

Sprouts Farmers Market, Inc.
Form 10-Q
August 03, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 2, 2017

Commission File Number: 001-36029

Sprouts Farmers Market, Inc.

(Exact name of registrant as specified in its charter)

Delaware 32-0331600
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

5455 East High Street, Suite 111

Phoenix, Arizona 85054

(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

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(§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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 August 1, 2017, the registrant had 135,577,182 shares of common stock, \$0.001 par value per share, outstanding.

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JULY 2, 2017

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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 of 1933, as amended (referred to as the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (referred to as the “Exchange Act”), 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,” “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 Annual Report on Form 10-K for the fiscal year ended January 1, 2017, and our other filings with the Securities and Exchange Commission. 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.

As used in this Quarterly Report on Form 10-Q, unless the context otherwise requires, references to the “Company,” “Sprouts,” “Sprouts Farmers Market,” “we,” “us” and “our” refer to Sprouts Farmers Market, Inc. and, where appropriate, its subsidiaries.

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)

	July 2, 2017	January 1, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,814	\$ 12,465
Accounts receivable, net	19,782	25,228
Inventories	218,404	204,464
Prepaid expenses and other current assets	23,409	21,869
Total current assets	276,409	264,026
Property and equipment, net of accumulated depreciation	681,065	604,660
Intangible assets, net of accumulated amortization	196,906	197,608
Goodwill	368,078	368,078
Other assets	7,751	5,521
Total assets	\$ 1,530,209	\$ 1,439,893
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 181,913	\$ 157,550
Accrued salaries and benefits	34,910	32,859
Other accrued liabilities	50,150	56,376
Current portion of capital and financing lease obligations	14,870	12,370
Total current liabilities	281,843	259,155
Long-term capital and financing lease obligations	124,749	117,366
Long-term debt	310,000	255,000
Other long-term liabilities	123,957	116,200
Deferred income tax liability	37,302	19,263
Total liabilities	877,851	766,984
Commitments and contingencies (Note 8)		
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,		
136,242,909 and 140,256,313 shares issued and outstanding,		
July 2, 2017 and January 1, 2017, respectively	136	140
Additional paid-in capital	609,461	597,269

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Retained earnings	42,761	75,500
Total stockholders' equity	652,358	672,909
Total liabilities and stockholders' equity	\$1,530,209	\$1,439,893

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

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 2,	July 3,	July 2,	July 3,
	2017	2016	2017	2016
Net sales	\$1,183,975	\$1,031,643	\$2,314,620	\$2,024,884
Cost of sales, buying and occupancy	841,989	725,841	1,635,348	1,412,569
Gross profit	341,986	305,802	679,272	612,315
Direct store expenses	236,185	207,205	465,334	401,020
Selling, general and administrative expenses	38,189	30,922	70,357	61,818
Store pre-opening costs	4,141	4,213	7,599	8,179
Income from operations	63,471	63,462	135,982	141,298
Interest expense	(5,100)	(3,661)	(9,838)	(7,262)
Other income	131	90	226	191
Income before income taxes	58,502	59,891	126,370	134,227
Income tax provision	(17,534)	(22,682)	(39,115)	(50,811)
Net income	\$40,968	\$37,209	\$87,255	\$83,416
Net income per share:				
Basic	\$0.30	\$0.25	\$0.64	\$0.56
Diluted	\$0.29	\$0.25	\$0.62	\$0.55
Weighted average shares outstanding:				
Basic	136,796	149,170	136,933	149,931
Diluted	139,493	151,498	139,847	152,322

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

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(UNAUDITED)

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

		Common	Additional Paid In	Retained	Total Stockholders'
	Shares	Stock	Capital	Earnings	Equity
Balances at January 3, 2016	152,577,884	\$ 153	\$ 577,393	\$ 245,446	\$ 822,992
Net income	—	—	—	124,306	124,306
Issuance of shares under stock plans	666,841	—	2,740	—	2,740
Repurchase and retirement of common stock	(13,242,483)	(13)	—	(294,252)	(294,265)
Excess tax benefit for exercise of options	—	—	3,737	—	3,737
Equity-based compensation	—	—	13,399	—	13,399
Balances at January 1, 2017	140,002,242	\$ 140	\$ 597,269	\$ 75,500	\$ 672,909
Net income	—	—	—	87,255	87,255
Issuance of shares under stock plans	1,692,542	2	5,953	—	5,955
Repurchase and retirement of common stock	(5,887,264)	(6)	—	(119,994)	(120,000)
Equity-based compensation	—	—	6,239	—	6,239
Balances at July 2, 2017	135,807,520	\$ 136	\$ 609,461	\$ 42,761	\$ 652,358

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

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(IN THOUSANDS)

	Twenty-six Weeks Ended	
	July 2, 2017	July 3, 2016
Cash flows from operating activities		
Net income	\$87,255	\$83,416
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	46,142	38,813
Accretion of asset retirement obligation and closed store reserve	94	176
Amortization of financing fees and debt issuance costs	231	231
Loss on disposal of property and equipment	356	57
Equity-based compensation	6,239	6,325
Deferred income taxes	18,039	13,590
Changes in operating assets and liabilities:		
Accounts receivable	4,106	3,015
Inventories	(13,940)	(23,731)
Prepaid expenses and other current assets	(1,549)	3,334
Other assets	(2,450)	(4,961)
Accounts payable	31,234	24,768
Accrued salaries and benefits	2,051	(2,038)
Other accrued liabilities and income taxes payable	(6,238)	(7,395)
Other long-term liabilities	8,313	12,340
Cash flows from operating activities	179,883	147,940
Cash flows from investing activities		
Purchases of property and equipment	(117,753)	(85,081)
Proceeds from sale of property and equipment	30	662
Purchase of leasehold interests	—	(491)
Cash flows used in investing activities	(117,723)	(84,910)
Cash flows from financing activities		
Proceeds from revolving credit facility	85,000	—
Payments on revolving credit facility	(30,000)	—
Payments on capital and financing lease obligations	(2,068)	(2,130)
Cash from landlords related to financing lease obligations	1,325	—
Repurchase of common stock	(120,000)	(124,265)
Proceeds from exercise of stock options	5,932	2,053
Excess tax benefit for exercise of stock options	—	3,687
Cash flows used in financing activities	(59,811)	(120,655)
(Decrease) / Increase in cash and cash equivalents	2,349	(57,625)
Cash and cash equivalents at beginning of the period	12,465	136,069