

Sprouts Farmers Market, Inc.  
Form 10-Q  
November 07, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 29, 2013

Commission File Number: 001-36029

**Sprouts Farmers Market, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**32-0331600**  
(I.R.S. Employer  
Identification No.)

**11811 N. Tatum Boulevard, Suite 2400**

**Phoenix, Arizona 85028**

(Address of principal executive offices and zip code)

**(480) 814-8016**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 6, 2013, there were outstanding 146,433,944 shares of the registrant's common stock, \$0.001 par value per share.

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### **Explanatory Note**

*On July 29, 2013, Sprouts Farmers Markets, LLC, a Delaware limited liability company, converted into Sprouts Farmers Market, Inc., a Delaware corporation, as described under Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Affecting Comparability of Results of Operations Corporate Conversion. As used in this Quarterly Report on Form 10-Q, unless the context otherwise requires, references to the Company, Sprouts, we, us and our refer to Sprouts Farmers Markets, LLC and, after the corporate conversion, to Sprouts Farmers Market, Inc. and, where appropriate, its subsidiaries. In the corporate conversion, each unit of Sprouts Farmers Markets, LLC was converted into 11 shares of common stock of Sprouts Farmers Market, Inc., and each option to purchase units of Sprouts Farmers Markets, LLC was converted into an option to purchase 11 shares of common stock of Sprouts Farmers Market, Inc. For the convenience of the reader, except as the context otherwise requires, all information included in this Quarterly Report on Form 10-Q is presented giving effect to the corporate conversion.*

*On July 31, 2013, the Company's Registration Statement on Form S-1 (Reg. No. 333-188493) and the Company's Registration Statement on Form 8-A became effective, and the Company became subject to the reporting requirements of the Securities Exchange Act of 1934.*

### **Forward-Looking Statements**

*This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, including, but not limited to, statements regarding our expectations, beliefs, intentions, strategies, future operations, future financial position, future revenue, projected expenses, and plans and objectives of management. In some cases, you can identify forward-looking statements by terms such as anticipate, believe, estimate, expect, intend, may, might, plan, project, will, would, should, could, can, predict, potential, continue, objective, or the negative of these terms, and similar expressions intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. These forward-looking statements reflect our current views about future events and involve known risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievement to be materially different from those expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled Risk Factors included in this Quarterly Report on Form 10-Q, our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013, and our prospectus dated July 31, 2013, filed pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended (referred to as the Securities Act), with the Securities and Exchange Commission on August 2, 2013 (referred to as the Prospectus). Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.*

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(UNAUDITED)****(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)**

	September 29, 2013	December 30, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 91,735	\$ 67,211
Accounts receivable, net	8,962	8,415
Inventories	114,765	98,382
Prepaid expenses and other current assets	14,078	4,521
Deferred income tax asset	9,728	24,592
Total current assets	239,268	203,121
Property and equipment, net of accumulated depreciation	348,177	303,166
Intangible assets, net of accumulated amortization	195,790	196,772
Goodwill	368,078	368,078
Other assets	13,118	9,521
Deferred income tax asset	17,372	22,578
Total assets	\$ 1,181,803	\$ 1,103,236
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 117,430	\$ 82,721
Accrued salaries and benefits	20,928	21,397
Other accrued liabilities	26,201	27,561
Current portion of capital and financing lease obligations	2,676	3,379
Current portion of long-term debt	5,684	1,788
Total current liabilities	172,919	136,846
Long-term capital and financing lease obligations	117,632	104,260
Long-term debt	346,094	424,756
Other long-term liabilities	59,524	50,619
Total liabilities	696,169	716,481
Commitments and contingencies		
Stockholders' equity:		
Undesignated preferred stock; \$0.001 par value; 10,000,000 shares authorized, no shares issued and outstanding		
Common stock, \$0.001 par value; 200,000,000 shares authorized, 146,433,944 and 125,956,729 shares issued and outstanding, September 29, 2013 and December 30, 2012, respectively	146	126
Additional paid-in capital	460,271	395,480

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Retained earnings (accumulated deficit)	25,217	(8,851)
Total stockholders' equity	485,634	386,755
Total liabilities and stockholders' equity	\$ 1,181,803	\$ 1,103,236

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)****(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Net sales	\$ 633,614	\$ 510,050	\$ 1,829,675	\$ 1,315,882
Cost of sales, buying and occupancy	443,509	363,641	1,278,623	921,955
Gross profit	190,105	146,409	551,052	393,927
Direct store expenses	129,418	104,450	367,064	268,279
Selling, general and administrative expenses	22,807	25,175	60,259	64,846
Store pre-opening costs	1,237	1,216	5,254	2,070
Store closure and exit costs	(38)	2,273	1,670	3,552
Income from operations	36,681	13,295	116,805	55,180
Interest expense	(8,790)	(9,951)	(30,346)	(25,414)
Other income	203	133	447	201
Loss on extinguishment of debt	(9,507)	(992)	(17,682)	(992)
Income before income taxes	18,587	2,485	69,224	28,975
Income tax provision	(7,126)	(1,178)	(27,178)	(12,816)
Net income	\$ 11,461	\$ 1,307	\$ 42,046	\$ 16,159
Net income per share:				
Basic	\$ 0.08	\$ 0.01	\$ 0.32	\$ 0.14
Diluted	\$ 0.08	\$ 0.01	\$ 0.31	\$ 0.14
Weighted average shares outstanding:				
Basic	139,687	125,794	130,538	116,791
Diluted	144,710	127,820	134,529	118,441

The accompanying notes are an integral part of these consolidated financial statements.

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**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

**(UNAUDITED)**

**(IN THOUSANDS, EXCEPT SHARE AMOUNTS)**

	Shares	Common Stock	Additional Paid In Capital	(Accumulated Deficit) / Retained Earnings	Total Stockholders Equity
<b>Balances at January 1, 2012</b>	110,000,008	\$ 110	\$ 295,694	\$ (28,351)	\$ 267,453
Net income				19,500	19,500
Issuance of shares to stockholders	831,314	1	4,999		5,000
Issuance of shares related to Sunflower Transaction	14,898,136	15	89,590		89,605
Issuance of shares	62,271				
Issuance of shares under 2011 Option Plan, net of shares withheld	189,585		549		549
Repurchase of shares	(24,585)		(148)		(148)
Excess income tax benefit in equity			143		143
Equity-based compensation			4,653		4,653
<b>Balances at December 30, 2012</b>	125,956,729	\$ 126	\$ 395,480	\$ (8,851)	\$ 386,755
Net income				42,046	42,046
Issuance of shares under 2011 Option Plan	12,375		75		75
Issuance of shares in IPO, net of issuance costs	20,477,215	20	344,085		344,105
Repurchase of shares	(12,375)		(113)		(113)
Dividend paid to stockholders			(274,051)	(7,978)	(282,029)
Anti-dilution payments made to optionholders			(13,892)		(13,892)
Tax benefit of antidilution payments made to optionholders			4,402		