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BLUEGRASS CAPITAL RESEARCH

Sprouts Farmers Market

Farm to Portfolio: Undervalued Play on the Wellness Boom

Sprouts Farmers Market is well positioned to benefit from the ongoing wellness boom, a result of its products and differentiated business model. Continuing expansion efforts provide the opportunity for Sprouts' to capture more customers. **We initiate $SFM with a BUY rating and a price target of $102.67.**

Thesis Point 1

Sprouts Farmers Market is the most direct publicly traded beneficiary of a generational shift toward wellness-oriented eating. The U.S. organic market hit a record $76.6 billion in 2025 - growing at double the rate of conventional food - and the broader health and wellness food market is projected to nearly double to $329 billion by 2035. Three catalysts are driving this: the GLP-1 drug revolution, which is pushing millions of Americans to eat less but spend more on nutrient-dense, premium foods; the MAHA movement, which has amplified mainstream skepticism of synthetic additives and conventional food manufacturing; and a generational shift in which Millennials and Gen Z - who account for over 60% of health-focused food purchases - are entering their peak spending years. Sprouts is built to benefit: over 70% of its products carry health-oriented attributes, its innovation pipeline is focused on trending categories like gut health, no-seed oils, and longevity. Conventional grocers adding organic sections onto stores designed for commodity retailing cannot replicate this positioning, making Sprouts the default destination as the wellness-conscious consumer base expands.

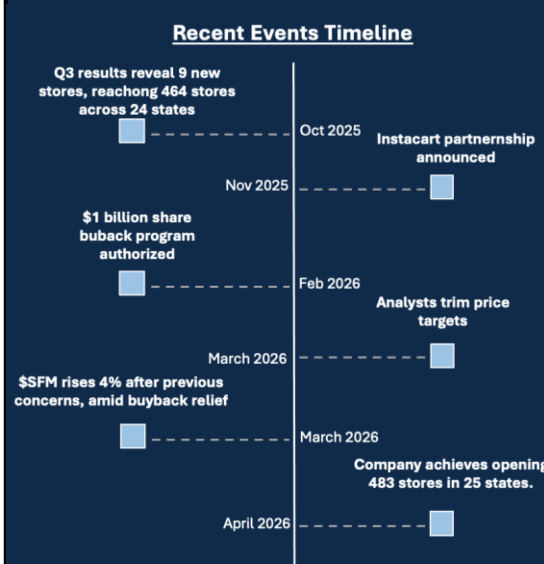
Thesis Point 2

Sprouts Farmers Market generates gross margins of nearly 39% - around 15 percentage points higher than Kroger and Walmart. It operates a fundamentally different business model than conventional supermarkets. The margin advantage is structural, driven by four factors: a product assortment where over 70% of items carry premium attributes (organic, plant-based, non-GMO), commanding higher prices; a growing private label program now exceeding 25% of sales that carries higher margins and cannot be comparison-shopped elsewhere; a compact ~23,000 sq ft store format requiring less rent, labor, and capital than a traditional supermarket while driving high turnover in fresh categories; and a verticalized supply chain providing control over distribution costs and quality. Underpinning all this is the targeting of the health-enthusiast consumer, usually a higher-income, less price-sensitive shopper, and Sprouts' willingness to ignore the $1.2 trillion commodity grocery market to dominate a $200 billion specialty niche where differentiation, not scale, determines success.

Company Overview | Sprouts Farmers Market is a Phoenix-based specialty grocer founded in 2002 by the Boney family. The company operates over 480 stores across 25 states, deliberately targeting health-conscious consumers with an assortment of organic, plant-based, and specialty products. Its smaller-format, produce-centric store layout allows it to position itself as a complementary shopping destination rather than a full-trip competitor to conventional supermarkets.

SPROUTS FARMERS MARKET

TICKER:	$SFM
RATING:	BUY
PRICE:	$83.31
PRICE TARGET:	$102.67
MARKET CAP:	$6.72bn
52-W RANGE:	$64.75 - $182.00
NTM P/E:	12.9x
IMPLIED UPSIDE:	23.24%



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Risk 1

The current increase in oil prices poses a risk to Sprouts. While oil prices should not impact how expensive the fertilizer used in organic farming is, it will increase the cost of shipping goods to stores. Furthermore, it will increase costs of operating stores and distribution centers through increased electricity prices. This could impact on margins or lead to higher prices for consumers, possibly impacting demand.

Risk 2

Sprouts' growth depends on continued hype around the wellness boom. If this turns out to be a trend which fades along with demand for health-focused foods, demand for its products will fall, impacting on revenue. However, there is evidence that this is a cultural and economic shift, not just a passing trend.

Catalysts

Sprouts is currently carrying out an expansion, with the planned opening of more than 40 new stores in 2026. Over 140 new stores have been approved, and more than 95 executed leases are in the pipeline. Site approval is focused on the Midwest and Northeast, where there is a lack of current stores. Sprouts estimates its market expansion plans will generate approximately 10% in annual unit growth.

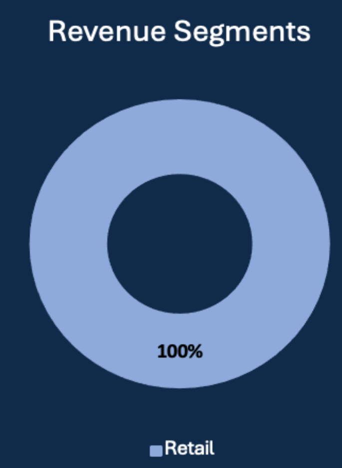
Valuation

DCF Analysis ($mm)	FY2026 12/31/2026	FY2027 12/31/2027	FY2028 12/31/2028	FY2029 12/31/2029	FY2030 12/31/2030	FY2031 12/31/2031
Revenue	9,510	10,318	11,208	12,189	13,270	14,465
Revenue Growth	*8%*	*9%*	*9%*	*9%*	*9%*	*9%*
Retail	9,510	10,318	11,208	12,189	13,270	14,465
EBIT	707	805	880	963	1,055	1,157
EBIT Margin	*7%*	*8%*	*8%*	*8%*	*8%*	*8%*
Tax Expense	158	180	196	215	236	258
Effective Tax Rate	*22%*	*22%*	*22%*	*22%*	*22%*	*22%*
NOPAT	549.14	625.12	683.38	747.91	819.44	898.81
D&A	155	165	178	192	207	224
Capex	250	279	297	317	338	362
Changes in NWC	(16)	(18)	(20)	(22)	(23)	(26)
UFCF	470	530	584	645	712	787
PV of FCF	462	496	516	538	561	586

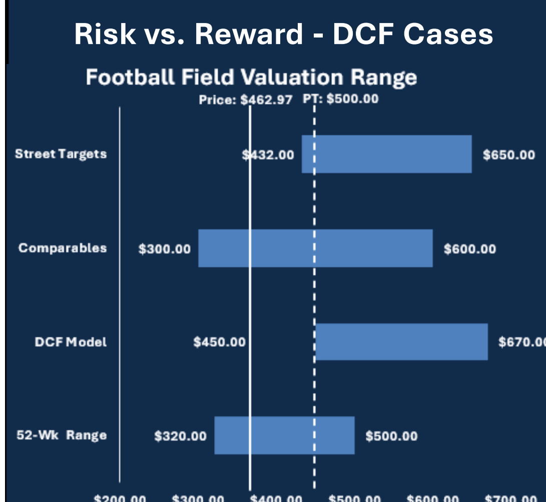
Our 5yr DCF model assumes a 8.0x EV/EBITDA multiple. Revenue growth rises steadily, assuming growing demand driven by a continuing wellness boom and the opening of new stores throughout the period. The resulting CAGR over the five year period is 8.5%. Operating margins continue the current trend of steadily increasing, reaching 8.0% in FY2031, reflecting the impact of Sprout's ability to continue demanding high prices for goods and cost initiatives.

Conclusion

We see growth potential in Sprout's Farmers Market from increasing demand for wellness-focused food. **We initiate coverage with a BUY rating and a $103 PT with a 23.24% upside.**



Terminal Value	
Exit Multiple Method	
2034 EBITDA	$1,381
EV/EBITDA Exit Multiple	8.0x
Terminal Value	$11,051
PV of Terminal Value	$8,235
PV of Projection Period	$3,160
PV of Terminal Value	$8,235
Implied TEV	$11,394
(-) Debt	$1,943
(+) Cash	$257
Implied Equity Value	$9,708
Diluted Shares Outstanding	95
Implied Share Price	$102.67
Upside/Downside	25.4%



Bluegrass Capital Research

Income Statement ($mm)	2025A	2026E	2027E	2028E	2029E	CAGR%
Revenue	8,806	9,510	10,318	11,208	12,189	8.5%
EBITDA	836	862	970	1,058	1,155	8.4%
EBIT	686	707	805	880	963	8.8%
NOPAT	566	549	625	683	748	7.2%

Margin & Growth Data	2025A	2026E	2027E	2028E	2029E	AVG%
EBITDA Margin	9.5%	9.1%	9.4%	9.4%	9.5%	9.4%
EBIT Margin	7.8%	7.4%	7.8%	7.9%	7.9%	7.8%
Revenue Growth	14.1%	8.0%	8.5%	8.6%	8.7%	9.6%
EBIT Growth	28.8%	3.0%	13.8%	9.3%	9.4%	12.9%

Valuation Metrics	2025A	2026E	2027E	2028E	2029E	AVG%
P/FCF	15.8x	16.5x	14.6x	13.2x	12.0x	14.4x
EV/Sales	8.0x	1.0x	0.9x	0.8x	0.8x	2.3x
EV/EBITDA	11.3x	10.9x	9.7x	8.9x	8.2x	9.8x
FCF Yield	6.3%	6.1%	6.8%	7.5%	8.3%	7.0%

Comparable Companies

$mm

Ticker	Mkt Cap	EV	P
Deckers Outdoor Corporation (NYSE:DECK)	$15,595	$14,187	
NIKE, Inc. (NYSE:NKE)	$110,502	$112,372	
adidas AG (XTRA:ADS)	$34,450	$40,286	
The Gap, Inc. (NYSE:GAP)	$7,282	$10,548	
lululemon athletica	$7,282	$23,894	

Ticker	LTM EV/EBITDA	Gross Margin	EBIT
Deckers Outdoor Corporation (NYSE:DECK)	11.0x	57.6%	
NIKE, Inc. (NYSE:NKE)	25.1x	42.7%	
adidas AG (XTRA:ADS)	15.0x	51.2%	
The Gap, Inc. (NYSE:GAP)	6.3x	41.4%	
lululemon athletica	8.0x	59.3%	
High	25.10x	59.3%	
75th Percentile	14.97x	57.6%	
Average	13.09x	50.4%	
Median	11.02x	51.2%	
25th Percentile	8.03x	42.7%	
Low	6.33x	41.4%	

lululemon athletica

Implied Enterprise Value (25th Percentile)
Implied Enterprise Value (Median)
Implied Enterprise Value (75th Percentile)

Implied Share Price (25th Percentile)
Implied Share Price (Median)
Implied Share Price (75th Percentile)

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.33%
Beta	0.59
Risk Free Rate	4.42%
Cost of Equity	2.92%
Weighted Average Cost of Debt	6.50%
Tax Rate	22.33%
Cost of Debt	2.93%
Total Equity	$7,739
Total Debt	$1,686
Equity/Total Capitalization	41.90%
Debt/Total Capitalization	58.10%
WACC	5.85%

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Upside
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demand
Margins

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