

Sprouts Farmers Market, Inc.
Form 10-Q
August 04, 2016

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 3, 2016

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

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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

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 August 3, 2016, there were outstanding 148,425,408 shares of the registrant's common stock, \$0.001 par value per share.

SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JULY 3, 2016

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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 3, 2016, 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 3,	January 3,
	2016	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$78,444	\$136,069
Accounts receivable, net	17,719	20,424
Inventories	189,165	165,434
Prepaid expenses and other current assets	19,954	23,288
Total current assets	305,282	345,215
Property and equipment, net of accumulated depreciation	549,726	494,067
Intangible assets, net of accumulated amortization	198,309	198,601
Goodwill	368,078	368,078
Other assets	23,734	19,003
Deferred income tax asset	—	1,400
Total assets	\$1,445,129	\$1,426,364
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$175,235	\$134,480
Accrued salaries and benefits	28,679	30,717
Other accrued liabilities	43,189	50,253
Current portion of capital and financing lease obligations	6,286	14,972
Total current liabilities	253,389	230,422
Long-term capital and financing lease obligations	115,881	115,500
Long-term debt	160,000	160,000
Other long-term liabilities	109,461	97,450
Deferred income tax liability	12,190	—
Total liabilities	650,921	603,372
Commitments and contingencies (Note 10)		
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,	148	153
148,424,200 and 152,577,884 shares issued and outstanding,		

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	July 3, 2016 and January 3, 2016, respectively	
Additional paid-in capital	589,458	577,393
Retained earnings	204,602	245,446
Total stockholders' equity	794,208	822,992
Total liabilities and stockholders' equity	\$1,445,129	\$1,426,364

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 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
Net sales	\$1,031,643	\$902,153	\$2,024,884	\$1,759,659
Cost of sales, buying and occupancy	725,841	638,514	1,412,569	1,238,227
Gross profit	305,802	263,639	612,315	521,432
Direct store expenses	207,107	177,381	400,885	340,571
Selling, general and administrative expenses	30,922	23,390	61,818	47,417
Store pre-opening costs	4,213	2,507	8,179	5,280
Store closure and exit costs	98	315	135	1,544
Income from operations	63,462	60,046	141,298	126,620
Interest expense	(3,661)	(4,437)	(7,262)	(10,305)
Other income	90	112	191	174
Loss on extinguishment of debt	—	(5,481)	—	(5,481)
Income before income taxes	59,891	50,240	134,227	111,008
Income tax provision	(22,682)	(18,918)	(50,811)	(42,219)
Net income	\$37,209	\$31,322	\$83,416	\$68,789
Net income per share:				
Basic	\$0.25	\$0.20	\$0.56	\$0.45
Diluted	\$0.25	\$0.20	\$0.55	\$0.44
Weighted average shares outstanding:				
Basic	149,170	153,393	149,931	152,814
Diluted	151,498	155,949	152,322	155,728

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 December 28, 2014	151,833,334	\$ 152	\$ 543,048	\$ 142,189	\$ 685,389
Net income	—	—	—	128,991	128,991
Issuance of shares under option plans	1,812,829	2	6,318	—	6,320
Repurchase and retirement of common stock	(1,068,279)	(1)	-	(25,734)	(25,735)
Excess tax benefit for exercise of options	—	—	20,009	—	20,009
Equity-based compensation	—	—	8,018	—	8,018
Balances at January 3, 2016	152,577,884	\$ 153	\$ 577,393	\$ 245,446	\$ 822,992
Net income	—	—	—	83,416	83,416
Issuance of shares under option plans	541,186	—	2,053	—	2,053
Repurchase and retirement of common stock	(4,979,692)	(5)	-	(124,260)	(124,265)
Excess tax benefit for exercise of options	—	—	3,687	—	3,687
Equity-based compensation	—	—	6,325	—	6,325
Balances at July 3, 2016	148,139,378	\$ 148	\$ 589,458	\$ 204,602	\$ 794,208

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 3, 2016	June 28, 2015
Cash flows from operating activities		
Net income	\$83,416	\$68,789
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	38,813	32,816
Accretion of asset retirement obligation and closed facility reserve	176	178
Amortization of financing fees and debt issuance costs	231	501
Loss on disposal of property and equipment	57	405
Equity-based compensation	6,325	2,434
Loss on extinguishment of debt	—	5,481
Deferred income taxes	13,590	1,620
Changes in operating assets and liabilities:		
Accounts receivable	3,015	(4,874)
Inventories	(23,731)	(15,386)
Prepaid expenses and other current assets	3,334	2,220
Other assets	(4,961)	(6,149)
Accounts payable	24,768	26,527
Accrued salaries and benefits	(2,038)	(7,694)
Other accrued liabilities	(7,395)	(2,079)
Other long-term liabilities	12,340	16,151
Cash flows from operating activities	147,940	120,940
Cash flows from investing activities		
Purchases of property and equipment	(85,081)	(74,541)
Proceeds from sale of property and equipment	662	2
Purchase of leasehold interests	(491)	—
Cash flows used in investing activities	(84,910)	(74,539)
Cash flows from financing activities		
Proceeds from revolving credit facility	—	260,000
Payments on revolving credit facility	—	(100,000)
Payments on term loan		