

# Sprouts Farmers Market

Sprouts recently shed more light on its expansion plans, saying it is on track to open 30 stores in 2023 and 40 stores in 2024. Using RetailStat's POI (Point of Interest / Store Location database), Retail Openings & Closings (ROC) database, and Grocery Sales Estimates we have analyzed their past growth, current store network, and future expansion plans.

## Key Takeaways

- 1 Over 50% of stores are in Sprouts' largest markets: ~38% of stores are in the top five markets by store count, and over 50% of stores are in the top 10 markets by store count
- 2 ~40% of markets are small and have only one store
- 3 Sprouts is adding four new markets so far with the future stores announced
- 4 Sprouts is expanding in the mid-Atlantic market by entering the NY MSA and adding five stores across the other mid-Atlantic MSAs
- 5 Florida remains a growth focus; Growth from 2019-2023 was highest in FL with 17 stores added in the top 3 FL MSAs
- 6 Miami has four future openings being tracked in the ROC

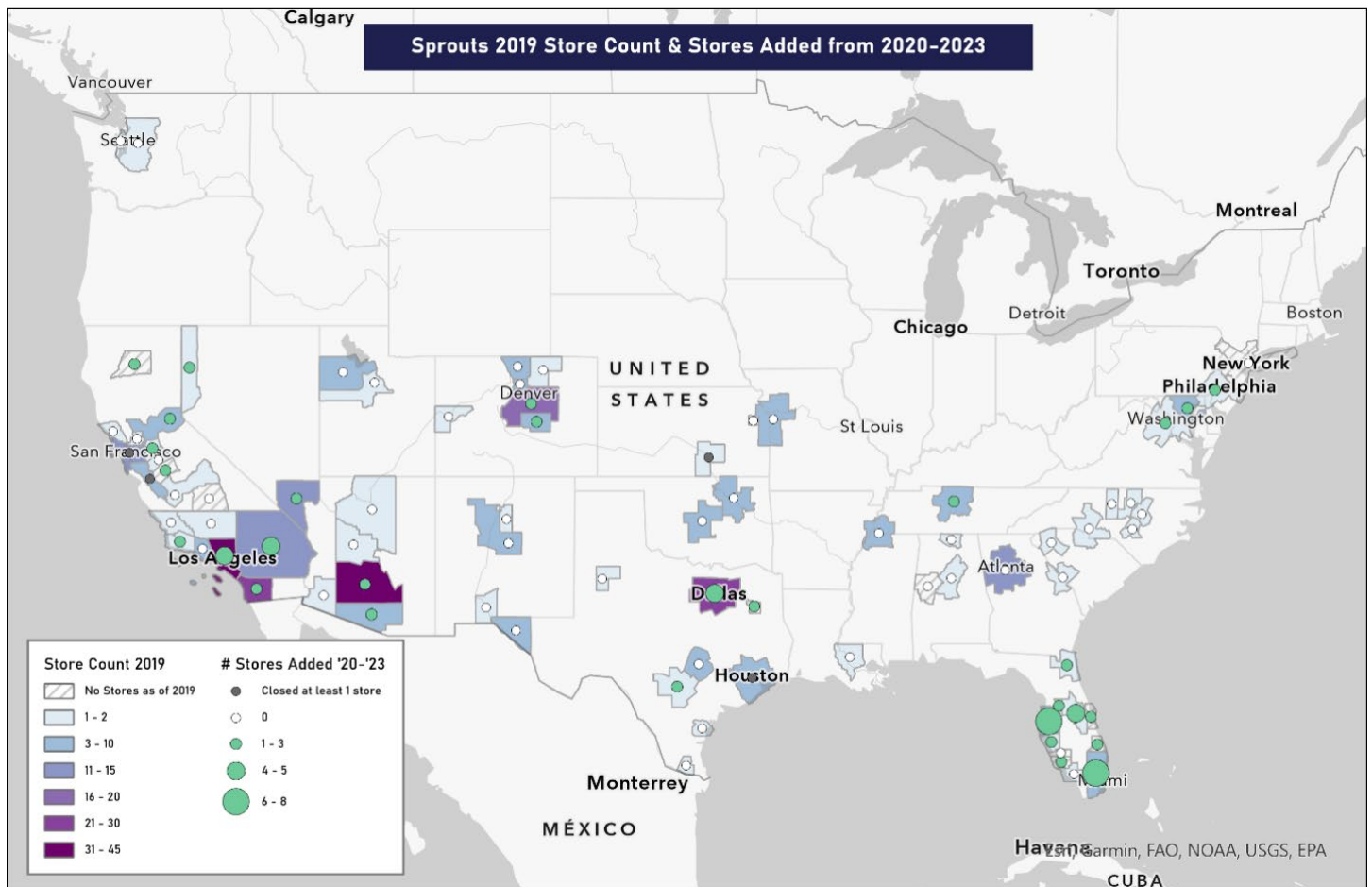
## Historical Growth

Founded in Arizona in 2002 after growing out of its open-air farmers market roots dating back to the 1940's in California, Sprouts Farmers Market rapidly expanded through the 2000's and 2010's densifying existing markets while also geographically expanding across most of the United States. However, following several years of slowing performance trends in the second half of the 2010s which led to an entire C-suite turnover, Sprouts' new management team modified its expansion plans focusing on increasing density in its existing markets with more, smaller, cheaper-to-build stores at around 23,000 square feet down from 30,000 historically. The Company also added three new distribution centers in Florida, Colorado, and the Mid-Atlantic, reducing the maximum distance to the store from as much as 500 miles to around 250 miles. The map below showcases these changes by examining the density of stores per market as of 2019 against the amount of store openings added between 2020 and 2023. Many of the far-flung expansionary markets as of 2019 saw the least growth, while mid-size markets saw the most. For example, Florida experienced significant store growth adding three stores in Cape Coral, six in Tampa, and eight in Miami. See below for an expanded map of Sprouts' growth in Florida.

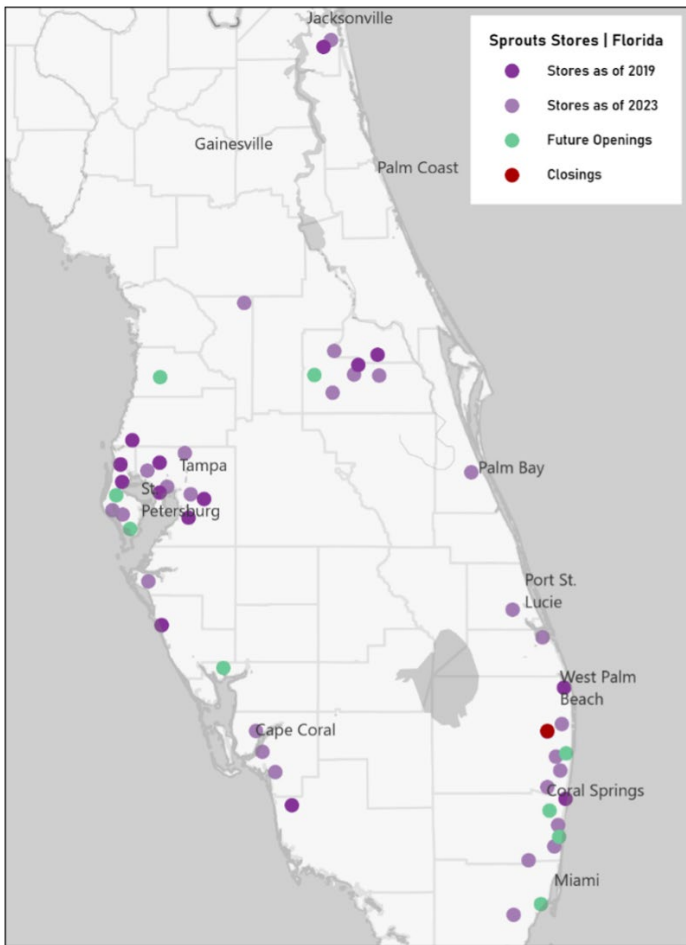
At the same time, Sprouts also entered several new markets. Of the 81 markets Sprouts operates in, it only operates one store in 31 of them, with seven of the 31 being new over the last three years. Management had previously commented that it takes years for Sprouts to gain market awareness in new markets and though it seems logical that Sprouts would plan to densify these expansionary markets, management recently noted

“ Our strong momentum from the end of 2022 continued into the first quarter, driving membership to more than 18.1 million, which reflects the Company’s highest quarterly net member growth since the first quarter of 2020. Our business continues to rebound from the impact of COVID-19 shutdowns with more than 50 percent of our U.S. stores opened prior to 2019 back to or above pre-pandemic membership levels, with member growth driving our 9.9 percent increase in system-wide same stores sales.

Thus, future investment in these markets remains unclear.



This map shows the density of stores per market as of 2019 against the amount of store openings added between 2020 and 2023. Data from RetailStat POI and Retail Openings & Closings (ROC).



Meanwhile, Florida remains a growth focus following multiple years of significant investment already.

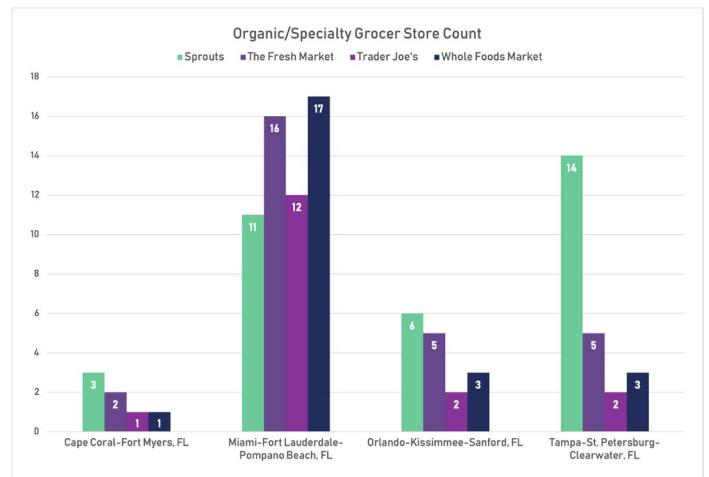
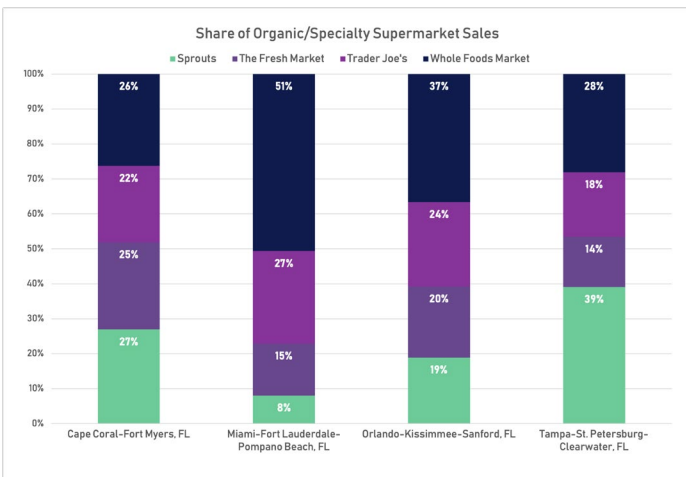
Currently, Sprouts has announced six future stores primarily in the Miami and Tampa markets with two confirmed to open in 2024. Management recently noted.

“ I’ve been very encouraged by Florida, though, in terms of where we’ve been-- because those stores are now big. We’re now getting some critical mass in areas like Tampa, and we’re seeing some encouraging 2-year numbers out of our Florida business, which suggests kind of how we thought about this that it takes a little bit longer and you need critical mass from a marketing point of view. ”

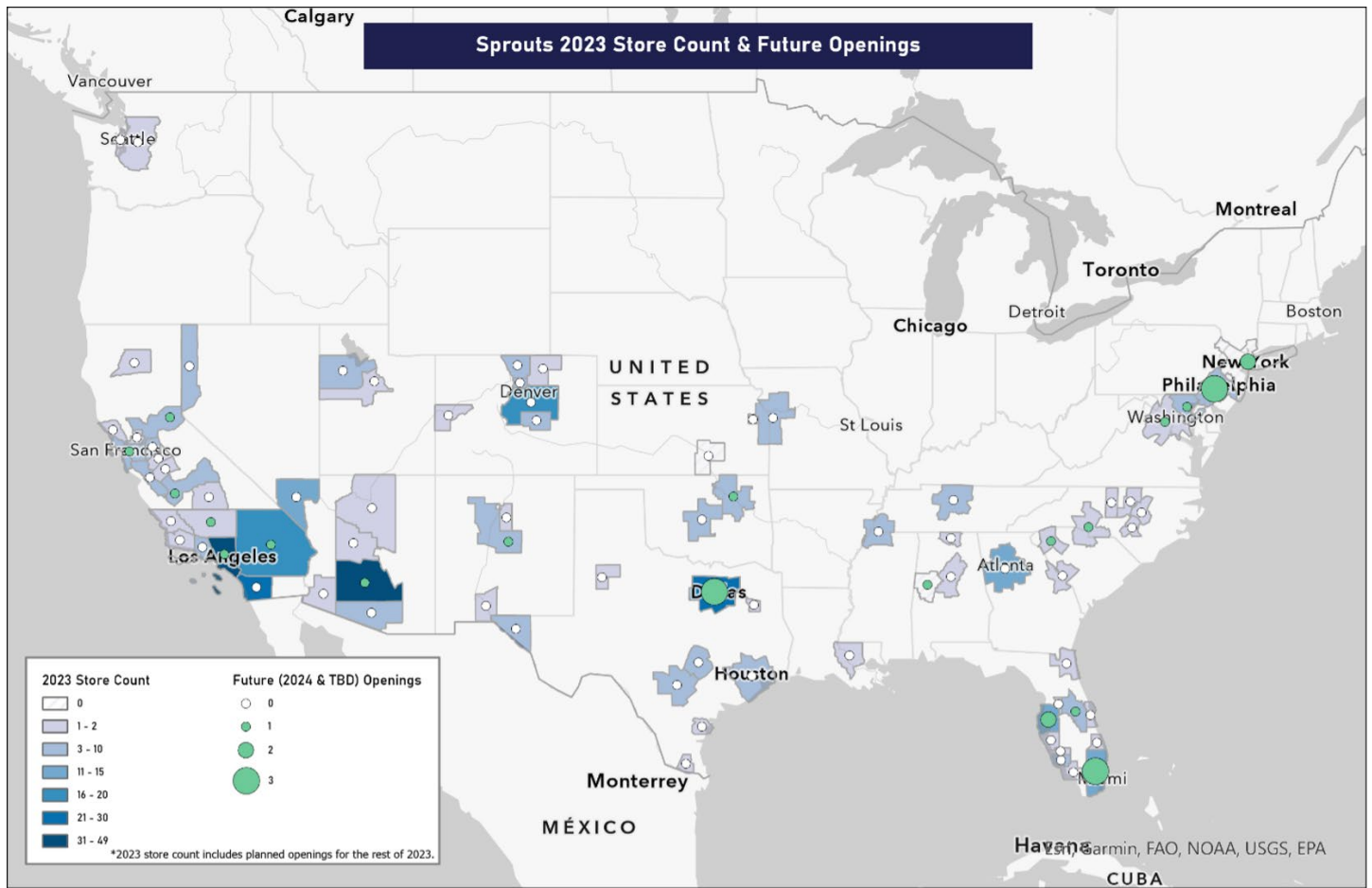
Sprouts has similarly indicated they would like to replicate this growth strategy in the mid-Atlantic region. Management recently opined on its Florida growth strategy noting,

“ We’ve got a bit of work to do to build on that in the Mid-Atlantic market. But we’ve got -- we’ve got that -- the plans in terms of the stores that we talked about are very much about consolidating the store base around tighter markets so that we can get the effective marketing in place. It takes a bit longer where we’re not known and it goes a bit faster in places where we are known. And we’re flexing our marketing communication a little bit on that as well as we go forward.” ”

The chart to the left showcases Sprouts Organic / Specialty market share by sales amongst its peers in Florida, while the chart on the right shows the store count.



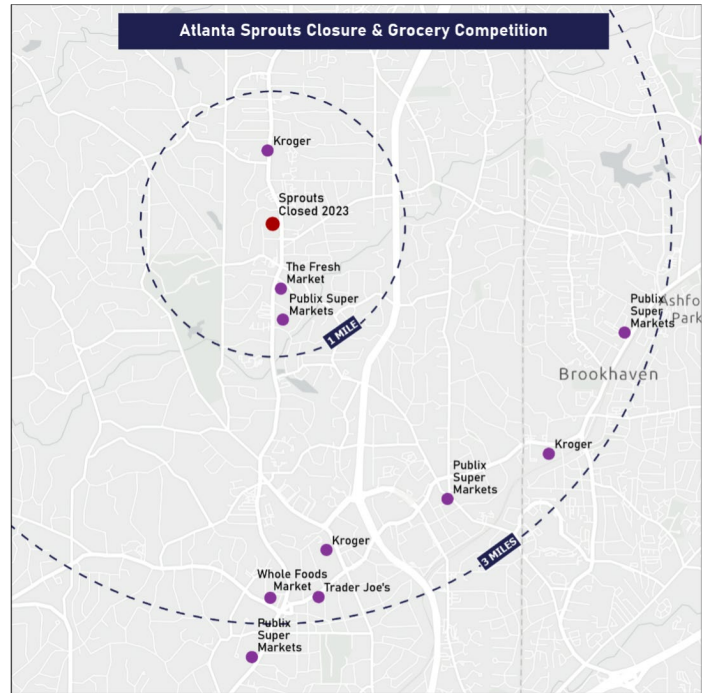
As Sprouts advances its Mid-Atlantic expansion, one new market of significance is New York. Sprouts has two planned openings in the New York MSA (Clifton and Sea Girt, NJ) representing its first expansion into the market. Beyond entering the NY MSA, Sprouts has also announced five openings in the Philadelphia, Baltimore, and Washington DC areas, increasing its store count in these regions from 11 to 18.



*This map shows the current (2023) store density by market against the announced future openings. Data from RetailStat POI and Retail Openings & Closings (ROC).*

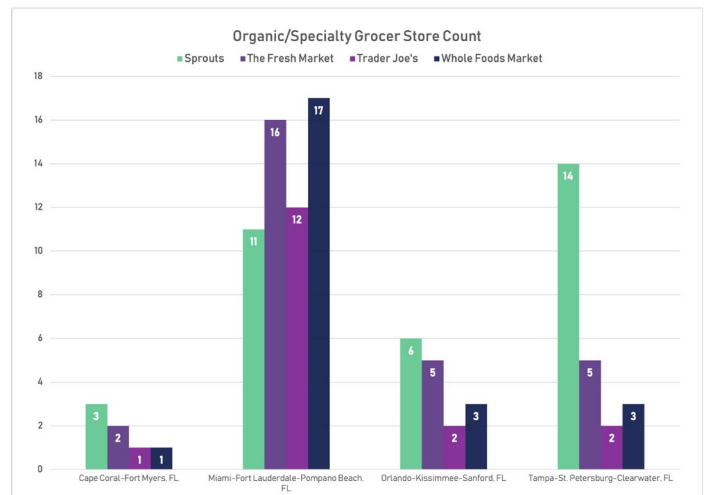
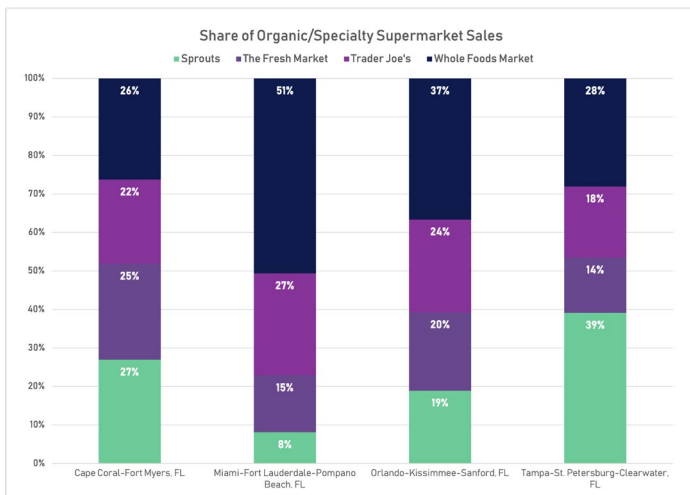
# Store Closings

While Sprouts has consistently been one of the fastest-growing grocers in the country, earlier this year, it announced 11 closures, representing about 3% of its store base. Though this could be seen as a red flag, these were also the first closures in over three years. By market, three of the closures were in Houston, TX, two were in Atlanta, and the other six were all in separate markets. Evaluating the closures, the most consistent theme is that it appears Sprouts was losing share to established grocers. As the Atlanta example on the right conveys, it does not appear that Sprouts self-cannibalized but rather, was less than a mile from established grocers including Publix, Kroger, Fresh Market and ~3 miles from Whole Foods and Trader Joes.



# Recap

Sprouts remains one of the fastest growing grocers, and that cadence is only expected to accelerate in the coming years with management targeting 10% unit growth annually, or around 40 stores in FY24. Growth will continue to be targeted in both newer and already established markets with California, Arizona, Florida, and now the Mid-Atlantic being some of the key drivers. To support this growth, the Company is continuing to expand its distribution center network; after adding the three distribution centers in Florida, the Mid-Atlantic, and Denver over the last few years, the Company is now expanding a distribution center in Texas and relocating and expanding its distribution center in Southern California. Lastly, with a strong B1 RetailStat credit rating supported by its almost pristine balance sheet, significant free cash flow, and strong liquidity, the Company has access to ample financial resources to continue investing in the business and supporting long-term growth.



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