISK

- Saturated market for healthy grocers
- Limited presence



REBUTTAL



- Lower costs than competitors
- Continuous and consistent revenue growth
- Expanding distribution network
- Unique store design, customer service

DEMAND OF GOODS



RISK 2



RISK



- In times of recession, price elastic goods may not be desirable

REBUTTAL



- Target middle to higher income class
- Private label
- Hybrid sourcing model



05

VALUATION





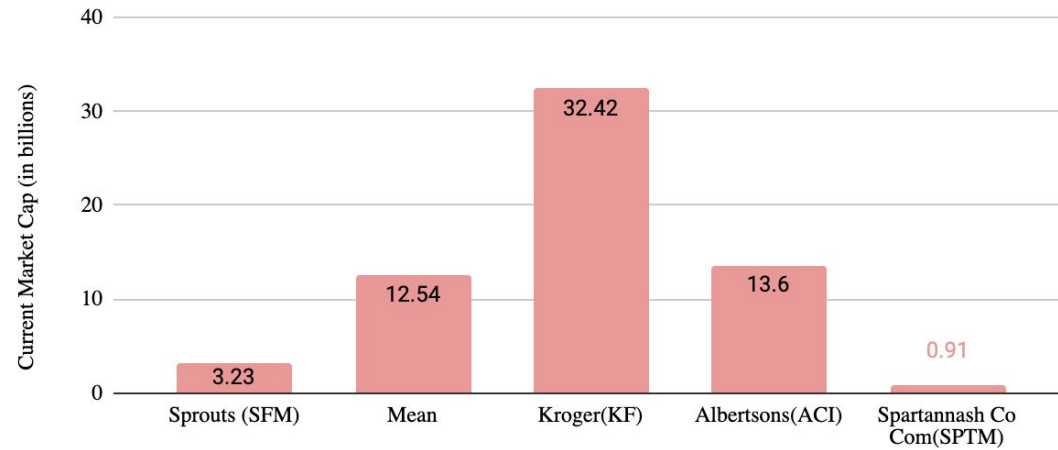
INDUSTRY COMPARISON

	MARKET CAP (B)	CURRENT P/E	FORWARD P/E	EBITDA MARGIN	NET MARGIN
MEAN	\$12.5	14.77	11.26	5.20%	1.84%
SPROUTS FARMERS MARKET	\$3.23	12.10	11.25	9.82%	4.45%

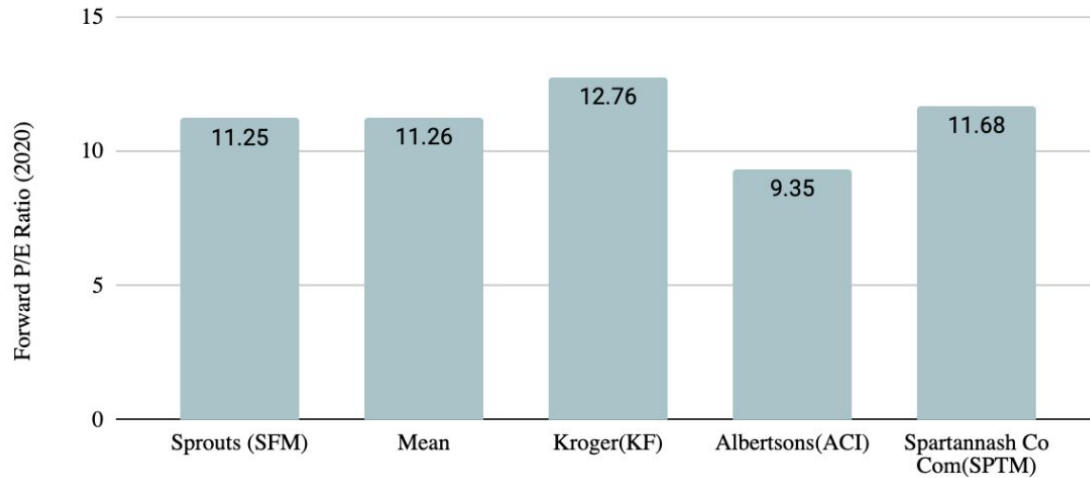




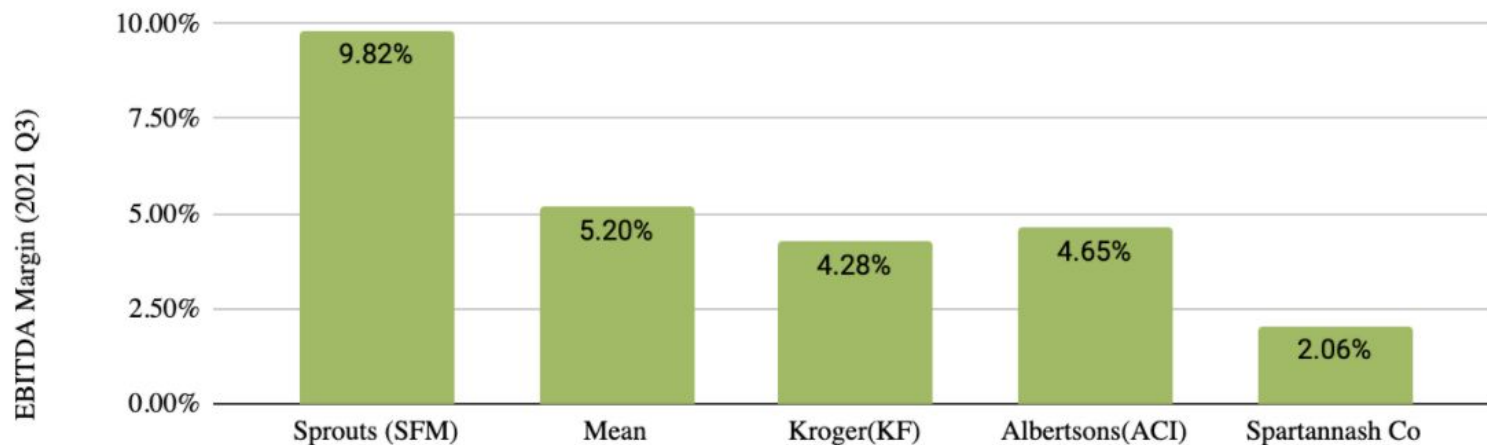
Market Cap (B) between SFM in Comparison to Major Grocery Stocks



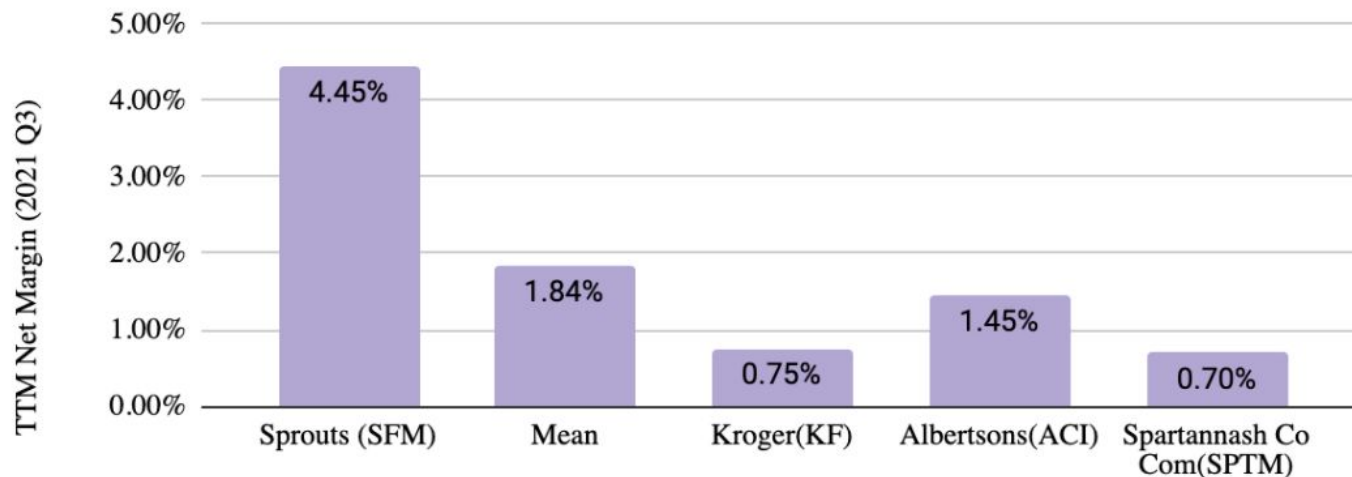
Forward P/E Ratio between SFM in Comparison to Major Grocery Stocks





EBITDA Margin between SFM in Comparison to Major Grocery Stocks



TTM Net Margin between SFM in Comparison to Major Grocery Stocks



	2022-10-03 forecasted	2023-10-03 forecasted	2024-10-03 forecasted	2025-10-03 forecasted	2026-10-03 forecasted	Terminal forecasted
NET INCOME						
 Revenue	5 980	6 400	6 761	7 046	7 244	7 346
 Net Margin	3.55%	3.56%	3.57%	3.58%	3.59%	3.60%
<u>Net Income</u>	<u>212</u>	<u>228</u>	<u>242</u>	<u>252</u>	<u>260</u>	<u>264</u>
FREE CASH FLOW TO EQUITY						
<u>FCFE</u>	<u>212</u>	<u>228</u>	<u>242</u>	<u>252</u>	<u>260</u>	<u>264</u>
PRESENT VALUE						
Discount Rate	7.06%	7.06%	7.06%	7.06%	7.06%	7.06%
<u>Present Value</u>	<u>198</u>	<u>199</u>	<u>197</u>	<u>192</u>	<u>185</u>	<u>2 662</u>

DCF VALUATION

Value Per Share

SFM DCF Value Calculation

DCF Value3.6B USD

Equity Value3.6B USD

/ Shares Outstanding112M

SFM DCF Value32.37 USD

UNDERVALUED BY 11%

CAGR ANALYSIS

Sprouts Farmers Market's Diluted EPS Incl Extra Items History

Fiscal Year	Diluted EPS Incl Extra Items	YoY Growth
2016-01-03	0.83	
2017-01-01	0.83	0.0%
2017-12-31	1.15	38.6%
2018-12-30	1.22	6.1%
2019-12-29	1.25	2.5%
2021-01-03	2.43	94.4%



$$\text{CAGR} = \left(\frac{V_{\text{final}}}{V_{\text{begin}}} \right)^{1/t} - 1$$

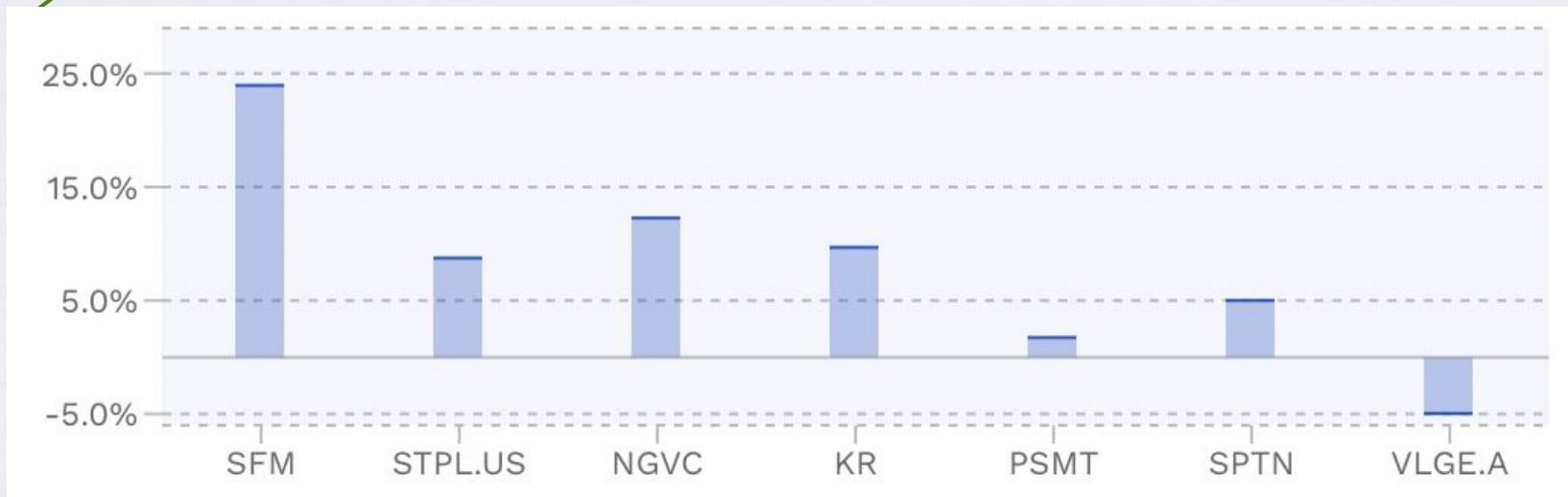
$$t = 5$$

$$\text{Multiplier} = 2.43 / 0.83 = 2.93$$

$$\begin{aligned} \text{5-year CAGR} &= (2.93)^{(1/5)} - 1 \\ &= 24\% \end{aligned}$$



CAGR COMPARISON





06

FINAL
RECOMMENDATION



P/E RATIO

- Potentially undervalued
- Higher future earnings

MARKET GROWTH

- High expected growth
- Brand loyalty



FORMULA = CURRENT MARKET PRICE [(CURRENT P/E) / (FORWARD P/E)]

CURRENT MARKET PRICE = \$28.81

CURRENT P/E RATIO = 12.10

FORWARD P/E RATIO = 11.25

TARGET PRICE = $\$28.81 * (12.10/11.25) = \30.99

DCF VALUATION (PER SHARE) = $\$3.6\text{B} / 112\text{ M} =$
\$32.37

BUY ✓



THANK YOU

ANY QUESTIONS?





APPENDIX

ESG- CLIMATE



We are transitioning to lower Global Warming Potential (GWP) refrigerants and designing refrigeration systems to reduce leak rates.



Our stores are built using green building and design practices similar to those of Leadership in Energy Efficiency and Design (LEED) Silver.



We use night curtains, natural light harvesting, and LED lighting in stores. 29 stores were converted to LED lighting in 2020, bringing our total number of LED-lit stores to 171.



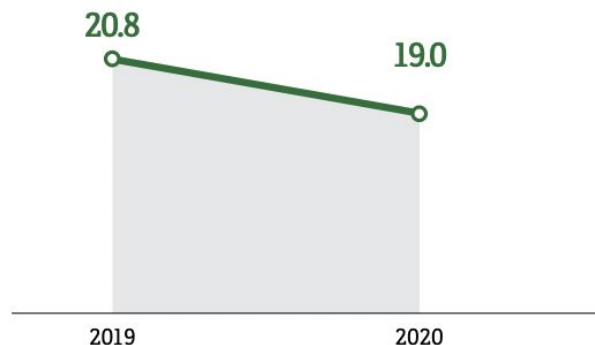
We are retro-commissioning our equipment to ensure it is running efficiently and our setpoints are on target. In 2020, we retro-commissioned 20 stores, yielding significant energy savings.

In 2020, **we reduced our per store refrigeration-related emissions by 35%** over a 2016 baseline.

All of our stores are connected to a centralized **environmental management system** that tracks utility performance and ensures efficiency.

ENERGY SOURCE	2019	2020	2019 TO 2020 % CHANGE
Electricity (MWh)	464,455	483,724	4.1%
Natural Gas (Dth)	1,001,446	987,459	-1.4%

Our normalized carbon emissions per square foot (tCO₂e/sqft) continues to decline.



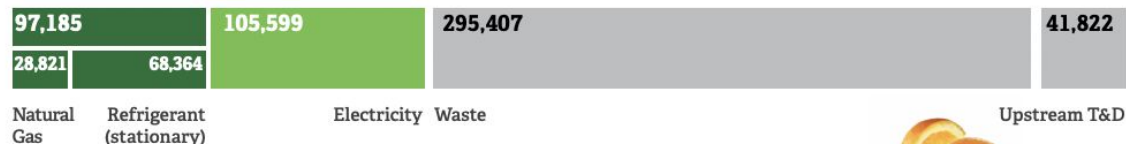
Carbon Emissions Source

Our Scope 1 emissions dropped 16% in 2020 driven by our reduction in fugitive refrigeration emissions, despite adding 22 new stores, and our Scope 2 emissions were slightly below our unit growth rate. Our reduction in waste sent to landfill led to a decrease in our Scope 3 waste-related emissions.

2020 Emissions (metric tons CO₂e)



2019 Emissions (metric tons CO₂e)



Scope 1
 Scope 2
 Scope 3



ESG- SUSTAINABLE SOURCING & FOOD WASTE

Sprouts is a destination to find products that are grown or produced in ways that are healthier for the planet and our customers. We offer a wide variety of organically grown, non-genetically modified (GMO), and plant-based options that lower the environmental impact of the food consumed. In 2020, we increased sales of products with a sustainable attribute by 20%, representing \$3.5 billion or more than 50% of total sales.

8,600 ORGANIC
PRODUCTS

431M ORGANIC
UNITS SOLD

2,141 PLANT-BASED
ALTERNATIVE
PRODUCTS

78M PLANT-BASED
ALTERNATIVE
UNITS SOLD

14,148 NON-GMO
PRODUCTS

458M NON-GMO
UNITS SOLD

In 2020, we reevaluated how we communicate with customers as part of our long-term growth strategy and transitioned from print ads to digital. This transition not only improved our connection to our customers, but also **eliminated more than 15,000 tons of paper** and averted 60,000 MTCO₂e.

In 2020, we repurposed nearly 78,000 tons of food and other recyclables from our waste stream, resulting in an overall **landfill diversion rate of 58%**.

In 2020, our **food waste recovery rate was 68%**, which includes the equivalent of approximately 23 million meals donated to help those in need.

ESG- PACKAGING AND PLASTICS

More than **40% of our stores do not use single-use plastic bags** at checkout.

In most of our major markets we continue to encourage our customers to reduce the use of single-use plastic bags by providing a **\$0.05 credit for every reusable bag** used at checkout.

This incentive has resulted in more than **15 million reusable bags** used at checkout in 2020 and nearly **\$800,000 in reusable bag credits** given back to our customers.

Customers can recycle single-use plastic bags at more than 290 locations. In 2020, our stores **recycled more than 500 tons of customer- and in-store generated plastic film**. We are expanding our logistics footprint and will be able to cover more than 95% of our locations with this program in 2021.

Team Member Engagement Survey Highlights

Sprouts conducts engagement surveys to measure and understand how team members feel about working for Sprouts. Several of the questions are focused specifically on respect and valued differences. We follow up with pulse surveys throughout the year as necessary. Our most recent survey showed the majority of our team members felt respected, satisfied, and engaged with their work:

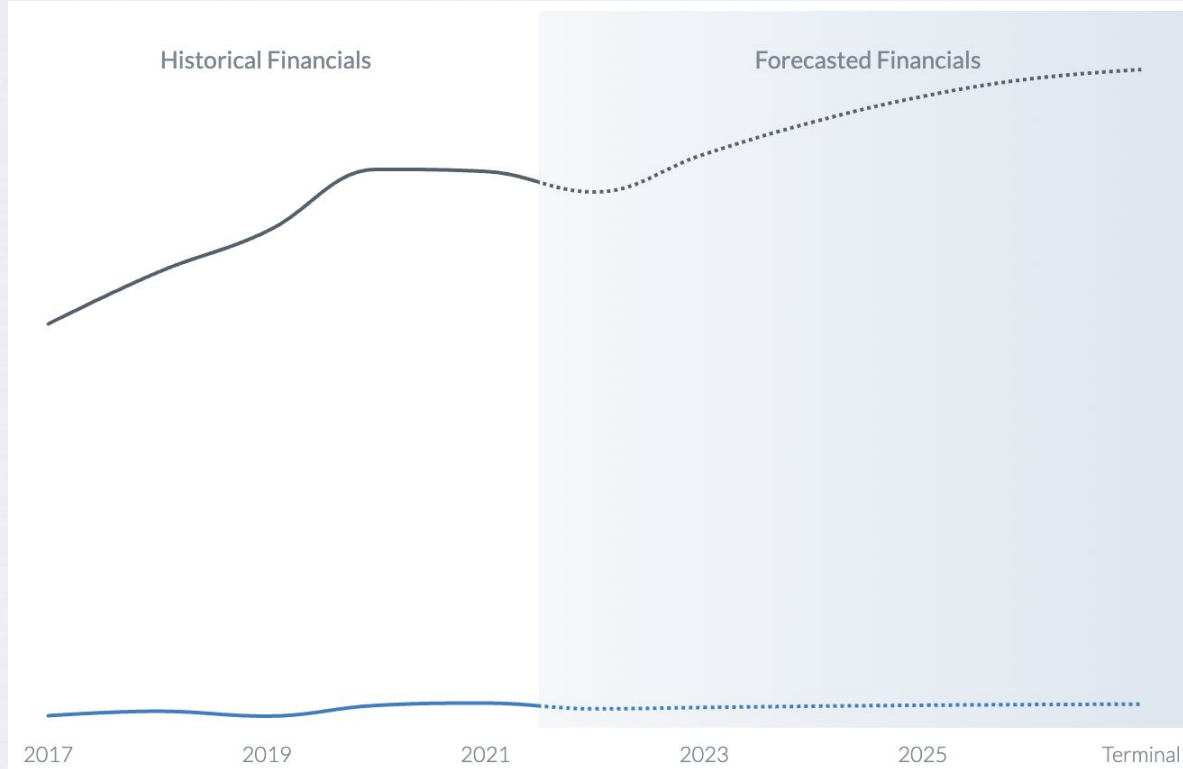
- My immediate supervisor treats me with respect – **84% favorable**
- I am comfortable approaching my immediate supervisor with concerns – **83% favorable**
- My supervisor creates a positive work environment – **75% favorable**
- Highly engaged, Engaged and Partially Engaged – **82% favorable**

2020 Team Member Development and Inclusion Highlights

- Created **2,500 new jobs** in 2020.
- **Promoted 7,200 team members** and filled 72% of store manager positions with internal candidates.
- **Awarded 75 scholarships** to team members and dependents, equating to more than \$1.4 million since our scholarship program began.
- **Delivered 475,000 hours of in-store training** while more than 40 Leadership Training Module graduates completed 8,000 hours of specialized instruction.
- **120 team members** enrolled in the Western Association of Food Chains' Retail Management Certificate Program.

Satisfactory
Corporate
Culture

SFM History vs. Forecasted Revenue, Net Income, FCFE



DCF Valuation of Free Cash Flow

<u>Projected Unlevered Cash Flow</u>							
<i>(USD in millions)</i>		Jan-22	Jan-23	Jan-24	Jan-25	Jan-26	Terminal
EBITDA		455	455	476	516	532	532
Other Income / (Exp)		0	0	0	0	0	0
D&A		(127)	(131)	(144)	(155)	(170)	(219)
EBIT		328	324	332	361	362	313
Pro forma Taxes		(82)	(81)	(83)	(90)	(91)	(78)
NOPAT	294	246	243	249	271	272	234
Capital Expenditures	(122)	(104)	(188)	(205)	(217)	(231)	(231)
NWC Investment	4	(2)	1	3	3	2	1
(+) D&A	127	127	131	144	155	170	219
Free Cash Flow	303	267	187	191	212	213	224
% Growth		-12%	-30%	2%	11%	0%	5%

NOPAT (Net Operating Profit After Tax)

Company	Ticker	NOPAT Margin	IC Turns	ROIC
Costco Wholesale Corp	COST	3%	6.3	17%
Amazon.com Inc.	AMZN	6%	2.8	16%
Sprouts Farmers Market, Inc.	SFM	5%	2.2	11%
BJ's Wholesale Club Holdings, Inc.	BJ	3%	3.3	11%
Ingles Markets, Inc.	IMKTA	4%	2.6	10%
Walmart Inc.	WMT	3%	2.9	9%
Weis Markets, Inc.	WMK	3%	2.7	9%
Albertsons Companies, Inc.	ACI	3%	3.2	9%
The Kroger Company	KR	2%	2.8	7%
SpartanNash Co	SPTN	1%	4.3	4%
Grocery Outlet Holding Corp	GO	3%	1.2	4%
Market-Cap-Weighted Average of Peers		5%	3.1	14%

SFM BUSINESS MODEL

Jack Sinclair CEO since 2019

- 35 yrs of experience in the retail and grocery industry
- vice president of Walmart from 2007-2015

New management team revised profitability strategy

- digital marketing
- store format- 30,000 sq ft -> 21,000 sq ft ((Reduces start up costs without affecting per store sales)
- opening of new DCs within 250 miles of each store (increases customer satisfaction, improves profit margins over time through vertical supply chain integration)

