

Sprouts Farmers Market, Inc.
Form 10-Q
May 07, 2014
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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 March 30, 2014

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 May 5, 2014, there were outstanding 149,718,810 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 of 1933, as amended (referred to as 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 Annual Report on Form 10-K for the fiscal year ended December 29, 2013, 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.

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)**

	March 30, 2014	December 29, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 149,048	\$ 77,652
Accounts receivable, net	14,089	9,524
Inventories	121,454	118,256
Prepaid expenses and other current assets	6,734	8,049
Deferred income tax asset	12,402	18,146
Total current assets	303,727	231,627
Property and equipment, net of accumulated depreciation	371,689	348,830
Intangible assets, net of accumulated amortization	195,144	195,467
Goodwill	368,078	368,078
Other assets	13,725	13,135
Deferred income tax asset	14,548	15,267
Total assets	\$ 1,266,911	\$ 1,172,404
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 148,001	\$ 111,159
Accrued salaries and benefits	21,657	22,287
Other accrued liabilities	31,078	32,958
Current portion of capital and financing lease obligations	3,746	3,395
Current portion of long-term debt	5,829	5,822
Total current liabilities	210,311	175,621
Long-term capital and financing lease obligations	119,922	116,177
Long-term debt	303,959	305,418
Other long-term liabilities	64,997	61,417
Total liabilities	699,189	658,633
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, 149,492,715 and 147,616,560 shares issued and outstanding, March 30, 2014 and December 29, 2013, respectively	149	147
Additional paid-in capital	499,343	479,127

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Retained earnings	68,230	34,497
Total stockholders' equity	567,722	513,771
Total liabilities and stockholders' equity	\$ 1,266,911	\$ 1,172,404

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	
	March 30, 2014	March 31, 2013
Net sales	\$ 722,606	\$ 573,694
Cost of sales, buying and occupancy	498,747	399,774
Gross profit	223,859	173,920
Direct store expenses	138,231	114,661
Selling, general and administrative expenses	22,479	16,724
Store pre-opening costs	947	1,714
Store closure and exit costs	533	775
Income from operations	61,669	40,046
Interest expense	(6,467)	(10,165)
Other income	96	133
Income before income taxes	55,298	30,014
Income tax provision	(21,565)	(11,897)
Net income	\$ 33,733	\$ 18,117
Net income per share:		
Basic	\$ 0.23	\$ 0.14
Diluted	\$ 0.22	\$ 0.14
Weighted average shares outstanding:		
Basic	147,759	125,969
Diluted	153,294	129,184

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

Table of Contents**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 December 30, 2012	125,956,721	\$ 126	\$ 395,480	\$ (8,851)	\$ 386,755
Net income				51,326	51,326
Issuance of shares under Option Plans	1,194,999	1	3,820		3,821
Issuance of shares in IPO, net of issuance costs	20,477,215	20	344,304		344,324
Repurchase of shares	(12,375)		(113)		(113)
Dividend paid to stockholders			(274,051)	(7,978)	(282,029)
Antidilution payments made to optionholders			(13,892)		(13,892)
Excess income tax benefit for exercise of options			13,424		13,424
Tax benefit of antidilution payments made to optionholders			4,402		4,402
Tax effect of forfeiture of vested options in equity			(27)		(27)
Equity-based compensation			5,780		5,780
Balances at December 29, 2013	147,616,560	\$ 147	\$ 479,127	\$ 34,497	\$ 513,771
Net income				33,733	33,733
Issuance of shares under Option Plans	1,876,155	2	4,026		4,028
Excess income tax benefit for exercise of options			14,783		14,783
Equity-based compensation			1,407		1,407
Balances at March 30, 2014	149,492,715	\$ 149	\$ 499,343	\$ 68,230	\$ 567,722

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

Table of Contents**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)****(IN THOUSANDS)**

	Thirteen Weeks Ended	
	March 30, 2014	March 31, 2013
Cash flows from operating activities		
Net income	\$ 33,733	\$ 18,117
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	13,026	11,064
Accretion of asset retirement obligation	40	37
Amortization of financing fees and debt issuance costs	394	720
Loss on disposal of property and equipment	727	19
Equity-based compensation	1,407	1,049
Excess tax benefit for exercise of stock options	(14,783)	
Deferred income taxes	6,234	10,934
Changes in operating assets and liabilities:		
Accounts receivable	(1,203)	327
Inventories	(3,198)	(3,918)
Prepaid expenses and other current assets	2,557	949
Other assets	(686)	315
Accounts payable	22,920	25,519