

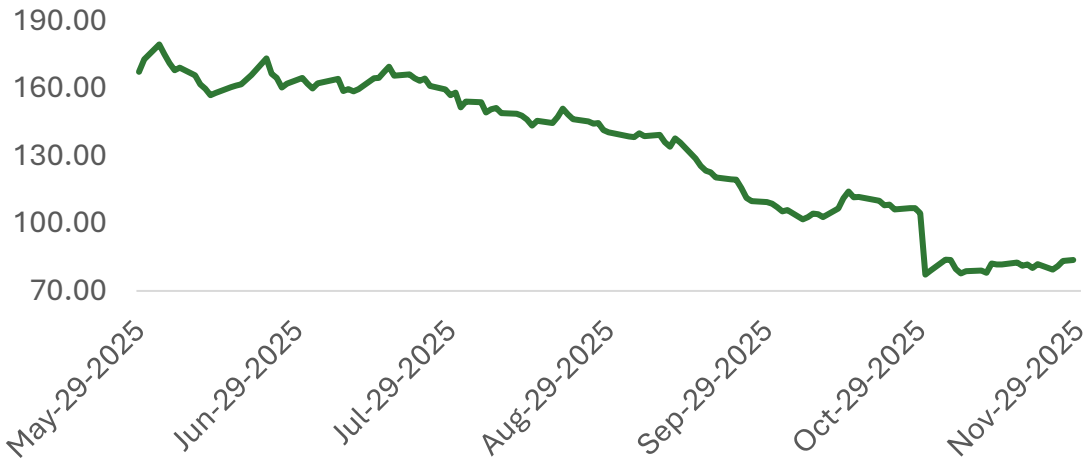
Long: Sprouts Farmers Market (NYSE: SFM)

Team Organic Alpha Generators

Price Target: $118.13
Portfolio Manager: Dario Benes
Analysts: Craig Hanlon, Braylon Strother, Liv Samano
December 4th, 2025

Executive Summary

Market Cap	$8.38
Last Close	79.81
52 Week Range	$75.75-182.00
EBITDA Margin	8%
EV/EBITDA	9.96x
P/E	16.67x



Investment Introduction

- The market is currently undervaluing Sprouts (SFM) because it views the company as a basic, generic grocer. Despite seeing strong, double-digit sales growth, investors reacted poorly to the recent Q3 guidance reset and mistakenly see key investments in customer loyalty and supply chain as short-term costs, rather than as the necessary foundation for long-term margin improvement and customer retention.

Investment Thesis

- Sprouts' profitability (margins) is expected to improve due to its expansion around distribution centers (DCs), the use of smaller, more efficient stores, and moving to self-distribution. Combined with its financially conservative approach, a large $1 billion stock buyback plan, and a new loyalty program, the company's earnings per share (EPS) should proliferate.

Sources: [1] Company Filings, [2] Bloomberg, [3] Investor Relations

Company and Brand Overview

Financial Momentum

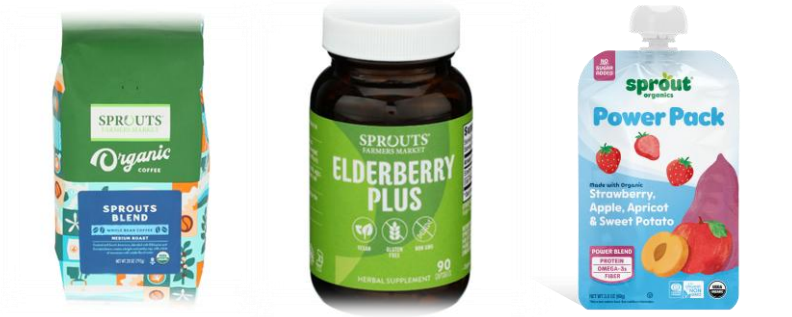
- **Sprouts Farmers Market (NASDAQ: SFM)** is a specialty grocery retailer focused on fresh, natural, and organic foods at accessible prices. The company emphasizes a farmers-market-style shopping experience, featuring a strong produce section, wholesome prepared foods, and a curated selection of health-oriented products.
- Loyalty Program released in Q3 2025, providing rewards to frequent consumers and providing incentives for further shopping.
- Sprouts Farmers Market's target audience is primarily **"health enthusiasts and innovation seekers,"** including health-conscious individuals, those seeking organic, vegan, and gluten-free products, and younger shoppers (ages 18-34).

Private Label

- Sprouts Brand introduced 300 new products in 2024, broadening its selection across grocery, wellness, and ready-to-eat categories to meet rising demand for natural and better-for-you options.
- Real Roots by Sprouts added 130 personal-health items, strengthening its focus on clean ingredients, transparent labeling, and affordable everyday wellness.

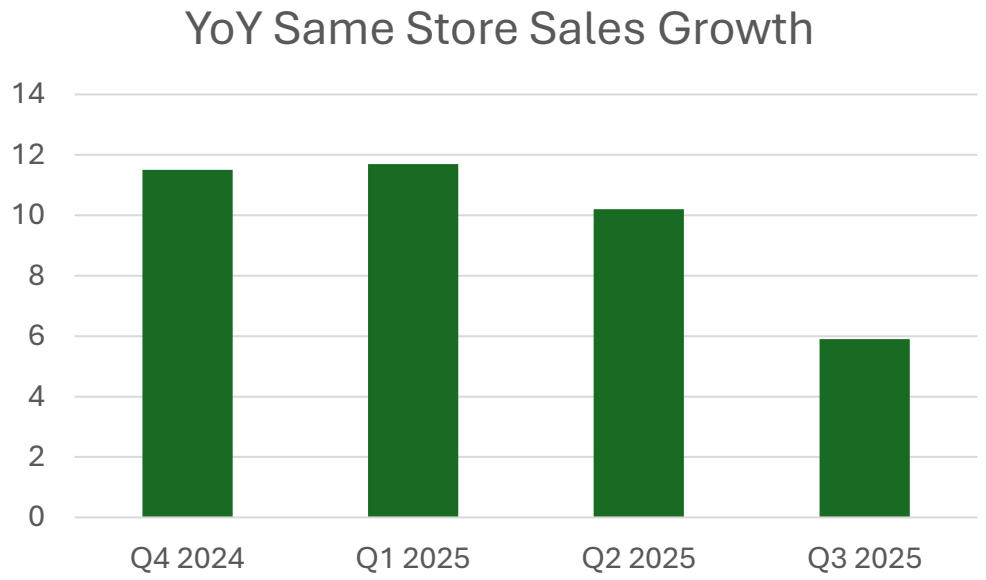
Financial Momentum

- 80% of locations are within 250 miles of a distribution center, cutting costs and increasing the shelf life of fresh products.
- Plans to build a self-distribution model for meat and seafood, projected to be completed in the Second Quarter of 2026.

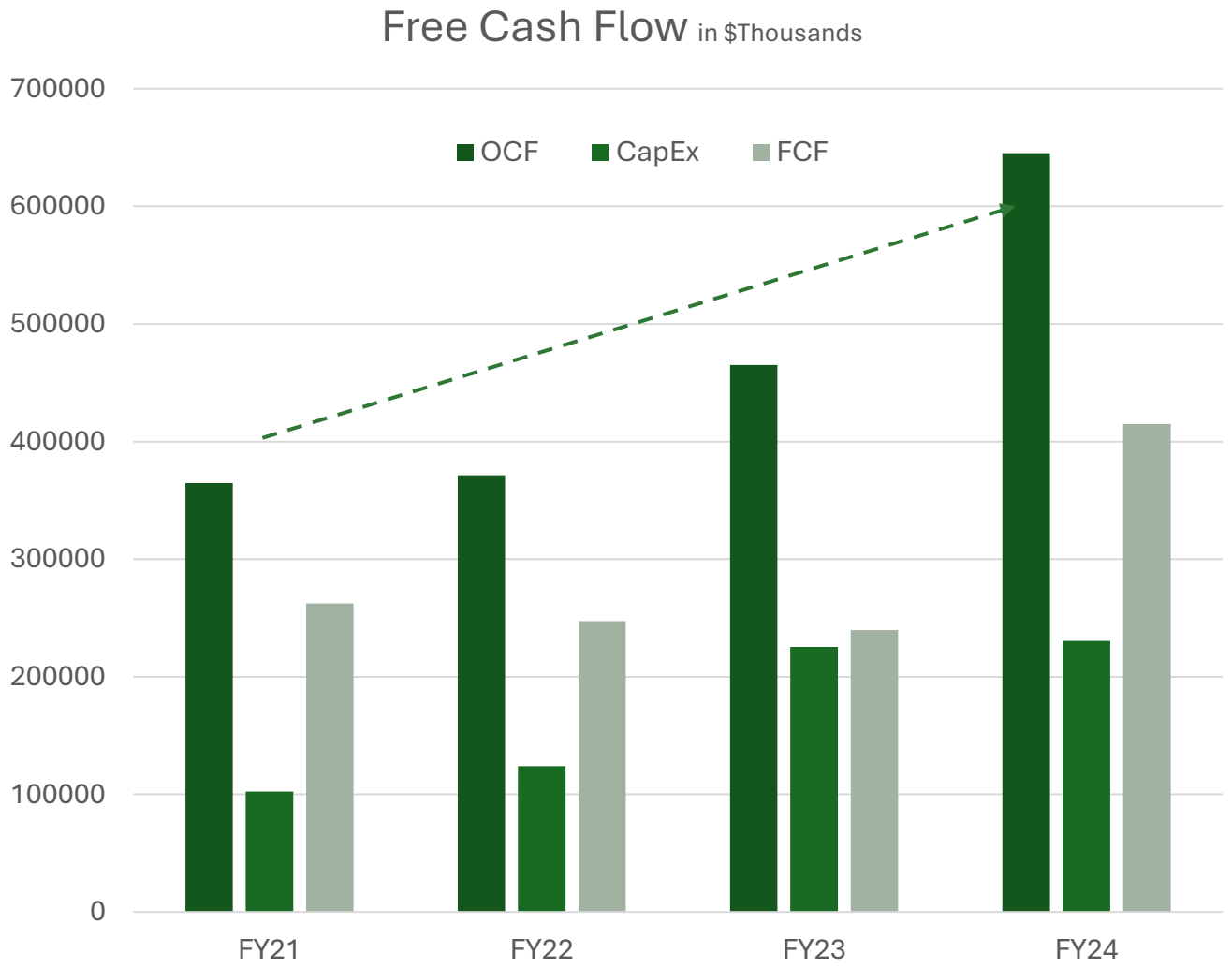


Sources: [1] Company Filings, [2] Bloomberg, [3] Investor Relations

Q3 earnings



Q3 earnings may have disappointed investors and made people lose confidence in Sprouts' ability to be a long-term investment, but Sprouts consistent growth is easily forgotten.



Sources: [1] Company Filings, [2] Bloomberg, [3] Investor Relations

Why the Streets are Mispricing Sprouts

SPROUTS FARMERS MARKET

The Streets View

- Q3 numbers showed Sprouts' "growth story" is beginning to break.
- There is an unclear payoff for loyalty programs and for investments that incur extra costs.
- The Grocery store space is too competitive for foreseeable growth.

Our View

- Q3 represented a recalibration from overly high expectations, not a drop in performance.
- Loyalty and mix shift initiatives aim to boost margins and deepen customer stickiness.
- Sprouts is distinct when it comes to the grocery store scene, and a unique premise when it comes to customer desires.

Store Size + Target Customer + Store Layout + Produce Centered + Willingness to Pay + Less Waste =

Higher Margins

Sources: [1] Company Filings, [2] Bloomberg, [3] Investor Relations

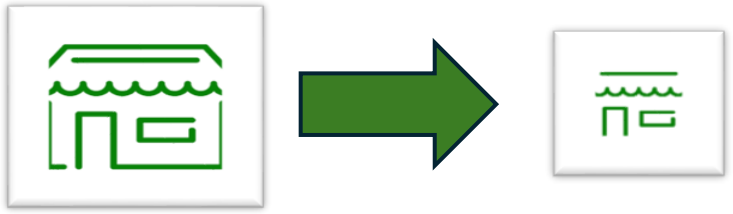
Key growth Drivers

Store Expansion Strategy Driving Margin Improvement

Store Agenda as of Q3 2025

Sprouts operates 464 locations in 24 states → 35 to 37 new store locations annually → 140 other locations already approved → Goal 1000 stores nationally, with an annual unit growth of ~10% annually by 2027

Downsizing Square Footage



Current average size of a Sprouts store is about 28,000 square feet.

Goal of New Sprouts Stores is 21,000 to 25,000 square feet to decrease operating costs.

Result: Improved Margins

CFO Curtis Valentine Discusses: "Last year, we saw outsized gains in new customers, substantially growing our customer base. And by and large, we've kept those customers. Against that backdrop, we have managed our costs and margins effectively. Our third quarter gross margin was 38.7%, an increase of 60 basis points compared to the same period last year."

- **CEO Curtis Valentine** (**3Q25 Earnings Call**)

Our Commentary:

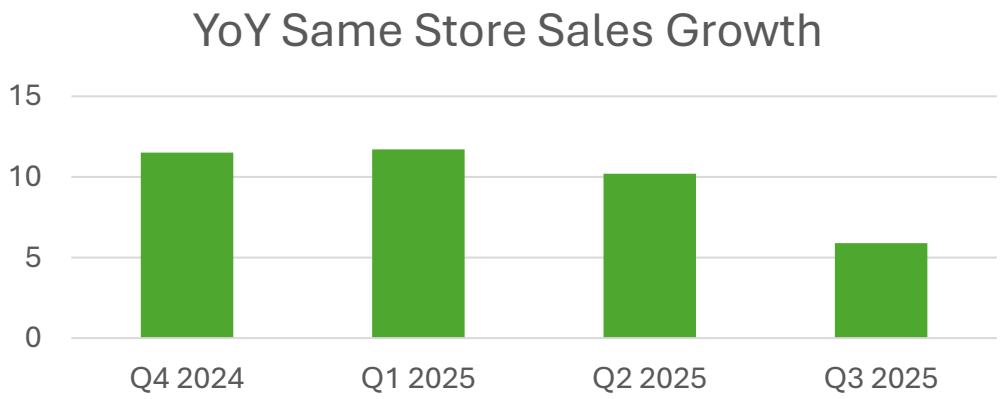
- Sprouts' EBIT margins have improved due to its ambitious expansion plans, growing roughly ~1% annually from higher leverage of fixed costs with greater store openings at a reduced size of 3000 to 7000 square feet.
- Sprouts is shifting to a **volume-based approach** through increasing annual units that spread out fixed costs to enhance operating leverage and further improve margins.

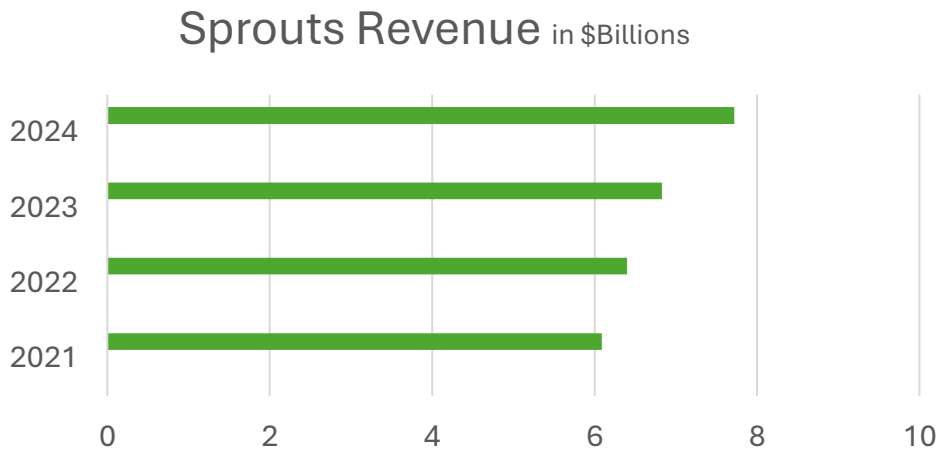
Sources: [1] Company Filings, [2] Bloomberg, [3] Investor Relations

Sprouts Is Entering a High-Margin, High-Growth Phase

Financial Momentum

- EPS growth >30% YoY
- ROE ~39% vs peers 10–20%
- EBITDA margin up ~100 bps over 3 years





Financial Momentum

- New 23k sq ft stores = lower labor & occupancy costs
- Distribution center clustering → logistics savings
- Private label expansion → gross margin tailwinds

Sources: [1] Company Filings, [2] Bloomberg, [3] Investor Relations

Key Growth Drivers

Key Strategic Drivers: Distribution Control, Loyalty, Private Label

Distribution Control

"On the supply chain front, we're excited about our ongoing transition to self-distribution in fresh meat and seafood. It has been a difficult year for us in the meat category as multiple third-party supply disruptions led to availability challenges and customer disruption, further underscoring the importance of controlling our destiny through self-distribution."



Our Commentary: Sprouts dedication to vertically expanding their supply chain with regards to meat and seafood will increase margins through cutting out intermediaries' suppliers and **reduce shrink** from food spoilage (discussed in their earnings call) along with an increased emphasis on distribution center proximity.

Loyalty Program

Data Collection and Shelf Space

- Sprouts new loyalty program provides a unique experience for customers with tailored offerings, recipes, and early access to new products.
- The program is tied to Sprouts Brand products (private label), the program allows Sprouts to **push consumers toward higher-margin items** through promotional efforts and reducing cross shopping.

Targeted Promotion and Retention

- Sprouts will expand its first-party data from 11% of customers previously to levels closer to competitors with 80% coverage.
- This will allow Sprouts to track customer spending on specific products and **improve shelf space allocation** which will reducing shrink a factor detrimental to its margins.

Cost Control

- Industry benchmarks suggest loyalty programs typically cost 1–3% of sales in rewards and administration. For Sprouts, this **expense is offset** by improvements to their business model and data collection benefits.

Private Label

Our Commentary: Sprouts focus on offering differentiated products not only carries higher gross profit margins than national brands but also keeps shoppers coming back. By doubling down on private label innovation and fresh merchandising, Sprouts is increasing customer wallet share and basket sizes.

In Q2 2025, Sprouts' store-brand products made up 24% of sales , and this grew to over 25% by Q3 . Management is aggressively investing in private label development – rolling out 350+ new Sprouts brand products in 2025 alone

Current average size of a Spr



Sources: [1] Company Filings, [2] Bloomberg, [3] Investor Relations

DCF Base Valuation

Assumptions	
Tax Rate	25%
Discount Rate	6.9%
Perpetural Growth Rate	2.5%
EV/EBITDA Mulltiple	10.0x
Transaction Date	12/31/2025
Fiscal Year End	12/31/2026
Current Price	80.00
Shares Outstanding	102
Debt	-
Cash	300
Capex	220

Discounted Cash Flow	Entry	2026	2027	2028	2029	2030	Exit
Date	*12/31/2025*	*6/30/2026*	*6/30/2027*	*6/30/2028*	*6/30/2029*	*6/30/2030*	*6/30/2030*
Time Periods		*0*	*1*	*2*	*3*	*4*	
Year Fraction		*0.50*	*1.00*	*1.00*	*1.00*	*1.00*	
EBIT		634	727	815	885	959	
Less: Cash Taxes		159	182	204	221	240	
Plus: D&A		158	171	181	192	202	
Less: Capex		220	239	254	269	285	
Less: Changes in NWC		7	6	5	6	5	
Unlevered FCF		406	471	533	581	631	
(Entry)/Exit	(7,860)						13,160
Transaction CF	-	203	471	533	581	631	13,160
Transaction CF	(7,860)	203	471	533	581	631	13,160

Valuation Assumptions

WACC of 6.9%, consistent with Sprouts' low-beta, low-leverage balance sheet.

Mid-teens near term FCF growth driven by operating leverage and supply-chain efficiencies.

Terminal valuation grounded in peer multiples (6.5x – 10.5x EV/EBITDA)

Margin expansion trajectory supported by operational discipline and store format optimization

Sources: [1] Company Filings, [2] Bloomberg, [3] Investor Relations

Bull and Bear Case Valuation

Bull Assumptions	
Tax Rate	25%
Discount Rate	6.2%
Perpetural Growth Rate	3.0%
EV/EBITDA Mulltiple	10.5x
Transaction Date	12/31/2025
Fiscal Year End	12/31/2026
Current Price	80.00
Shares Outstanding	102
Debt	-
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Bear Assumptions	
Tax Rate	25%
Discount Rate	7.5%
Perpetural Growth Rate	2.0%
EV/EBITDA Mulltiple	7.0x
Transaction Date	12/31/2025
Fiscal Year End	12/31/2026
Current Price	80.00
Shares Outstanding	102
Debt	-
Cash	300
Capex	220

Model Returns

Rate of Return	
Target Price Upside	94%
Internal Rate of Return (IRR)	25%
Market Value vs Intrinsic Value	
Market Value	80.00
Upside	75.10
Intrinsic Value	155.10

Rate of Return	
Target Price Upside	10%
Internal Rate of Return (IRR)	10%
Market Value vs Intrinsic Value	
Market Value	80.00
Upside	7.65
Intrinsic Value	87.65

Bull Case assumes stronger-than-expected store expansion, accelerated loyalty adoption, and full realization of supply-chain efficiencies. Margin expansion exceeds Street expectations as self-distribution reduces shrink and private-label penetration rises. Favorable macro, stable grocery demand, and Sprouts' differentiated format support a premium exit multiple.

Bear Case assumes slower traffic growth, competitive pressure from traditional grocers, and delayed benefits from distribution investments. Margin expansion underperforms expectations as shrink remains elevated and promotional intensity rises. Sprouts is valued closer to a traditional grocery multiple with a higher cost of capital.

Sources: [1] Company Filings, [2] Bloomberg, [3] Investor Relations

Catalyst & Consumer Preference

Consumer Expectations & SFM's Strategic Alignment

What customers expect and how SFM is connected to their customers.

What do consumers want?

82% of the U.S. consumers say wellness is a top priority.
The U.S. wellness market is valued at $2.25 billion in 2025, up nearly 60% since 2020.
90% of Millennials and Gen Z prioritize spending on healthy food even during economic downturns.

SFM's position with customers

Sprouts expanded into private-label supplements and vitamins in 2024,tapping into a larger share (~35%) of this fast-growing category.

The company offers value pricing through continuing to expand private-label products to enhance affordability.

Capital One Health and Wellness Research

Statistics from Capital-One Shopping Research on the Health and Wellness Industry indicate that in recent years (2020-2024), consumer spending on goods (such as fresh produce) has shown growth in the consumer market. This spending spree is influenced by factors such as economic conditions and consumer confidence.



Sources: [1] Company Filings, [2] Bloomberg, [3] Investor Relations

Overview of Key Risks and Strategic Responses

SFM's Risks and Mitigation are as described below:

Risks and Mitigation Impacting Sprouts Today



- Although macro pressure is softening consumer spending and compressing grocery margins, Sprouts' targeted customer base and disciplined operating model provide meaningful insulation and strategic advantages.

Risks

- Consumer spending softening, broader industry slowdown.
- Tightening margins from category inflation.
- Differentiation at risk as competitors expand natural/organic.

Mitigation

- Lean on resilient higher-income customers to protect traffic.
- Expanded self-distribution and rigorous category management.
- Protect unique assortment and reinforce the brand's health-focused positioning.

Sources: [1] Company Filings, [2] Bloomberg, [3] Investor Relations

Conclusion

Final Take On Sprouts Farmers Market

SPROUTS FARMERS MARKET

Three key points drive our upside:

1) Attractive Entry Point
Growth retailer priced like a low-growth grocer — mispricing creates upside.

2) Operational Momentum
New model is working — higher margins, higher productivity, and faster earnings growth.

3) Clear Catalysts Ahead
More stores, more loyalty, more margin — multiple catalysts for re-rating.

$118.13 PT

~48% upside

Sources: [1] Company Filings, [2] Bloomberg, [3] Investor Relations

Thank You!

