CFA INSTITUTE RESEARCH CHALLENGE

By

JESSICA JANE SCHULTE

A Thesis Submitted to The Honors College

In Partial Fulfillment of a Bachelor of Science degree
With Honors in

Finance

UNIVERSITY OF ARIZONA

MAY 2016

APPROVED BY

____
Professor Arvind Singh
Department of Finance

Abstract

A traditional part of the portfolio management course at the University of Arizona's Eller College of Management, is that each year a team participates in the international CFA Institute Research Challenge. This challenge is an annual competition that permits university students around the world to gain intensive training and practice in financial analysis. Students work in teams of 4 or 5 over the course of a semester to research and analyze a publically traded company. This year we, along with all other schools participating in this competition were asked to value Sprouts. Being from the Southwest region, we and four other teams were further afforded the opportunity to speak with the CFO of Sprouts in addition to conducting our own research. Utilizing all the resources provided to us, we proceeded to develop a 10-page recommendation regarding our position on Sprouts' stock: buy, sell or hold. This competition culminated for our team in a verbal presentation given to a local panel of CFA Institute members which, when combined with our report score, afforded us second place.

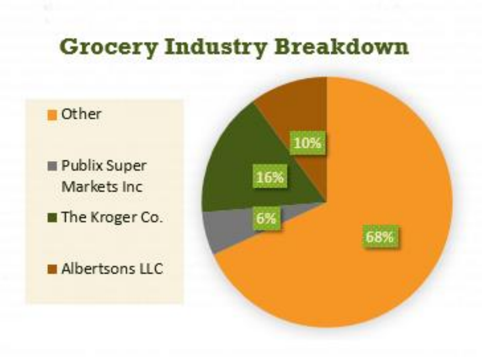
The remainder of this thesis report details the research and work involved in producing both the 10-page report and the presentation for this challenge.

Research & Methodology

As a team, we began our research by simply trying to understand how Sprouts operated as a company. We needed to determine how their management was structured and functioned, what changes had recently occurred to the company on a structural level, and then gain a base understanding of the company operations around the United States.

As it turns out, we came into this competition just after some dramatic changes had occurred to management. The long time CEO and founder of Sprouts, Doug Sanders, had stepped down shortly before to become Executive Chairman of the board. He had been replaced by the CFO Amin Maredia whose position had, thus, also been turned over to another employee; Susannah Livingston. As a potential investor in Sprouts, dramatic management changes like these tend to raise red flags and questions, all of which our team kept in mind while developing our opinion on the viability of purchasing or selling the stock.

Beyond basic management changes, we next looked to see how Sprouts operated as a company in the United States. We were looking for store and company attributes that set them apart in what we came to learn was a heavily saturated grocery and food supply market in this country. We discovered that Sprouts has a variety of unique attributes which make it stand out from its competitors. These include having a reversed store format, paying their employees higher than average wages and striving to provide organic and natural products to the average consumer.

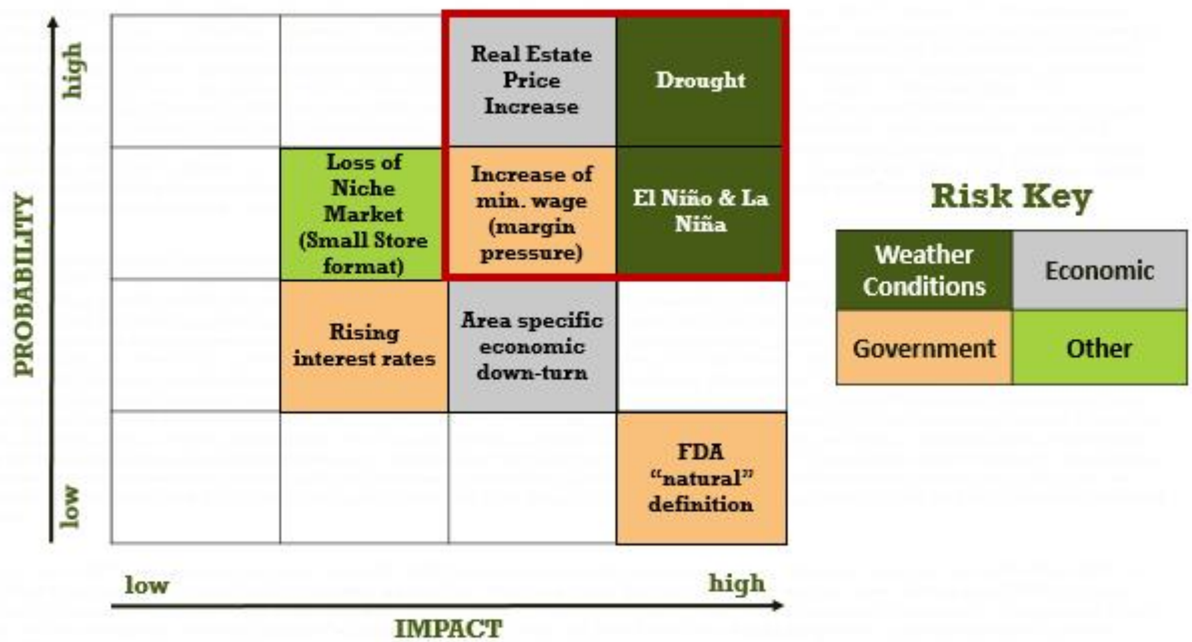


All of these traits which set Sprouts apart from its competitors helped our team determine the longevity of the company from an industry standpoint. A company that simply did what everyone else could with nothing unique about it, would not last long in this highly competitive and saturated grocery industry (explained graphically to the left). However, a company that stood out from the rest and focused its efforts on what made it unique, highly increased its chance of long term success.

Digging deeper into this information, we strove to determine what exactly Sprouts' strengths, weaknesses, threats and opportunities were by conducting a relatively traditional SWOT analysis. The strengths, listed above, were excellent signs for Sprouts in terms of being a viable company to invest in. Unfortunately, Sprouts had some glaring weaknesses which left our team somewhat concerned. The two main weaknesses we uncovered were the generally limited selection of Sprouts' stores which left customers few to no options regarding products they may wish to purchase. This was directly caused by Sprouts' commitment to having smaller store formats which, unfortunately, also created the drawback of only being able to stock so many varieties of goods. The second weakness we found was also tied to Sprouts' strengths and dealt with employee expenses. While employees appreciated being paid more by Sprouts and this helped the company retain staff longer, it led to dramatically greater costs for the company as a whole; something incredibly difficult to offset in a low margin market like groceries.

Following the strengths and weaknesses analysis, we conducted a threats and opportunities analysis, which allowed our team to better understand where Sprouts could thrive and where it could run into obstacles. Sprouts, as an organic and natural beacon for grocery consumers, is currently facing an excellent, growing market as the demand from consumers for organic and natural products increases. This, along with Sprouts' long term commitment to providing exactly these kind of products, places Sprouts in an ideal position to profit from this growing market. Another win for the company. Unfortunately, Sprouts also faced some steep obstacles which we felt would be difficult for the company to overcome, despite its excellent organic positioning and uniqueness as a brand. The first was the oversaturation of the grocery market. With over 40,000 grocery stores and chains in the United States, it is truly difficult for any one chain to stand out above the rest and capitalize on a large portion of the grocery market. Thus, Sprouts opportunities for growth are stunted simply by the nature of the industry they operate in. This, when coupled with the potential for wage inflation and, more importantly, food cost inflation made the outlook for Sprouts far more bleak than we had originally anticipated. With food prices rising Sprouts, as a low cost provider, would almost certainly see a tightening of margins in the products they offer, harming the company's overall profitability.

Our final steps in understanding the background of Sprouts and the environment in which it was operating, involved our team conducting an extensive risk analysis of Sprouts. We created the following diagram to demonstrate what precisely could impact Sprouts in terms of future risks:



This diagram details, from low to high expectancy and low to high impact, what risk factors our team felt would be most important to consider regarding the future of Sprouts and its success. Of the 8 factors listed, we focused our presentation to the CFA board on just four: increase of minimum wages, real estate price risk, El Nino & La Nina and the California drought.

For all four of these risks, the most important piece of information regarding their impact that our team discovered, is Sprouts' positioning as a low-cost provider of food. This means that Sprouts already has very slim margins on its produce (fruits, vegetables, etc…) and other food items which, if anything changes in the market and their costs must increase, directly impacts the company in one of two ways. Either Sprouts will be forced to raise their prices on their goods, passing along these increased costs to consumers and thereby losing their status as a low-cost provider of foods, or they will be forced to cut into their profit margins to maintain their current pricing structure. In either scenario, simply knowing that Sprouts is a low-margin operator in the grocery industry, was crucial for our conducting of the following risk analysis.

The damaging impact of rising minimum wages, touched on before, was our least impactful risk based on the above chart. While rising minimum wages would cut into Sprouts' profit margins, the way increasing prices of food would (as described above) we felt this would be less damaging than the other major risks we identified as Sprouts already pays its employees more than the average grocer. For the short term, the company as a whole may be able to put off also increasing their wages to match that of the country.

Of those remaining risks, and equally impactful, is that of real estate price increases. Sprouts, as a chain, tries to position its small stores in the most convenient locations for its consumers to reach.

This means that they are willing to pay a premium for space that places them closer to consumers and thus gives them an edge on their competitors whose locations consumers must intentionally visit in order to utilize. With real estate prices steadily increasing however, Sprouts has been forced to move to less optimal locations as it opens new stores. This directly damages the brand of Sprouts as it is no longer the “convenient” and “easy to reach” store it once was. Without being able to place itself in these premium locations, both due to sheer cost and the impact that larger real estate cost has on Sprouts margins, Sprouts has been forced to relinquish some aspects of this strength. This, as a potential investor, was alarming to us, especially considering the fact that real estate prices are only believed to increase in the future. This would, inevitably, continue to damage Sprouts’ ability to maintain its convenient locations.

Next, and even more impactful than real estate prices, was the potential impact Sprouts faced from two storms: El Nino and La Nina. Sprouts as a company sources anywhere from 40 to 60% of its produce from California, an area set to be heavily hit by these storms. In the past, both have independently increased produce prices anywhere from 1 to 6% meaning that, if either storm or both were detrimental this year, Sprouts could see yet another area of profit margin squeezing as produce prices increased.

Still worse than the storms, is the current drought situation in California. Already impacting crop output and thus prices, the California drought is one of the worst possible scenarios for Sprouts. It directly harms the suppliers of the food which their stores are known for and directly eats into their profits.

Overall, after conducting background research into the company’s management, learning about the strengths, weaknesses, opportunities and threats facing Sprouts and conducting a risk analysis, our team was highly skeptical about the ability of Sprouts to maintain its competitive advantage and thereby be considered a viable investment for us.

Valuation Techniques

Our team had already begun forming our opinion on Sprouts as a non-viable “buy” at this point in our process. However, being finance students, we were not satisfied with simply using logic to arrive at this conclusion. We set out to mathematically prove that Sprouts stock was indeed a “sell” and not a “buy”.

This portion of our work began with a financial analysis. Here, we examined the past performance of Sprouts as a company and found that Sprouts had some significant red flags. Overall, revenue growth had been declining for the past three years, along with same store sales growth. The reason we emphasized both in our report and presentation is that these are common markers for industry success. Grocery chains and stores tend to be measured on overall revenue performance and especially same store sales growth. Overall revenue growth proves the company is, overall, continuing to grow while same store sales growth shows that the overall growth is not just coming from expansion efforts but is also organically continuing in existing store locations. Based on our findings, Sprouts was lagging in both which was not a good sign.

We coupled these findings with our original evaluation of slimming profit margins from all the risks described above (minimum wage increases, real estate costs increasing, and food price inflation) and found ourselves looking at a very negative outlook for this company. If growth, without these conditions, was already slowing, how would Sprouts fare with any one of these scenarios impacting its profit margins?

Our analysis continued with a 5-step DuPont Analysis. DuPont Analyses provide investors with a better understanding of how a company is performing in comparison to the industry in which it operates. Again, we found alarming information. Our DuPont Analysis revealed that Sprouts' asset turnover was lagging and thereby decreasing the company's overall ROE; an important indicator for investors who aim to make a return on their investment and equity.

Armed with all of these warning signs, we set out to complete the most important form of valuation for this competition; a discounted cash flow analysis alongside a multiples analysis. A discounted cash flow gives us a better understanding of what a company's cash inflow will be over the course of the next 10 years, indicating overall profitability and success based on current assumptions and predictions of the future market situation. Multiples analyses offer a less detailed, but equally important view into the success of a company concerning a company's EV/EBITDA, PEG and so on. In tandem, these two forms of analysis give investors, like us, a very comprehensive view on the outlook of a company. What we found was, unfortunately for Sprouts, not positive. After creating the DCF and twelve other multiples, we found that Sprouts' stock was currently *overvalued* by twelve of our thirteen predictors. This essentially means that Sprouts, at its current stock price, was overvalued or cost more than it should have, based on future predictions of company performance discounted back to present monetary values.

To lay the nail in the coffin of Sprouts stock, we finished this valuation analysis by weighting our multiples analysis at 50% of our target stock price, and our DCF at the same. Using the values for Sprouts' stock price that both yielded, we came up with a target price of approximately $17.00 per share for this company. At the time of our presentation, the company's stock was trading at $23.74, far above our target value.

The culmination of this valuation demonstrated to us as a team that this company was not fit to be a "buy" recommendation for this competition both from a logical, environment standpoint and from our mathematical calculations. Thus, we proceeded in both our report to the CFA Institute and in our final presentation to pitch Sprouts as a "sell".

Successes & Failures of the Competition

This competition was absolutely one of the most interesting competitions I have had the fortune to participate in during my time here as an Eller student. I feel that our team did an outstanding job of completing the task at hand and truly did Eller and the University of Arizona proud with our work. That being said, we did not win the competition, meaning that certainly could have improved upon what we did.

One of the biggest areas I wish to improve upon for future years is the creation of the team that competes itself. This year, I felt that our team had 4 incredibly strong participants and had one weak link. I cannot say that our lack of success can entirely be attributed to this team member, but had we been permitted to select our own teams, I believe we could have outperformed the other teams in this competition even more than we did this time around.

The most important aspect of this competition which I wish we could have improved upon is our teams' overall commitment to the competition. I felt that we, as a team, were handed a case competition for our honors thesis work and told "do this" rather than being able to select what kind of case competition we wished to compete in. This, I felt, led to one team member having little commitment to our goal and thus harmed our report and presentation overall in addition to creating team discord. This combination led to a general underperformance of what I believe our team could have done had we competed with a fully-fledged, equally committed, 5-member team. I feel that this competition would be much better served, in future, if teams that competed in it were made up of students who felt a strong desire to be a part of this competition; not just honors students.

Success wise, I feel that our team did do the best job we could. Between the excellent research skills of myself, Marie Archibald and Lauren Hoepfner which led to the extensive background analysis described above along with the stellar analytical skills brought to the table by Acacia Moore and Fabio Mire which led to our various valuations, I believe we had a relatively well balanced group. All of us were strong presenters and very equally contributed to the actual content of our final, 10-minute pitch to the CFA board. Although I do wish that we had won the competition, as anyone would, I am absolutely not upset by the work we were able to put in and the results we saw because of it in this year's CFA Institute Challenge.

CFA Institute Research Challenge

Hosted in

CFA Society of Phoenix

Eller College of Management, University of Arizona

Initiating Report

Sprouts Farmers Market

University of Arizona- Student Research

Date: 1/22/2016 Current Price: $22.77 Target Price: $17.00 Industry: Grocery

Sector: Services HQ: Phoenix, AZ Exchange: NASDAQ Ticker: SFM

Recommendation: **SELL**

Investment Summary

Figure 1

52 wk range	16.41-38.45
EPS	0.76
P/E	29.98
Market Cap	3.36 billion
Average Volume	2.1 million

We are initiating coverage of Sprouts Farmers Market (SFM) with a **Sell** recommendation because we believe the stock to be overvalued and that future growth is somewhat limited. Our sell recommendation is supported by the evidence below:

Market Saturation & Limited Growth in Niche Market:
Sprouts is a health-oriented grocery store facing increasing competition from similar grocery chains such as Whole Foods and traditional grocers who carry organic foods. While Sprouts is able to capture a large number of health conscious, budget shoppers, many potential customers are deterred because not all of their shopping needs can be met at Sprouts alone. Stores such as Target, Kroger, and HEB, that are often utilized to supplement a Sprouts shopping trip, carry many of the most popular items that Sprouts sells while also offering a greater selection and more convenience. There are limited growth opportunities for niche, health oriented grocery stores such as Sprouts as traditional grocers begin to ramp up their sales of organic products and attract health conscious consumers.

Weather conditions:
Sprouts relies heavily on sales from produce and is therefore subject to price swings in produce based on weather conditions to include droughts and floods. 2015-2016 is expected to be a strong el Niño season, making it highly likely that there will be a strain on produce margins as produce costs increase, or that prices will be forced upward, deterring budget conscious shoppers.

Inability to pass costs to consumers:
One of Sprouts key principals is low prices, which makes it more difficult to pass costs of any kind along to consumers. These low prices attract customers but can be problematic if prices need to be increased in the case of food inflation, unpredictable weather conditions, and/or the pressure from increased wages on Sprouts' margins. Sprouts', unlike its competitors, such as Whole Foods, is unable to pass costs along to consumers because Sprouts often maintains constant prices even as prices rise causing increased margin pressure.

Premium to Competitors
Sprouts is trading at a considerable premium to all of its competitors which is likely unsustainable. Additionally, the intrinsic valuation of Sprouts shows a lower than market price valuation.

Business Description

Figure 2

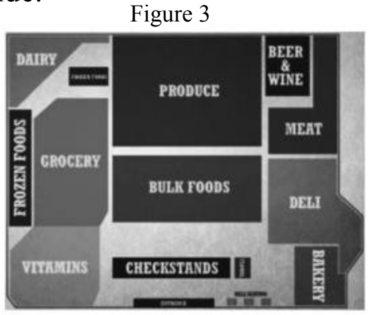
Sprouts Farmers Market is a health-oriented grocery store focused on providing customers fresh, organic, and natural foods at affordable prices in the United States. The company was founded in 2002 and now boasts a total of 216 stores in 13 states (Figure 2) as of November 5, 2015. Sprouts Farmers market has developed from a specialty food store to a health focused supermarket that provides a variety of items to include: fresh produce, frozen foods, vitamins and supplements, meat and seafood, bakery products, dairy, body care and natural household items to cater to their customers' interest in healthy living. Sprouts also provides a private label brand of products to its consumers that has continued to grow. This private label is being used to help Sprouts develop loyal customers and offer even more affordable prices, which distinguishes them from competitors.

Competitive Strengths

Sprouts Farmers Market focuses on three key values of business to meet the needs of consumers who have an increasing interest in healthy living.

- **"Healthy Living for Less"** - Sprouts slogan summarizes sprouts dedication to offering high quality, fresh, and organic products to customers at an affordable price storewide.
- **Store Model** - All Sprouts Farmers Market stores are formatted in a small-box format that "flips" the conventional supermarket and food retail store format by placing produce in the center of the store (Figure 3). Surrounding the produce are the other grocery store offerings that encourage customers to add more items to their carts (as shown on the right). The average store size is between 28,000 to 30,000 square feet, smaller than the typical grocery chain. The company focuses on produce to drive foot traffic by assigning 15% of the stores selling-square footage to produce. In total, Sprouts generates about $560 in sales per square foot. The rest of the floor plan is open with low displays to create a highly visible atmosphere. This encourages interaction between the customer and staff members while customers are shopping.
- **Knowledgeable staff** - Customer service focuses on training employees to be engaged, enthusiastic and educated about the products available to their customers. By doing so Sprouts enhances employees' knowledge and excitement for the customer's personal healthy living experience.

Figure 3



Selection & Products

Sprouts is a health-oriented grocery store that provides more than 17,000 fresh, natural, and organic products. The company's full selection of specialty items breaks up into: 3000+ organic, 3200+ gluten-free, and 2800+ non-GMO products. Sprouts categorizes the variety of items sold in their stores into perishables and non-perishables, the breakdown of which can be seen in Figure 4. Perishables are categorized as produce, meat, seafood, deli and bakery. Non-perishables are grocery, vitamins and supplements, bulk items, dairy and dairy alternatives, frozen foods, beer and wine, and natural health and body care.

Figure 4

	2014	2013	2012
Perishables	50.80%	50.1%	49.1%
Non - Perishables	49.2%	49.9%	50.9%

Management and Governance

Senior Management

In August 2015 there were several changes within the Sprouts Senior Management team; all of which were appointments of current employees to new positions. Previous President and CEO, Doug Sanders, was appointed to Executive Chairman of the Board of Directors in August 2015 after being with the firm since it's origination in 2002 holding a variety of positions. The CFO, Amin Maredia. joined Sprouts in 2011 was appointed to ascend into the CEO position. As a result, Susannah Livingston, the Vice President of Investor Relations and treasury, became the interim CFO. Susannah Livingston remains the interim CFO while Sprouts continues its search for a new CFO. The company has been adapting to these changes and will have to adapt again when a new CFO is appointed.

Board of Directors
On the Board of Directors, two out of the seven members previously held senior management positions in Sprouts. The first is previously mentioned Doug Sanders, the Executive Chairman of the Board. The second is Shon Booney, who has been with Sprouts since he co-founded the company in 2002. Overtime Shon Booney has served as Vice President, CFO, and CEO until he became a board member in August 2012. A complete list of all of the members of the Board of Directors is provided to the below in Figure 5.

Figure 5

Board of Directors	Senior Management	Compensation Committee
Doug Sanders	Amin Maredia- CEO	Lawrence Molloy
Andrew Jhawar	Jim Nielsen- COO	Steven Townsend
Shon Boney	Daniel Bruni- CIO	Terri Funk Graham
Joseph Fortunato	Ted Frumkin- CDO	
Terri Funk Graham	Shawn Gensch- CMO	
Lawrence Molloy	Nancy LaMons- Chief HR	
Steven Townsend		

Industry Overview and Competitive Positioning

There are approximately 42,383 operators in the grocery stores industry, three of whom represent 31% of the industry. Those top three stores are Kroger at 15.4%, Albertsons at 10.1% and Publix at 5.5%. With the top chain, Kroger, holding a very small percent of the market (15.4%), leaving 69% of this industry to be split between the remaining 42,380 companies in the industry, we can clearly see that grocery store concentration is incredibly low.

Specialized organic grocery stores such as Sprouts, Whole Foods, and Trader Joe's have seen a great opportunity for growth recently as sales of organic food grew 11.5% in 2013 and 12% in 2014. The demand for organic and natural produce and packaged food products has increased dramatically in the United States in the last decade as consumers have become more interested in healthier lifestyles. While growth in organic sales is expected to continue, so is the number of competitors these specialized stores face. Large chains such as Kroger, Target, Walmart, Costco, and many other supermarkets have begun selling organic produce and packaged goods capturing a large share of the organic market.

Expenditures in the US on organic foods have reached an all-time high over the past few years. In 2014, organic fruits and vegetable sales increased 12% to reach a total of $13 billion, making up 36% of all organic food sales in the United States. Furthermore, the organic dairy sector also experienced tremendous growth of about 11% to total $5.46 billion in 2014. By the end of 2015, the overall organic market is expected to reach a total of $45 billion in sales. This, argues TechSci Research, is due to the increasing health consciousness of shoppers, growing awareness of shoppers concerning chemical free organic foods and the growing per capita expenditures of American shoppers. Thus, demand growth in the organic food sector can be expected for the remainder of this year and into next.

Despite overall growth in organic food sales, specialized stores like Sprouts face difficulties attracting consumers as more conventional supermarkets begin to enter the organic food market and provide similar products to consumers. Sprouts has performed strongly in the past, but health-oriented grocery stores are a niche market and do not offer all the conveniences of larger, complete grocery stores. For most Sprouts shoppers, specialty organic stores require a secondary shopping trip for a larger variety of non-food and household items. Therefore, it is unclear that there is a substantial amount of room for attracting more customers that are willing to make additional trips to niche stores when larger supermarkets, such as Wal-Mart, Target, and Costco are increasing their organic food offerings. Spins reports that 76% of parents shop for their organic foods at traditional grocery stores while only 37% shop for their organic and natural foods at specialty grocers such as sprouts. This further illustrates that traditional grocery stores are selling more organic foods. Traditional supermarkets appeal to the growing, average consumer of organic goods who purchase a small amount of these natural items in addition to their usual grocery staples and non-food items, which Sprouts may carry but only stocks in a highly limited selection and quantity. This trend is evidenced by Costco shoppers because, as of June 2015, Costco became and remains the largest seller of organic food in the grocery store market.

Sprouts prides itself on the growth of its private label which expanded 16% in 2014. Even though the store and its private label have developed loyal consumers, Kroger's Private label, Simple Truth, is expected to reach $1.5 billion in sales this year, making it the largest natural food brand in the United States. This reaffirms our concern that specialty stores like Sprouts will face fierce competition from general or chain supermarkets that can offer many of the same mainstream organic products with greater convenience. Figure 6 shows how Sprouts compares to Whole Foods in regards to basket prices, number of similar products, sales, and a variety of other factors.

Figure 6

Sprouts vs. Whole Foods Organic Produce		
	WFM	*SFM*
Total # of Items on Sale	0	4
Percentage of Items on Sale	0.00	19.05%
Total # of Lowest Price Items - Regular Items	3	16
Total # of Lowest Price Items - Sale Prices	2	17
Total Reg. Price Basket - Brand Items	$54.90	$45.12
Lowest Price Basket (incl. Sale) - Brand Items	$54.90	$41.96
SFM Basket % Discount to WFM - Reg Prices		21.68%
SFM Basket % Discount to WFM - Sale Prices		30.84%

SWOT Analysis

Strengths

Customer Service
Sprouts strives to have the best customer service in the supermarkets industry with high levels of interaction between customers and all floor-based employees. A heavy emphasis placed on staff members' knowledge and expertise of all in-store products to allow employees to educate customers on the benefits of healthy living. This helps increase Sprouts retain their consumers, 59% of whom come from traditional grocery stores; and helps increase the average consumer's monthly spending to about 3 times their initial purchase. Sprouts stores are staffed on average with 80 to 90 full and part-time employees to include a store manager, an assistant manager, 8 department managers, 5 assistant department manage, store employees and other staff members.

Supplier Relationships
Because of their history of selling only organic and natural products, Sprouts has been able to develop strong relationships with suppliers. This allows them to secure optimal pricing, and security regarding the quality of their products.

Employee Knowledge
Sprouts trains its employees to be knowledgeable about the products sold by their stores. This allows employees to be more helpful to customers who are new to shopping at Sprouts or who are experienced health-oriented shoppers and simply need further information on products in the store.

Weaknesses

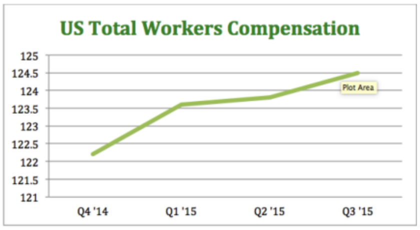
Limited Selection

Sprouts only offers a small selection of home care items for its customers when compared to all of its competitors. The majority of Sprouts' customers have to make at least two trips when running errands for their household: one to Sprouts for their groceries and produce and then a second to other retailers for cleaning supplies, homecare and other staple household items. This is the area in which Sprouts lags behind competitors such as Target and Wal-Mart who have already begun entering into the organic food market and currently have these household items available to the average consumer.

Employee Expense

The US total workers compensation has been increasing starting in quarter four of 2014 (Figure 7). Sprouts is hurt more than their competitors by the compensation increase because the cost of training Sprouts employees and wages are higher than average in their industry. As a result, Sprouts has tighter margins and cannot easily absorb cost increases as well as its competitors can.

Figure 7

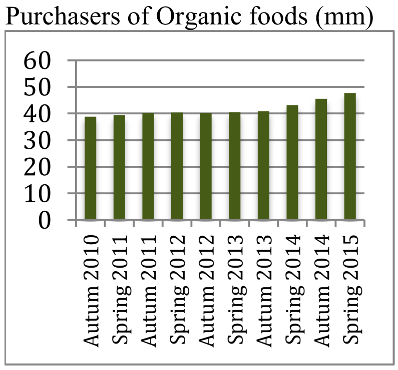


Opportunities

Organic Sales Growth

Since 2000, the United States has been seeing growth in organic food sales (Figure 8) because of an increasing trend in personal health and healthy living experiences among Americans. Sprouts holds a 0.5% share of the $89 billion natural and organic foods market. The number of people buying organic food from the spring of 2014 to the spring of 2015 increased from 45.58 million to 47.77 million respectively. SPINS projects an annual growth rate of 9.3% through 2018 in the natural and organic food segment. There is therefore an opportunity for Sprouts to capture the health curious consumer who wants to learn more about healthy living and eating in a niche, secondary shopping environment. However, it is likely that the opportunities for growth are limited by Sprouts niche market rather than the comprehensive nature of a store like HEB.

Figure 8



Threats

Competition

Competitors such as Target and Wal-Mart are beginning to increase the amount of natural and organic food items that both provide in their stores. More than half of the number of households that are shopping at Target state that they purchase natural and organic items when they are offered. Target's sales growth of natural and organic products thus outpaced the industry's sales growth by 50% in 2014 alone. Additionally, Wal-Mart is experiencing positive feedback on the Wild Oats products they placed on their shelves in 2014 - marking a strong point of their continued transition to the organic food space. Sprouts is at a disadvantage as it is a secondary grocery trip for many consumers. Additionally, there is more room for organic sales growth from traditional grocers rather than niche markets as the number of consumers looking to add a second grocery trip to their week is limited.

Costs and Wage Inflation

Food prices are lagging behind the purchasing costs for food retailers. Starting in May 2012, the PPI has been outpacing the CPI. In 2014 CPI data for food bought for consumption at home came out to 2.7%, which was strengthening inflation, but still fell below the Producer Price Index (PPI) that came out at 4.3%. Stronger PPI levels increase margin pressure on Sprouts if they refuse to pass prices along to their consumers to maintain their low costs for organic food as compared to their competitors. Sprouts also faces a threat regarding wage inflation or benefit costs. Any change in the federal or state level minimum wage laws could increase wage costs. In September 2015 the compensation costs for civilian workers increased by 0.6%, adjusted for the 3-month period ending in September showing trends towards wage inflation. The results of wage inflation would increase company's expenses, which would create negative impact on the profitability of the company, as again these increased costs cannot fully be passed along to the consumer.

Investment Risks

Real-estate Risk

In Q3 of 2015, US retail property vacancies reached a 5-year low of just 10.1%. With this decrease in available space came an increase in average retail rental prices for companies like Sprouts which, at its current trajectory, will be approximately a 3.1% increase in 2016. This increase (Figure 9) will lead to a rent price of about $17.44/sq ft, pushing up Sprouts fixed costs. In addition to rising rent prices, same-store sales have begun slowing, pushing natural and organic retailers like Sprouts and Whole Foods to avoid renting out premium real-estate locations in preference for those that are less advantageous but cost less overall. These lower rental prices allow Sprouts and its competitors to fit pricing within adjusted return-on-investment requirements but at the cost of location convenience; a pillar of Sprouts' success.

Figure 9

Regulatory Risk

The FDA is currently gathering public information in response to three separate citizen petitions requesting legal definition regarding the term "natural" in foods. While there is no set date for when this definition may be put in place, there is speculation that the term may be thrown out entirely by the FDA which would directly impact Sprouts', natural and organic positioning in the grocery market.

Supply disruption

Between the continuing four-year drought being experienced in California and the dramatic weather conditions expected from El Nino, all estimates point to produce, fruit and vegetable, prices increasing. This will be due to a combination of lesser food production and produce shortages across the state.

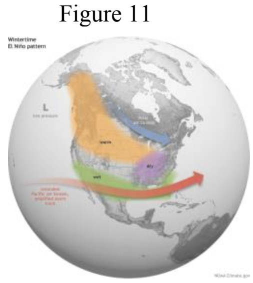
Drought

The California drought affects the prices of fruits and vegetables, which threatens to put pressure on Sprouts' margins on produce. California produces almost 50% of fruits and vegetables in the United States. As a result, with farmers leaving their land idle, produce prices have begun climbing. The US Department of Agriculture predicts this increase may reach as much as 6% for fruit and 3% for vegetables this year alone. Figure 10 depicts the severity of California's drought.

Figure 10

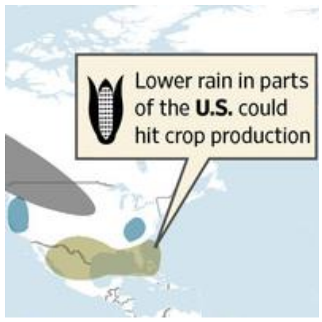
El Niño and La Niña

Figure 11



A majority of Sprouts produce, anywhere from 40 to 70%, is sourced from the state of California depending on the time of year. Figure 11 shows the winter El Nino pattern and illustrates the amplified storm track. This year, with El Niño poised to hit California, disruption of Sprout's produce supply in the state of California is expected. These negative impacts extend above and beyond the current drought situation impacting the state. The drought alone may increase fruit and vegetable prices by as much as 6% and 3% respectively this year. These price increases, when coupled with the cooler, wetter winters of El Niño which have historically lowered crop production by 1-2%, may increase even further.

Figure 12



Additionally, El Niño is often followed by its sister phenomenon, La Niña, which produces the opposite effects of El Niño. La Nina typically brings below average temperatures and drier weather to the United States. Figure 12 shows how La Niña will affect the United States. Forecasters predict an 89% chance of La Nina occurring after this El Niño as early as December 2016. La Nina can disrupt agriculture production, and greatly impact soft commodity prices. Droughts are also more prevalent in La Nina years, which would further exacerbate California's current situation. 11 of the last 15 El Niño seasons have been followed by La Nina.

This leaves us and Sprouts with an overall negative impact first caused by the drought, then aggravated by the uncontrollable effects of El Niño and potentially La Nina expected to hit California this year.

Economic Risk

Sprouts is susceptible to a variety of economic activity that may negatively affect business.

- The Federal Reserve continuing to raise interest rates will make borrowing for expansion purposes more expensive for Sprouts. This could slow the rate at which Sprouts is able to expand into new regions.
- An increase in minimum wage would put pressure on Sprouts to increase wages. In order to keep current employees Sprouts would need to incentivize them, likely in the form of a pay raise, which would further tighten already slim margins.
- Economic downturn in any of the areas in which Sprouts has a large presence would hurt Sprouts' customers and may result in a smaller budget for organic and natural products. For example, Sprouts operates a large number of stores in Texas, an area recently stricken by low oil prices. The increase in regional unemployment will reduce the amount of discretionary income available in this area, in turn hurting Sprouts' sales.

Financial Analysis

Sales Growth

Due to the increase in health-oriented consumers and Sprouts' position as the low-cost provider among its peers, the company has experienced robust sales growth, averaging 39.95% over the last three years. Given that Sprouts has already reported sales of $2,662 million through 3Q, an estimate of 20.45% revenue growth for 2015 is reasonable. Despite strong growth over the last few years, this revenue growth is declining as demonstrated in the table below. As mentioned in the Industry Overview and Competitive Positioning Section, traditional grocers are selling an increasing amount of organic foods with 76% of parents shopping for their organic foods at traditional grocery stores.

Figure 13

Revenue and Same Store Sales Growth				
	2012	**2013**	**2014**	**2015E**
Revenue Growth	62.30%	35.83%	21.72%	20.45%
Same Store Sales	9.70%	10.70%	9.90%	5.27%

Margin Pressure

Sprouts faces margin pressure because it prides itself on being a low cost grocer. Sprouts inability to pass many of its costs along to its consumers is mentioned in the above SWOT Analysis; however, the table below provides quantitative support. Sprouts has a higher than average operating margin but has a profit margin significantly below the industry's average. Sprouts' above average interest expense is a key contributor to their lower profit margin.

In the future we expect SFM's profit margin to face pressures from real estate costs and food inflation costs. As competition increases in the industry so does the competition for commercial real estate, which drives the costs to lease/purchase locations for new stores growth up. Although Sprouts historically has done well at minimizing costs in real estate for its new locations, it now faces competition from major chains which are seeking a similar store size and model to Sprouts. This has caused an increase in rental costs which can be seen in the last half 2015. Additionally, Sprouts has been operating in a low food inflationary environment which has helped margins. We expect this to change as food inflation has also been steadily increasing. Further production and supply disruptions caused by volatile weather conditions will escalate these increases to the cost of food even more rapidly. Since Sprouts' commitment to being the low cost provider is at the center of its values, it would not be able to pass on these costs to consumers and thus would experience pressure on its margins.

Additionally, our team predicts company will have to increase expenditures in advertising due to its expansion into new regions to attempt to maintain target sales growth and establish a presence in new markets. Also included in these costs are "store pre-opening costs" where we also anticipate an increase predominantly from rent price increases caused by the inflationary commercial real estate market previously mentioned. Finally, we anticipate Sprouts will face increased compensation costs due to wage inflation. Wage inflation has been low for some time but has recently begun to increase and is expected to continue doing so over the coming years. Sprouts' focus on hiring strong staff to provide good customer service will result in higher compensation costs in-store as wage inflation rises. Since Sprouts' commitment to being the low cost provider is at the center of its values, it would not be able to pass on these costs to consumers and thus would experience pressure on its margins. For these reasons, Sprouts has begun to experience margin pressure and will continue to experience this pressure in margins

Figure 14

Three Year Margin Averages		
	Industry Average	**Sprouts**
Gross Margin	29.89%	29.71%
Operating Margin	5.09%	5.46%
Profit Margin	3.04%	2.27%

DuPont Analysis

Figure 15

DuPont Analysis			
	2012	**2013**	**2014**
Operating Profit Margin	3.94%	5.72%	6.73%
Industry Average	4.99%	4.94%	5.32%
Asset Turnover	1.6x	2.1x	2.2x
Industry Average	3.0x	2.9x	3.1x
Interest	1.98%	1.53%	0.84%
Industry Average	0.06%	0.06%	0.02%
Equity Multiplier	2.9x	2.3x	2.0x
Industry Average	2.7x	2.7x	2.8x
Tax Retention Rate	56.09%	61.05%	61.85%
Industry Average	81.86%	82.65%	82.32%
ROE	7.09%	14.45%	16.98%
Industry Average	26.63%	25.49%	30.27%

ROE Decomposition

Overall, Sprouts' return on equity has improved in the last three years from 7.1% to 17.0% (Figure 14). Despite this, SFM has trailed the industry average for return on equity in all three years as shown by the table above. In order to further analyze the components leading to this underperformance, a five-step DuPont was conducted. The results from this decomposition reveal that Sprouts' operational efficiency, specifically in asset turnover, is lower than its competitors. The asset turnover ratio is lower than its competitors for the last three years. Although other factors of the DuPont play a role in Sprouts' low return on equity, asset turnover is the largest contributing factor. In fact, if Sprouts' asset turnover was the same as its competitors, it would increase its three-year average return on equity by 7.7%.

Valuation

Discounted Cash Flow Analysis

In order to measure the intrinsic value our team conducted a 10-year DCF which we weighted at 50% of the valuation. Doing this, we found that Sprouts is overvalued on an intrinsic value basis as our DCF yielded a value of $17.74. Key assumptions are explained as follows:

Sales Growth

The natural and organics industry, an industry where Sprouts holds 0.5% market share, is expected to grow at a rate of 9.3% annually through 2018. Given the company's robust performance through Q3 of this year, we expect sales growth for 2015 to be similar to 2014. That being said, our model projects Sprouts' sales growth will decrease and settle in a range between 15-17% annually in the years following 2015 as a result of market saturation and the challenges of operating in new markets, as discussed in the financial analysis section. Also, although Sprouts is currently growing rapidly, we expect this growth to begin to slow after 5 years. Our model projects linear declining sales growth after 2019 to a growth rate in 2024 of 6.5%, double the average US GDP. Mid-term sales growth estimates are in accordance with mid-term guidance, consensus estimates, and industry trends. Specific growth percentages are shown below.

Revenue growth (%)		2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Strong case	1	22.5%	17.5%	18.5%	18.0%	17.5%	15.7%	13.9%	12.1%	10.3%	8.5%
Base case	2	20.5%	15.5%	16.5%	16.0%	15.5%	13.7%	11.9%	10.1%	8.3%	6.5%
Weak case	3	18.5%	13.5%	14.5%	14.0%	13.5%	11.7%	9.9%	8.1%	6.3%	4.5%

Gross Profit Margin

As mentioned in the financial analysis, we expect SFM's profit margin to face pressures from real estate costs and food inflation costs. Given these challenges, our model projects a declining gross profit margin through 2019. After 2019 we expect a stabilization of these costs and ultimately an increasing gross profit margin as Sprouts begins to mature as a company. Gross margin projections are shown below.

Gross Profit margin (%)		2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Strong case	1	29.7%	29.6%	29.5%	29.3%	29.0%	29.0%	29.0%	29.1%	29.1%	29.1%
Base case	2	29.2%	29.1%	29.0%	28.8%	28.5%	28.5%	28.5%	28.6%	28.6%	28.6%
Weak case	3	28.7%	28.6%	28.5%	28.3%	28.0%	28.0%	28.0%	28.1%	28.1%	28.1%

Selling, General, and Administrative Costs

Our model projects a slight uptick in selling, general, and administrative costs for Sprouts through year 2019. Heightened costs in this category would originate from increased advertising expense incurred from competing in new markets and from continual real estate inflationary pressures, accounted for as "store pre-opening costs". As with gross profit margin, a stabilization of these costs and slight decrease is projected after 2019 as Sprouts matures and becomes accustomed to these two challenges. Selling, general, and administrative costs are shown below.

SG&A and Other margin (%)		2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Strong case	1	22.0%	22.1%	22.2%	22.2%	22.3%	22.3%	22.2%	22.2%	22.2%	22.2%
Base case	2	23.0%	23.1%	23.2%	23.2%	23.3%	23.3%	23.2%	23.2%	23.2%	23.2%
Weak case	3	24.0%	24.1%	24.2%	24.2%	24.3%	24.3%	24.2%	24.2%	24.2%	24.2%

CAPEX, Depreciation, and Taxes

Our projections assume that capital expenditures for Sprouts will remain at 3.2% of sales for the mid-term. This assumption is in line with historical capital expenditures for the company and Sprouts' expansionary outlook suggests this expenditure will not decrease. Depreciation was grown at the same rate as sales within the model, as this has historically been the trend for Sprouts' depreciation expense. For taxes our model projects a straight-line of the current tax rate, there is no information that leads to the conclusion that Sprouts will experience a different tax rate than it has historically.

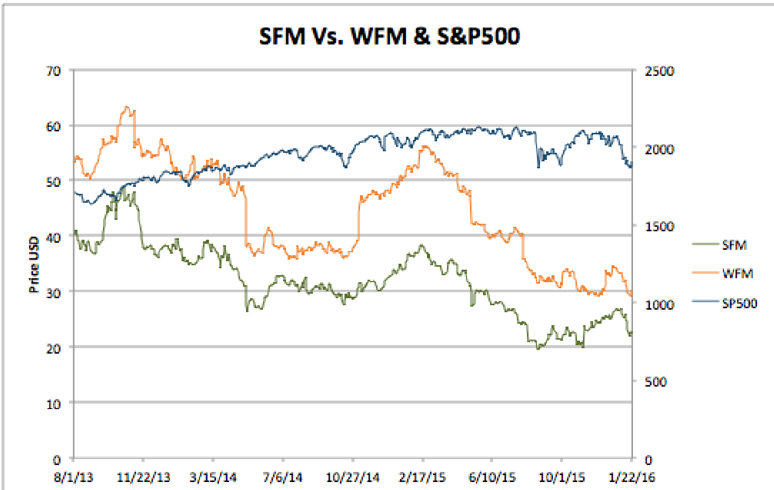
Terminal Value

In order to calculate terminal value both the exit multiple method and the perpetuity growth method were utilized. For the perpetuity growth method, a perpetuity rate of 3.25% was assumed. This is equal to the average U.S. GDP since 1947 and gives Sprouts a valuation of $15.62. Although Sprouts is growing at a faster rate than this rate at the moment, this is a fair assumption given that its growth rate will slow and ultimately be more reflective of U.S. GDP in perpetuity. For the exit multiple method, an exit EV/EBITDA multiple of 7.0x was assumed, derived from a mean industry EV/EBITDA multiple. This resulted in a $19.86 valuation for Sprouts. For our DCF valuation both of these terminal value methods were weighted equally resulting in an intrinsic value of $17.74 for Sprouts.

Comparable Companies Analysis

To measure the value of Sprouts on a relative basis our team conducted a comparable companies analysis. Given that a core challenge that Sprouts faces is increased competition and market saturation, the relative valuation was weighted equally with the intrinsic valuation at 50% of the total valuation. A list of competitors that demonstrated similar financial/operating characteristics as Sprouts or have opened smaller chains which directly threaten Sprouts' market was utilized. On a relative basis Sprouts was still overvalued with the multiples analysis yielding a value of $15.91. This value was achieved with a broad set of 13 equally weighted multiples, each of which is listed in Appendix 6. SFM was found to be overvalued in 12 of the 13 relative valuation metrics (refer to median numbers in Appendix 8). For reference, Figure 16 shows how Sprouts performed as compared to Whole Foods and the S&P500 over a three year time span

Figure 16



Appendix 1: Common Sized Income Statement (Standardized)

	Actual			Projected									
	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	70.5%	70.3%	70.2%	70.8%	70.9%	71.0%	71.2%	71.5%	71.5%	71.5%	71.4%	71.4%	71.4%
SG&A and Other	25.6%	24.0%	23.1%	23.0%	23.1%	23.2%	23.2%	23.3%	23.3%	23.2%	23.2%	23.2%	23.2%
Operating Profit	3.9%	5.7%	6.7%	6.2%	6.0%	5.8%	5.6%	5.2%	5.2%	5.3%	5.4%	5.4%	5.4%
Interest Expense	2.0%	1.5%	0.8%	0.7%	0.5%	0.4%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.1%
Nonoperating Income / (loss)	0.0%	-0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pretax income	1.9%	3.4%	5.9%	5.5%	5.5%	5.4%	5.2%	4.9%	5.0%	5.1%	5.2%	5.2%	5.2%
Taxes	0.9%	1.3%	2.2%	2.1%	2.1%	2.1%	2.0%	1.9%	1.9%	1.9%	2.0%	2.0%	2.0%
Equity in income of affiliates, after taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Minority interest expense, after tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	1.1%	2.1%	3.6%	3.4%	3.4%	3.3%	3.2%	3.0%	3.1%	3.2%	3.2%	3.2%	3.2%
Common dividends	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Appendix 2: Common Sized Balance Sheet (Standardized)

	Actual			Projected									
	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Cash and Cash Equivalents	6.1%	6.6%	9.5%	11.7%	14.8%	17.8%	20.5%	22.9%	25.2%	28.0%	30.8%	33.3%	35.5%
Accounts Receivable	0.8%	0.8%	1.0%	1.1%	1.2%	1.2%	1.3%	1.3%	1.4%	1.4%	1.3%	1.3%	1.2%
Inventories	8.9%	10.1%	10.4%	11.6%	12.2%	12.8%	13.3%	13.9%	14.1%	14.0%	13.8%	13.4%	12.9%
Deferred Income Taxes	4.3%	2.8%	2.6%	2.7%	2.8%	2.9%	2.9%	2.8%	2.9%	3.0%	3.0%	2.9%	2.8%
Prepaid Expenses	0.4%	0.7%	0.8%	0.9%	0.9%	1.0%	1.0%	1.1%	1.1%	1.1%	1.1%	1.0%	1.0%
Other Current Assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity in Affiliates	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PPE	27.5%	29.8%	33.2%	33.2%	33.0%	32.7%	32.5%	32.5%	32.5%	32.2%	32.0%	31.9%	31.9%
Goodwill	33.4%	31.4%	26.9%	24.6%	22.3%	20.1%	18.0%	16.1%	14.5%	12.9%	11.5%	10.3%	9.3%
Intangible Assets	17.8%	16.7%	14.2%	13.0%	11.8%	10.6%	9.5%	8.5%	7.6%	6.8%	6.0%	5.4%	4.9%
Other Non-Current Assets	0.9%	1.1%	1.3%	1.2%	1.1%	1.0%	0.9%	0.8%	0.7%	0.6%	0.6%	0.5%	0.4%
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Accounts Payable	7.5%	9.5%	8.2%	9.2%	9.6%	10.1%	10.5%	11.0%	11.2%	11.1%	10.9%	10.6%	10.2%
Accrued Expenses	4.4%	4.7%	5.2%	5.7%	6.0%	6.3%	6.6%	6.8%	7.0%	6.9%	6.8%	6.6%	6.3%
Taxes Payable	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Current Liabilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Current Portion of Long-term Debt	0.5%	0.8%	2.7%	1.6%	1.4%	1.2%	1.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Short Term Debt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Long Term Debt	48.0%	36.0%	27.0%	23.1%	19.6%	16.4%	13.7%	11.4%	10.2%	9.0%	8.1%	7.2%	6.5%
Convertible Debt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred Income Taxes	0.0%	0.0%	1.4%	1.4%	1.5%	1.5%	1.5%	1.5%	1.5%	1.6%	1.6%	1.5%	1.5%
Other Non-Current Liabilities	4.6%	5.2%	5.4%	5.0%	4.5%	4.0%	3.6%	3.2%	2.9%	2.6%	2.3%	2.1%	1.9%
Total Liabilities	64.9%	56.2%	49.9%	46.0%	42.5%	39.6%	37.0%	34.8%	32.7%	31.2%	29.6%	28.0%	26.4%
Minority Interest	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Convertible Preferred Stock	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Common Stock and APIC	35.9%	40.9%	39.7%	36.3%	32.9%	29.6%	26.6%	23.8%	21.4%	19.0%	16.9%	15.2%	13.7%
Treasury Stock	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Comprehensive Loss	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Equity Account	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Retained Earnings	-0.8%	2.9%	10.4%	17.7%	24.5%	30.8%	36.5%	41.3%	45.9%	49.8%	53.5%	56.8%	59.9%
Total Shareholders' Equity	35.1%	43.8%	50.1%	54.0%	57.5%	60.4%	63.0%	65.2%	67.3%	68.8%	70.4%	72.0%	73.6%
Total Liabilities + Shareholders' Equity	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Appendix 3: Financial Statement Model (Income Statement)

	Actual			Projected									
	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024
Total Revenues	1,794.8	2,437.9	2,967.4	3,574.3	4,128.3	4,809.4	5,578.9	6,443.7	7,326.5	8,198.3	9,026.3	9,775.5	10,410.9
Cost of Goods Sold - REPORTED	1,264.5	1,712.6	2,082.2										
Cost of Goods Sold - PRO FORMA	1,264.5	1,712.6	2,082.2	2,530.1	2,925.8	3,413.9	3,973.3	4,607.2	5,238.4	5,861.8	6,444.8	6,979.7	7,433.4
SG&A and Other - REPORTED	459.6	585.8	685.5										
SG&A and Other - PRO FORMA	459.6	585.8	685.5	822.1	953.6	1,115.8	1,294.3	1,501.4	1,707.1	1,902.0	2,094.1	2,267.9	2,415.3
Operating Profit - EBIT	**70.7**	**139.5**	**199.7**	**222.0**	**248.9**	**279.8**	**311.3**	**335.1**	**381.0**	**434.5**	**487.4**	**527.9**	**562.2**
Interest Expense	35.5	37.2	25.1	23.3	21.5	20.1	18.8	17.5	16.2	15.5	15.5	15.5	15.5
Nonoperating Income / (loss) - REPORTED	(0.4)	(18.2)	(0.5)										
Nonoperating Income / (loss) - PRO FORMA	(0.4)	(18.2)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Pretax income - EBT	**34.8**	**84.1**	**174.1**	**198.2**	**226.8**	**259.1**	**292.0**	**317.1**	**364.2**	**418.4**	**471.3**	**511.8**	**546.1**
Taxes - REPORTED	15.3	32.7	66.4										
Taxes - PRO FORMA	15.3	32.7	66.4	75.6	86.5	98.8	111.4	120.9	138.9	159.6	179.8	195.2	208.3
Equity in income of affiliates, after taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interest expense, after tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	**19.5**	**51.3**	**107.7**	**122.6**	**140.3**	**160.3**	**180.6**	**196.1**	**225.3**	**258.8**	**291.5**	**316.6**	**337.8**
Common dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pro Forma EBITDA Reconciliation													
EBIT	70.7	139.5	199.7	222.0	248.9	279.8	311.3	335.1	381.0	434.5	487.4	527.9	562.2
Depreciation and Amoritization	35.8	47.2	60.4	72.7	84.0	97.8	113.5	131.1	149.0	166.8	183.6	198.8	211.8
Equity-based compensation	4.7	5.8	5.4										
EBITDA	**111.1**	**192.5**	**265.4**	**294.7**	**332.8**	**377.6**	**424.8**	**466.1**	**530.0**	**601.3**	**671.0**	**726.7**	**774.0**
Pro Forma Basic EPS Reconciliation													
Preferred dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income for Basic EPS	**19.5**	**51.3**	**107.7**	**122.6**	**140.3**	**160.3**	**180.6**	**196.1**	**225.3**	**258.8**	**291.5**	**316.6**	**337.8**
Basic Shares Outstanding	119.4	134.6	149.8	149.8	149.8	149.8	149.8	149.8	149.8	149.8	149.8	149.8	149.8
Basic EPS	**$ 0.16**	**$ 0.38**	**$ 0.72**	**$ 0.82**	**$ 0.94**	**$ 1.07**	**$ 1.21**	**$ 1.31**	**$ 1.50**	**$ 1.73**	**$ 1.95**	**$ 2.11**	**$ 2.26**

Appendix 4: Financial Statement Model (Balance Sheet)

Balance Sheet	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024
Cash and Cash Equivalents	67.2	77.7	130.5	174.8	243.5	326.1	420.0	522.7	640.8	802.7	988.3	1,190.9	1,407.4
Accounts Receivable	8.4	9.5	14.1	17.0	19.6	22.8	26.5	30.6	34.8	38.9	42.9	46.4	49.4
Inventories	98.4	118.3	142.8	173.5	200.6	234.1	272.5	316.0	359.2	402.0	442.0	478.7	509.8
Deferred Income Taxes	47.2	33.4	35.6	40.5	46.4	53.0	59.7	64.8	74.4	85.5	96.3	104.6	111.6
Prepaid Expenses	4.5	8.0	11.2	13.4	15.5	18.2	21.1	24.4	27.8	30.9	34.1	36.9	39.3
Other Current Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity in Affiliates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PPE	303.2	348.8	454.9	496.6	544.7	600.8	665.8	740.9	826.3	921.9	1,027.2	1,141.1	1,262.5
Goodwill	368.1	368.1	368.1	368.1	368.1	368.1	368.1	368.1	368.1	368.1	368.1	368.1	368.1
Intangible Assets	196.8	195.5	194.2	194.2	194.2	194.2	194.2	194.2	194.2	194.2	194.2	194.2	194.2
Other Non-Current Assets	9.5	13.1	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8
Total Assets	**1,103.2**	**1,172.4**	**1,369.1**	**1,495.8**	**1,650.3**	**1,835.0**	**2,045.6**	**2,279.4**	**2,543.4**	**2,862.0**	**3,210.8**	**3,578.7**	**3,960.0**
Accounts Payable	82.7	111.2	112.9	137.2	158.6	185.1	215.4	249.8	284.0	317.8	349.4	378.4	403.0
Accrued Expenses	49.0	55.2	71.1	85.2	98.9	115.7	134.2	155.7	177.0	197.2	217.1	235.2	250.5
Taxes Payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Current Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Portion of Long-term Debt	5.2	9.2	36.9	23.9	22.3	22.4	20.8	21.9	0.0	0.0	0.0	0.0	0.0
Short Term Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long Term Debt	529.0	421.6	370.2	346.3	323.9	301.5	280.8	258.9	258.9	258.9	258.9	258.9	258.9
Convertible Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Income Taxes	0.0	0.0	18.6	21.2	24.2	27.7	31.2	33.9	38.9	44.7	50.4	54.7	58.3
Other Non-Current Liabilities	50.6	61.4	74.1	74.1	74.1	74.1	74.1	74.1	74.1	74.1	74.1	74.1	74.1
Total Liabilities	**716.5**	**658.6**	**683.7**	**687.8**	**702.1**	**726.5**	**756.4**	**794.1**	**832.8**	**892.6**	**949.8**	**1,001.2**	**1,044.7**
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Convertible Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Common Stock and APIC	395.6	479.3	543.2	543.2	543.2	543.2	543.2	543.2	543.2	543.2	543.2	543.2	543.2
Treasury Stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comprehensive Loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Equity Account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retained Earnings	(8.9)	34.5	142.2	264.8	405.1	565.3	746.0	942.1	1,167.4	1,426.2	1,717.7	2,034.3	2,372.1
Total Shareholders' Equity	**386.8**	**513.8**	**685.4**	**808.0**	**948.3**	**1,108.5**	**1,289.2**	**1,485.3**	**1,710.6**	**1,969.4**	**2,260.9**	**2,577.5**	**2,915.3**

Appendix 5: Ratio Analysis

Ratio analysis	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Profitability Ratios													
Gross Profit Margin	29.5%	29.7%	29.8%	29.2%	29.1%	29.0%	28.8%	28.5%	28.5%	28.5%	28.6%	28.6%	28.6%
Operating Profit Margin	3.9%	5.7%	6.7%	6.2%	6.0%	5.8%	5.6%	5.2%	5.2%	5.3%	5.4%	5.4%	5.4%
Net Profit Margin	1.1%	2.1%	3.6%	3.4%	3.4%	3.3%	3.2%	3.0%	3.1%	3.2%	3.2%	3.2%	3.2%
Financial Risk Ratios													
EBITDA / Total Interest	3.1x	5.2x	10.6x	12.6x	15.5x	18.8x	22.6x	26.7x	32.7x	38.7x	43.2x	46.8x	49.8x
(EBITDA - Capex) / Total Interest	3.1x	5.2x	5.5x	7.7x	9.3x	11.1x	13.1x	14.9x	18.3x	21.8x	24.6x	26.6x	28.4x
Total Debt / EBITDA	4.8x	2.2x	1.5x	1.3x	1.0x	0.9x	0.7x	0.6x	0.5x	0.4x	0.4x	0.4x	0.3x
Total Debt / Total Capitalization (Bk. Equity)	58.0%	45.6%	37.3%	31.4%	26.7%	22.6%	19.0%	15.9%	13.1%	11.6%	10.3%	9.1%	8.2%
Net Debt / EBITDA	4.2x	1.8x	1.0x	0.7x	0.3x	NM	NM	NM	NM	NM	NM	NM	NM
Interest Coverage (EBIT/Interest expense)	2.0x	3.7x	8.0x	9.5x	11.6x	13.9x	16.6x	19.2x	23.5x	28.0x	31.4x	34.0x	36.2x
Internal Liquidity													
Current Ratio (Curr. Assets / Curr. Liab.)	1.7x	1.5x	1.8x	1.9x	2.0x	2.2x	2.3x	2.4x	2.5x	2.6x	2.8x	3.0x	3.2x
Cash Ratio (Cash / Current Liab.)	0.5x	0.5x	0.7x	0.8x	0.9x	1.1x	1.2x	1.3x	1.4x	1.6x	1.7x	1.9x	2.2x
Operating Efficiency													
Return on Capital (ROIC)	N/A	5.5%	10.6%	10.8%	11.3%	11.8%	11.9%	11.7%	12.1%	12.3%	12.3%	11.8%	11.2%
Dupont Analysis													
Operating Profit Margin	3.9%	5.7%	6.7%	6.2%	6.0%	5.8%	5.6%	5.2%	5.2%	5.3%	5.4%	5.4%	5.4%
Asset Turnover (Sales/ Assets)	1.6x	2.1x	2.2x	2.4x	2.5x	2.6x	2.7x	2.8x	2.9x	2.9x	2.8x	2.7x	2.6x
Interest (inc. interest income)/ Sales	2.0%	1.5%	0.8%	0.7%	0.5%	0.4%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.1%
Equity multiplier (Assets / Equity)	2.9x	2.3x	2.0x	1.9x	1.7x	1.7x	1.6x	1.5x	1.5x	1.5x	1.4x	1.4x	1.4x
Tax Retention Rate	56.1%	61.1%	61.9%	61.9%	61.9%	61.9%	61.9%	61.9%	61.9%	61.9%	61.9%	61.9%	61.9%
ROE	7.1%	14.5%	17.0%	16.3%	15.7%	15.2%	14.6%	13.7%	13.6%	13.5%	13.2%	12.5%	11.8%

Appendix 6: DCF

Free Cash Flow Buildup										
	Projected Annual Forecast									
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22	12/31/23	12/31/24
Total Revenues	3,574.3	4,128.3	4,809.4	5,578.9	6,443.7	7,326.5	8,198.3	9,026.3	9,775.5	10,410.9
EBITDA	294.7	332.8	377.6	424.8	466.1	530.0	601.3	671.0	726.7	774.0
EBIT	222.0	248.9	279.8	311.3	335.1	381.0	434.5	487.4	527.9	562.2
Tax rate	38.1%	38.1%	38.1%	38.1%	38.1%	38.1%	38.1%	38.1%	38.1%	38.1%
EBIAT	137.3	153.9	173.0	192.6	207.3	235.7	268.8	301.5	326.5	347.7
Depreciation & Amortization	72.7	84.0	97.8	113.5	131.1	149.0	166.8	183.6	198.8	211.8
Accounts receivable	(2.9)	(2.6)	(3.2)	(3.7)	(4.1)	(4.2)	(4.1)	(3.9)	(3.6)	(3.0)
Inventories	(30.7)	(27.1)	(33.5)	(38.4)	(43.5)	(43.3)	(42.7)	(40.0)	(36.7)	(31.1)
Deferred income taxes (assets)	(4.9)	(5.9)	(6.6)	(6.7)	(5.1)	(9.6)	(11.1)	(10.8)	(8.3)	(7.0)
Prepaid expenses	(2.2)	(2.1)	(2.6)	(2.9)	(3.4)	(3.3)	(3.2)	(3.1)	(2.8)	(2.4)
Other current assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable	24.3	21.4	26.5	30.3	34.4	34.2	33.8	31.6	29.0	24.6
Accrued expenses	14.2	13.6	16.8	18.5	21.5	21.3	20.2	19.9	18.0	15.3
Taxes payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax (liabilities)	2.6	3.1	3.5	3.5	2.7	5.0	5.8	5.7	4.3	3.7
Cash from working capital	0.3	0.4	0.8	0.7	2.4	0.1	(1.3)	(0.7)	0.0	0.0
Capital expenditures	(114.4)	(132.1)	(153.9)	(178.5)	(206.2)	(234.4)	(262.3)	(288.8)	(312.8)	(333.2)
Unlevered free cash flows	**(2.9)**	**106.2**	**117.8**	**128.2**	**134.6**	**150.4**	**171.8**	**195.6**	**212.6**	**226.4**
Discount factor	1.003	0.916	0.837	0.765	0.699	0.639	0.583	0.533	0.487	0.445
Midyear adjustment factor	0.999	1.046	1.046	1.046	1.046	1.046	1.046	1.046	1.046	1.046
Present value of free cash flows	(2.9)	101.8	103.1	102.6	98.4	100.4	104.9	109.1	108.3	105.4
Sum of present values of FCFs	**931.1**									

Growth in perpetuity method		Exit multiple method	
Long term growth rate	3.25%	Exit EV / EBITDA multiple	7.0x
Free cash flow (t+1)	233.7	2020 LTM EBITDA	774.0
Terminal value	3,946.3	Terminal value	5,417.8
PV of terminal value	1,756.2	PV of terminal value	2,411.0
Enterprise value	**2,687.3**	**Enterprise value**	**3,342.1**
Net debt	276.5	Net debt	276.5
Equity value	**2,410.8**	**Equity value**	**3,065.6**
Shares outstanding	154.3	Shares outstanding	154.3
Equity value / share	**$15.62**	**Equity value / share**	**$19.86**

Appendix 7: Sensitivity Analysis

Sensitivity Analysis

Perpetuity long term growth rate

$15.62	8.4%	8.9%	9.4%	9.9%	10.4%
2.25%	$ 16.83	$ 15.33	$ 13.94	$ 12.94	$ 11.97
2.75%	$ 17.98	$ 16.28	$ 14.72	$ 13.60	$ 12.53
3.25%	$ 19.36	$ 17.40	$ 15.62	$ 14.37	$ 13.17
3.75%	$ 21.04	$ 18.73	$ 16.68	$ 15.25	$ 13.91
4.25%	$ 23.12	$ 20.35	$ 17.94	$ 16.30	$ 14.77

EV / EBITDA exit multiple

$19.86	8.4%	8.9%	9.4%	9.9%	10.4%
6.0x	$ 19.11	$ 18.39	$ 17.63	$ 17.03	$ 16.40
6.5x	$ 20.32	$ 19.55	$ 18.75	$ 18.11	$ 17.43
7.0x	$ 21.54	$ 20.72	$ 19.86	$ 19.18	$ 18.46
7.5x	$ 22.76	$ 21.89	$ 20.98	$ 20.26	$ 19.49
8.0x	$ 23.97	$ 23.05	$ 22.10	$ 21.33	$ 20.53

Appendix 8: Comparable Companies Analysis

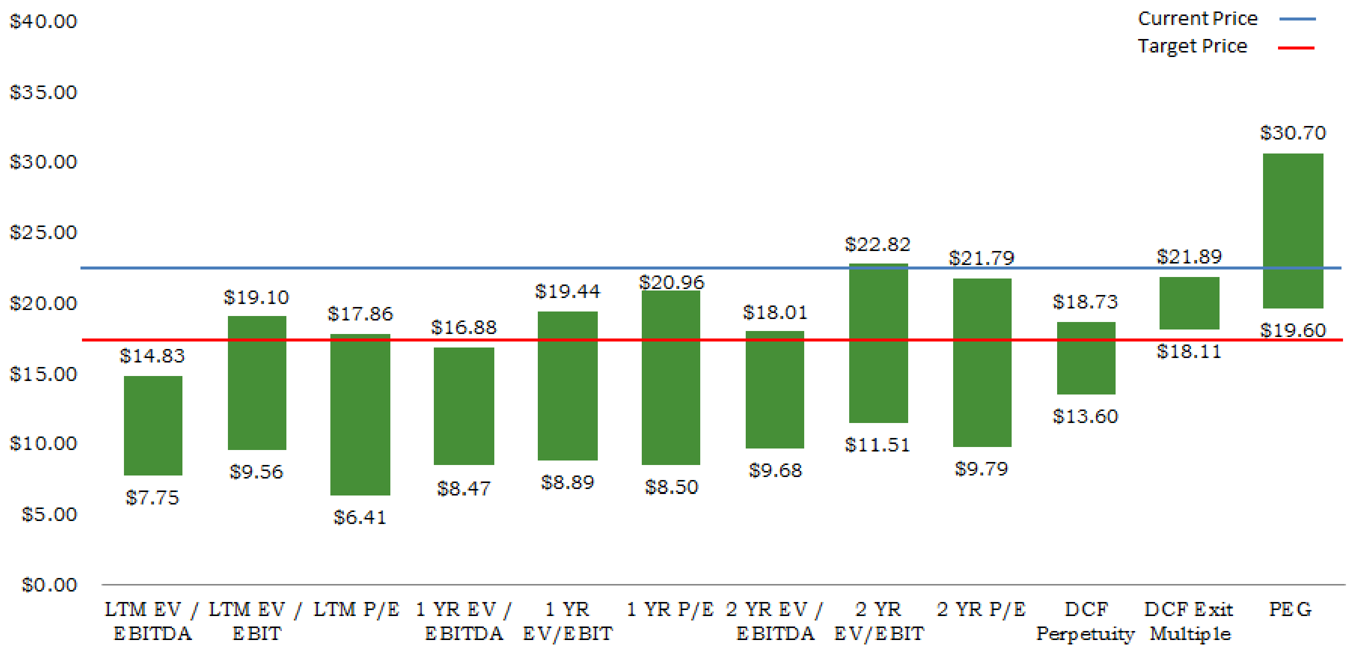
Name	Ticker	Market capitalization (mm)	Enterprise value (EV)	Last Twelve Months (LTM) Revenues	LTM EBITDA	LTM EBIT	LTM EPS	Year 1 Forecast - Calendar Year Revenues	Year 1 EBITDA	Year 1 EBIT	Year 1 EPS	Year 2 Forecast - Calendar Year Revenues	Year 2 EBITDA	Year 2 EBIT	Year 2 EPS
Sprouts Farmers Market	SFM	3,548.5	3,693.2	3,397.3	284.3	213.8	0.8	4,126.5	340.2	226.5	0.9	4,813.9	391.1	294.4	1.1
Whole Foods Markets	WFM	10,975.5	10,803.5	16,584.0	1,289.0	788.0	1.4	16,323.2	1,340.4	888.5	1.6	17,474.1	1,417.2	928.3	1.7
Kroger	KR	36,340.5	47,878.5	108,872.0	5,608.0	3,560.0	3.8	115,802.0	6,009.2	3,815.8	2.2	122,112.2	6,409.7	4,091.2	2.4
Nat Grocer by Vitamin	NGVC	480.4	510.9	728.7	58.5	33.0	0.8	778.6	61.9	33.0	0.8	909.2	73.8	38.0	1.0
Fresh Market	TFM	903.7	973.5	1,817.7	168.4	102.9	1.3	1,957.2	198.0	125.7	1.6	2,143.4	204.7	130.0	1.6
Supervalu	SVU	0.0	2,870.0	17,873.0	769.0	492.0	0.6	17,807.0	776.0	497.0	0.7	17,981.1	776.4	504.9	0.7

Name	Ticker	Last Twelve Months (LTM) EV / Revenues	LTM EV / EBITDA	LTM EV / EBIT	LTM P/E	Year 1 Forecast - Calendar Year EV / Revenues	Year 1 EV / EBITDA	Year 1 EV / EBIT	Year 1 P/E	Year 2 Forecast - Calendar Year EV / Revenues	Year 2 EV / EBITDA	Year 2 EV / EBIT	Year 2 P/E	PEG ratio
Sprouts Farmers Market	SFM	1.1	13.0	17.3	30.0	0.9	10.9	16.3	24.1	0.8	9.4	12.5	20.4	1.3
Whole Foods Markets	WFM	0.7	8.4	13.7	21.6	0.7	8.1	12.2	19.3	0.6	7.6	11.6	18.1	2.0
Kroger	KR	0.4	8.5	13.4	9.8	0.4	8.0	12.5	16.7	0.4	7.5	11.7	15.2	1.6
Nat Grocer by Vitamin	NGVC	0.7	8.7	15.5	25.4	0.7	8.3	15.5	25.1	0.6	6.9	13.4	21.0	1.3
Fresh Market	TFM	0.5	5.8	9.5	14.5	0.5	4.9	7.7	12.1	0.5	4.8	7.5	11.8	1.0
Supervalu	SVU	0.2	3.7	5.8	7.0	0.2	3.7	5.8	6.0	0.2	3.7	5.7	5.8	1.2

High	0.7x	8.6x	14.6x	23.5x	0.7x	8.2x	14.0x	22.2x	0.6x	7.5x	12.6x	19.5x	1.8x
Low	0.3x	4.8x	7.6x	8.4x	0.3x	4.3x	6.8x	9.0x	0.3x	4.2x	6.6x	8.8x	1.1x
Median	0.5x	8.4x	13.4x	14.5x	0.5x	8.0x	12.2x	16.7x	0.5x	6.9x	11.6x	15.2x	1.3x
SFM	**1.1x**	**13.0x**	**17.3x**	**30.0x**	**0.9x**	**10.9x**	**16.3x**	**24.1x**	**0.8x**	**9.4x**	**12.5x**	**20.4x**	**1.3x**

	Last Twelve Months (LTM) EV / Revenues	LTM EV / EBITDA	LTM EV / EBIT	LTM P/E	Year 1 Forecast - Calendar Year EV / Revenues	Year 1 EV / EBITDA	Year 1 EV / EBIT	Year 1 P/E	Year 2 Forecast - Calendar Year EV / Revenues	Year 2 EV / EBITDA	Year 2 EV / EBIT	Year 2 P/E	PEG ratio
Median	0.6x	8.0x	12.5x	18.1x	0.5x	7.3x	11.7x	17.2x	0.5x	6.7x	10.4x	15.4x	1.4x
High	0.7	8.6	14.6	23.5	0.7	8.2	14.0	22.2	0.6	7.5	12.6	19.5	1.8
Low	0.3	4.8	7.6	8.4	0.3	4.3	6.8	9.0	0.3	4.2	6.6	8.8	1.1
Comps-derived SFM value													
Median													
Enterprise value	2,024.6	2,281.8	2,680.2	2,282.9	2,259.3	2,480.7	2,642.8	2,676.3	2,369.5	2,602.0	3,066.4	2,815.5	3,931.3
Net debt	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7
Equity value	1,879.9	2,137.2	2,535.6	2,138.3	2,114.7	2,336.1	2,498.1	2,531.6	2,224.8	2,457.3	2,921.7	2,670.9	3786.7
Shares outstanding	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8
Share price	**$12.06**	**$13.71**	**$16.27**	**$13.72**	**$13.57**	**$14.99**	**$16.03**	**$16.24**	**$14.28**	**$15.77**	**$18.75**	**$17.14**	**$24.30**
High													
Enterprise value	2,297.6	2,455.6	3,121.0	2,928.2	2,719.5	2,775.1	3,173.9	3,411.8	2,840.7	2,951.7	3,700.9	3,539.9	4,929.1
Net debt	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7
Equity value	2,152.9	2,311.0	2,976.4	2,783.6	2,574.8	2,630.5	3,029.3	3,267.2	2,696.0	2,807.0	3,556.2	3,395.2	4784.4
Shares outstanding	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8
Share price	**$13.81**	**$14.83**	**$19.10**	**$17.86**	**$16.52**	**$16.88**	**$19.44**	**$20.96**	**$17.30**	**$18.01**	**$22.82**	**$21.79**	**$30.70**
Low													
Enterprise value	1,019.8	1,352.0	1,635.2	1,143.0	1,185.6	1,465.3	1,530.8	1,469.7	1,327.9	1,652.8	1,938.7	1,670.2	3,199.7
Net debt	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7	144.7
Equity value	875.1	1,207.3	1,490.5	998.4	1,040.9	1,320.7	1,386.1	1,325.1	1,183.2	1,508.2	1,794.0	1,525.5	3055.0
Shares outstanding	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8	155.8
Share price	**$5.62**	**$7.75**	**$9.56**	**$6.41**	**$6.68**	**$8.47**	**$8.89**	**$8.50**	**$7.59**	**$9.68**	**$11.51**	**$9.79**	**$19.60**

Appendix 9: Football Field (Valuation Ranges)



Appendix 10: Image Sources

[1] "Sprouts Farmers Market, Inc." *Yahoo! Finance*. N.p., n.d. Web. 22 Jan. 2016. <http://finance.yahoo.com/q?s=SFM>.

[2] Sprouts Farmers Market, Inc. *2014 Annual Report,* 26, Feb. 2015. Web. 04 Nov. 2015. <http://www.snl.com/Cache/c28145992.html#Top>

[3] Sprouts Farmers Market, Inc. *2014 Annual Report,* 26, Feb. 2015. Web. 04 Nov. 2015. <http://www.snl.com/Cache/c28145992.html#Top>

[4] Sprouts Farmers Market, Inc. *2014 Annual Report,* 26, Feb. 2015. Web. 04 Nov. 2015. <http://www.snl.com/Cache/c28145992.html#Top>

[5] Sprouts Farmers Market, Inc. Schedule 14A Information, 19, Mar. 2015. Web. 12 Jan. 2015. < http://www.snl.com/Cache/c28498087.html#tx861662_40>

[6] Bloomberg L.P. "*Sprouts vs. Whole Foods Organic Produce*" (2015). Bloomberg Terminal. University of Arizona Eller College of Management, Tucson, AZ. 30 November 2015.

[7] "Employment Cost Index News Release Text." *U.S. Bureau of Labor Statistics*. U.S. Bureau of Labor Statistics, 30 Oct. 2015. Web. 01 Dec. 2015. <http://www.bls.gov/news.release/eci.nr0.htm>.

[8] Bloomberg L.P. "*Purchaser of Organic foods"* (2015). Bloomberg Terminal. University of Arizona Eller College of Management, Tucson, AZ. 28 November 2015.

[9] "Property Boom Redux." *The Wall Street Journal*. N.p., n.d. Web. 13 Jan. 2016. <http://si.wsj.net/public/resources/images/MI-CL099_PROPBO_11U_20150812163309.jpg>.

[10] "Drought Comparison." *Climate Central.* Climate Central, NDMC, USDA, and NOAA, n.d. Web. <http://images.mic.com/hvqekow2qrtwo1uskusmum0g1ybeo758pkjoiuyayow0d8hynzptmik8ihao9ecu.jpg>.

[11] Halpert, Mike. "United States El Niño Impacts." *Climate.gov*. 12 June 2014. Web. <https://www.climate.gov/news-features/blogs/enso/united-states-el-ni%C3%B1o-impacts-0>.

[12] Craymer, Lucy. "Winter Is Coming: La Niña Poised to Storm the Markets." *WSJ*. The Wall Street Journal, 23 Dec. 2015. Web. 30 Dec. 2015. <http://www.wsj.com/articles/winter-is-coming-la-nina-poised-to-storm-the-markets-1450850704>.

[13] Based off of our own assumptions.

[14] Based off of our own assumptions.

[15] Based off of our own assumptions.

[16] "Sprouts Farmers Market, Inc." *Yahoo! Finance*. N.p., n.d. Web. 22 Jan. 2016.
<http://finance.yahoo.com/q?s=SFM>.

Appendix 11: Bibliography

Agricultural and Forest Meteorology 201 (2015): 518. Food and Agriculture Organization of the United Nations. Web. 12 Jan. 2016. <http://www.fao.org/3/a-i4251e.pdf>.

Bloomberg L.P. "*Prime Locations Drive Up Rent-to-Sales for Grocery Expansion*" (2015). Bloomberg Terminal. University of Arizona Eller College of Management, Tucson, AZ. 30 November 2015.

Bloomberg L.P. "*Organics Go Mainstream, Prompting New Food Retail Competition*" (2015). Bloomberg Terminal. University of Arizona Eller College of Management, Tucson, AZ. 30 November 2015.

Bloomberg L.P. "*Food Retailers Underperform S&P500 on Slower Specialty Sales*" (2015). Bloomberg Terminal. University of Arizona Eller College of Management, Tucson, AZ. 30 November 2015.

Bloomberg L.P. "*Gross Margins May Drop for Organic Retailers on More Competition*" (2015). Bloomberg Terminal. University of Arizona Eller College of Management, Tucson, AZ. 30 November 2015.

Costco Wholesale Corporation. *2015 Annual Report,* Dec. 2015. Web. 05 Jan. 2015. < http://quote.morningstar.com/stock-filing/Annual-Report/2015/8/30/t.aspx?t=:COST&ft=10-K&d=03259f9e1c91b6b7f3918c935f726c0b>.

"Food & Nutrition | Statista." *Statista*. N.p., n.d. Web. 15 Dec. 2015. <http://www.statista.com/markets/415/topic/468/food-nutrition/>.

Fortune Is the Largest Naturalfoods Brand Even Sold at Whole Foods Comments. N.p., 28 Oct. 2015. Web. 05 Dec. 2015. <http://fortune.com/2015/10/28/kroger-natural-organic-food/>.

Gelski, Jeff. "U.S. Organic Food Sales Rise 11% in 2014." *US Organic Food Sales Rise 11 in 2014*. Food Business News, 15 Apr. 2015. Web. 30 Nov. 2015. <http://www.foodbusinessnews.net/articles/news_home/Consumer_Trends/2015/04/US_organic_food_sales_rise_11.aspx?ID=%7B0C1920D3-1822-4467-9FF0-F1EE00E53F54%7D&cck=1>.

Giammona, Craig, and Leslie Patton. "Whole Foods: Walmart, Costco Steal Growth in Organic Groceries." *Bloomberg.com*. Bloomberg, 14 May 2015. Web. 05 Jan. 2016. <http://www.bloomberg.com/news/articles/2015-05-14/whole-foods-walmart-costco-steal-growth-in-organic-groceries>.

Gonzalez, Angel. "Largest Organic Grocer Now Costco, Analysts Say." *The Seattle Times*. Seattle Times, 01 June 2015. Web. 03 Jan. 2016. <http://www.seattletimes.com/business/retail/costco-becomes-largest-organic-grocer-analysts-say/>.

Harfman, Barbara. "Natural, Organic Retailers Face Competition from Mainstream Channels." *Beverage Industry*. N.p., 12 Oct. 2015. Web. 28 Dec. 2016. <http://www.bevindustry.com/articles/88803-natural-organic-retailers-face-competition-from-mainstream-channels>.

IBISWorld. N.p., n.d. Web. 30 Nov. 2015.

<http://clients1.ibisworld.com/reports/us/industry/competitivelandscape.aspx?entid=1040>.

Investor Home. N.p., n.d. Web. 15 Nov. 2015. <http://investors.sprouts.com/CorporateProfile>.

CL099_PROPBO_11U_20150812163309.jpg>.

La Monica, Paul R. "This Grocer Is Eating Whole Foods' Priced Lunch." *CNN Money*. N.p., 11 Sept. 2015. Web. 05 Dec. 2015. <http://money.cnn.com/2015/09/11/investing/kroger-earnings-organic-whole-foods/>.

Prepared Foods RSS. N.p., 13 Apr. 2015. Web. 15 Dec. 2015. <http://www.preparedfoods.com/articles/116227-us-organic-foods-market-to-surpass-45-billion-in-2015>.

"Property Boom Redux." *The Wall Street Journal*. N.p., n.d. Web. 13 Jan. 2016. <http://si.wsj.net/public/resources/images/MI-CL099_PROPBO_11U_20150812163309.jpg>

Sprouts Farmers Market, Inc. 2014 Annual Report, 26, Feb. 2015. Web. 04 Nov. 2015. <http://www.snl.com/Cache/c28145992.html#Top>

“Sprouts Farmers Market Investor Deck Nov 2015.” Sprouts Farmers Market Investor Deck Nov 2015. Sprouts Farmers Market, slide 12, Nov. 2015. Web. Nov. 2015. < http://investors.sprouts.com>

Sprouts Farmers Market, Inc. Schedule 14A Information, 19, Mar. 2015. Web. 12 Jan. 2015. < http://www.snl.com/Cache/c28498087.html#tx861662_40>

Disclosures:

Ownership and material conflicts of interest:
The authors, or a member of their household, of this report do not hold a financial interest in the securities of this company.
The author(s), or a member of their household, of this report does not know of the existence of any conflicts of interest that might bias the content or publication of this report.
Receipt of compensation:
Compensation of the author(s) of this report is not based on investment banking revenue.
Position as a officer or director:
The author(s), or a member of their household, does not serve as an officer, director or advisory board member of the subject company.
Market making:
The author(s) does not act as a market maker in the subject company's securities.
Disclaimer:
The information set forth herein has been obtained or derived from sources generally available to the public and believed by the author(s) to be reliable, but the author(s) does not make any representation or warranty, express or implied, as to its accuracy or completeness. The information is not intended to be used as the basis of any investment decisions by any person or entity. This information does not constitute investment advice, nor is it an offer or a solicitation of an offer to buy or sell any security. This report should not be considered to be a recommendation by any individual affiliated with [Eller College of Management], CFA Institute or the CFA Institute Research Challenge with regard to this company's stock.

CFA Institute

CFA Institute Research Challenge