

Sprouts Farmers Market, Inc.
Form 10-Q
August 23, 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 June 30, 2013

Commission File Number: 001-36029

Sprouts Farmers Market, Inc.

(Exact name of registrant as specified in its charter)

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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

Explanatory Note: The registrant became subject to the filing requirements of Section 13 of the Securities Exchange Act of 1934 on July 31, 2013.

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 22, 2013, there were outstanding 146,433,944 shares of the registrant's common stock, \$0.001 par value per share.

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SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013

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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 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)**

	June 30, 2013	December 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 65,628	\$ 67,211
Accounts receivable, net	9,974	8,415
Inventories	109,143	98,382
Prepaid expenses and other current assets	3,557	4,521
Deferred income tax asset	14,080	24,592
Total current assets	202,382	203,121
Property and equipment, net of accumulated depreciation	347,054	303,166
Intangible assets, net of accumulated amortization	196,112	196,772
Goodwill	368,078	368,078
Other assets	11,089	9,521
Deferred income tax asset	19,020	22,578
Total assets	\$ 1,143,735	\$ 1,103,236
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 114,889	\$ 82,721
Accrued salaries and benefits	18,993	21,397
Other accrued liabilities	22,622	27,561
Current portion of capital and financing lease obligations	3,361	3,379
Current portion of long-term debt	2,749	1,788
Total current liabilities	162,614	136,846
Long-term capital and financing lease obligations	115,493	104,260
Long-term debt	680,625	424,756
Other long-term liabilities	56,556	50,619
Total liabilities	1,015,288	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, 125,956,721 shares issued and outstanding, June 30, 2013 and December 30, 2012	126	126
Additional paid-in capital	114,565	395,480

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Retained earnings (accumulated deficit)	13,756	(8,851)
Total stockholders' equity	128,447	386,755
Total liabilities and stockholders' equity	\$ 1,143,735	\$ 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		Twenty-Six Weeks Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Net sales	\$ 622,367	\$ 430,112	\$ 1,196,061	\$ 805,832
Cost of sales, buying and occupancy	435,340	299,381	835,114	558,314
Gross profit	187,027	130,731	360,947	247,518
Direct store expenses	122,985	88,996	237,646	163,829
Selling, general and administrative expenses	20,728	22,584	37,452	39,671
Store pre-opening costs	2,303	343	4,017	854
Store closure and exit costs	933	1,156	1,708	1,279
Income from operations	40,078	17,652	80,124	41,885
Interest expense	(11,391)	(8,365)	(21,556)	(15,463)
Other income	111	44	244	68
Loss on extinguishment of debt	(8,175)		(8,175)	
Income before income taxes	20,623	9,331	50,637	26,490
Income tax provision	(8,155)	(4,025)	(20,052)	(11,638)
Net income	\$ 12,468	\$ 5,306	\$ 30,585	\$ 14,852
Net income per share:				
Basic	\$ 0.10	\$ 0.05	\$ 0.24	\$ 0.13
Diluted	\$ 0.10	\$ 0.05	\$ 0.24	\$ 0.13
Weighted average shares outstanding:				
Basic	125,958	115,964	125,963	112,982
Diluted	129,716	117,525	129,438	114,472

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
Balances at January 1, 2012	110,000,000	\$ 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
Balances at December 30, 2012	125,956,721	\$ 126	\$ 395,480	\$ (8,851)	\$ 386,755
Net income				30,585	30,585
Issuance of shares under 2011 Option Plan	12,375		75		75
Repurchase of shares	(12,375)		(113)		(113)
Dividend paid to stockholders			(274,051)	(7,978)	(282,029)
Antidilution payments made to option holders			(13,892)		(13,892)
Tax benefit of antidilution payments made to option holders			4,401		4,401
Equity-based compensation					