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QUESTIONS AND ANSWERS

Shane Paul Higgins - *Deutsche Bank AG, Research Division - Research Analyst*

(technical difficulty)

(inaudible) Sprouts. And as we get back towards a more normalized inflationary environment, hopefully, how should investors kind of think about that transition in terms of the impact on sales and margins and gross profit?

Bradley S. Lukow - *Sprouts Farmers Market, Inc. - CFO, Principal Accounting Officer and Treasurer*

Well, first of all, thanks very much, Shane, for inviting us here today. I would have been disappointed if you didn't lead with a question on deflation because we really haven't talked much about it over the last 18 months. I think one important factor, to give some context to the overall deflation and how we're impacted vis-à-vis our competitor set, Sprouts skews to a big fresh component, so 60% of our sales is in the perishable area of the business, which has been the most significantly impacted by deflation, which over the last 18 months has been increasing. And as more and more categories became deflationary, we were significantly impacted. If you contrast that with the conventional grocery retailer, where maybe 45% of the business is in conventional center of stores, CPG product, which is nowhere near the impact, usually, it's 0% to 1% inflation, we are disproportionately impacted. Now produce, of course, we mix out at about 25% of our business, which is again significantly greater than any of our competitor set. And we've seen pretty significant deflation in that category.

In the context of 2017, we saw in the first quarter deflation on the cost side, was the greatest deflation that we saw since the onset of deflation, 300 basis points of deflation, and that was led by double-digit deflation in produce. And that, of course, is driven by weather, particularly in California, and that can change in a hurry. Into the second quarter of this year, we went from double-digit deflation on cost in produce to almost flat. And so given visibility to growing period, 6 to 8 weeks, you have only that type of visibility. Now in terms of proteins, though, we are starting to see some inflation, particularly in chicken breasts. So that is starting to turn. We are also starting to lap some pretty big deflationary categories relative to when they came on in 2016. So when we updated and provided our last update on guidance in terms of full year, recall that we were looking at about 200 basis points of deflation expectation for the entire year. We've now updated that. Our visibility at this point would suggest that it's going to be between 1% and 2% as we're starting to see some turn in a number of categories. So we're now -- 1% to 2% is the expectation. In terms of how that plays out on retail, it really depends on the competitive set. Notwithstanding that, our comps have been disproportionately impacted by deflation, we're still comping as best-in-class, and I think, to the extent that your conventional competitors continue to comp negative, I think the promotional environment becomes strong. We've seen, over the past couple of quarters, I would say, fairly stable competitive environment in terms of it hasn't deepened, but it's still pretty competitively intense. Different categories respond differently in terms of the pace at which retails change. Typically, in produce and commodity-type items like poultry, there would be less of a lag time in retail, suggesting upwards versus other categories. Certain other categories you can have a lag, and so you get a bit of a margin squeeze for a short period of time. But I think it's really the overall competitive landscape that will dictate the pace at which retail pricing changes throughout the balance of the year. What we are starting to see is some everyday retails and shelf pricing increase, slightly, while we see continued pretty promotional pricing on the front page of the flyer. But I would say, relative to the third quarter, which was the most intense last year, it is a better environment, but still pretty competitively intense.

Shane Paul Higgins - *Deutsche Bank AG, Research Division - Research Analyst*

Are you guys seeing a step up in the number of new stores opening against U&A markets or any -- what -- kind of what's your outlook for the rest of the year in terms of new competitive openings? And then also, on the flip side, competitive closings because, obviously, we've been hearing a lot, especially given this really difficult period of deflation. There have been a lot of marginal players that have actually been closing doors, a lot of smaller regional groceries that people may not be aware of. So just in terms of kind of thinking about the next 6 months or a year or so, kind of what's your outlook in terms of competitive openings against you versus doors that are actually closing as well?

Bradley S. Lukow - *Sprouts Farmers Market, Inc. - CFO, Principal Accounting Officer and Treasurer*

Sure. I think we've seen a number of grocery retailers scaling back CapEx over the last year, 1.5 years. We've heard others talking about closing stores. I would say that the competitive intrusion or openings is not accelerating. It's more stable over the past couple of quarters. And you're right, it seems like every quarter we're reading about another retailer closing their doors, and I think that will continue. There's a pretty broad range of retailers in this grocery space, 40,000, 40,000 retailers in the U.S. with 8,000 being -- 8,000 units being small regional players. And I think you'll continue to see doors closing over the next 1 to 2 years going forward. Obviously, you've got some new competitors opening their doors, in fact, one opening today, their first entrant into the U.S., which is on the East Coast. I mean, we don't have a lot of stores there yet. But I think what you're going to find over time is that the strong players are going to get stronger and the weak and those that haven't reinvested in the business from a relevance perspective or their quality of the box perspective will be the net losers.

Shane Paul Higgins - *Deutsche Bank AG, Research Division - Research Analyst*

Yes, it's interesting. So yes, obviously, Lidl is coming to the U.S. today, and they're opening, I think, 9 or 10 stores. And I do get a lot of questions from investors about the impact of the hard discounters there. ALDI has been around, obviously, for a long time, but they've been making a big investment push more recently, and they entered Southern California last year with a few dozen stores. Could you just talk about kind of the impact that you've seen on your business from ALDI and maybe just help investors, particularly those in Europe, just kind of understand the differences between your model and the hard discounters?

Bradley S. Lukow - *Sprouts Farmers Market, Inc. - CFO, Principal Accounting Officer and Treasurer*

Sure. And certainly, we track every competitor. We take everybody seriously. We track openings. When we look at the ALDI openings in California last year, any of that, that have opened within proximity to our stores, we see very minimal impact. You always give somebody the grand opening, but you see, over a very short period of time, you rate back to the same level of sales that you had before. I think the differential point in terms of how we go to market with our 30,000-square foot box and the breadth and depth that we have in produce and other fresh departments, and we target middle America, middle income to slightly higher skewed, that is a different customer than what the ALDIs attracts. And we certainly walk the stores, and I see a very different customer in terms of the mix and the product. We differentiate significantly on produce in terms of the depth and breadth of our SKU set. And the service element is a key differential point in terms of our go-to-market strategy, whether it's in the meat and seafood area, the deli that we've expanded in, that's driving traffic and frequency to the store as well as the vitamins, which is an important area of the business that's been performing extremely well, where you've got well trained team members who are providing key information and product knowledge to our customer set that are interested in health and wellness and nutrition and they're coming to Sprouts for that.

Shane Paul Higgins - *Deutsche Bank AG, Research Division - Research Analyst*

Yes, it's interesting, I think one of the unique aspects of your model is that you guys are much more focused on fresh. And in terms of the impact from e-commerce players on your business, you seem to be much better insulated than many. I mean, do you have any color, though? I mean, given growth of Amazon and others online, there is a lot of uncertainty today as to what impact that's having on some of the bricks and mortar players. Do you guys have any idea as to how the online grocers have impacted your business, if at all? And if there's been any significant difference between the different types of markets, your more urban markets versus the suburban and more rural markets?

Bradley S. Lukow - *Sprouts Farmers Market, Inc. - CFO, Principal Accounting Officer and Treasurer*

Yes. So as you're aware, most of our stores are located in suburban markets. We like to locate where our core customer are living. And in terms of online, as you're aware, we've expanded our relationship with Amazon Prime Now. We're seeing that there's an ongoing trend, particularly with the largest demographic in the U.S., being the millennials, wanting to have that online experience. And what differentiates Sprouts' model with APN is the quality and the brand and what it represents. When somebody is ordering fresh, they are very concerned about the product quality and they want that confidence in knowing what they're going to receive, that is top-notch quality, whether they want to buy organic, natural. And we have seen very solid success and acceptance for customers that we now have shopping online through APN. So we have 12 stores, that will expand to 20, in various markets that the customer can then go online and buy the full -- pretty much the full assortment of product through Sprouts and which is all sourced and picked in-store. We leverage our existing assets and process and then delivered within 2 hours, free of charge as they're an Amazon Prime Now customer. We see that trend as continuing. And so we are very interested in expanding our offering in more and more geographies. One of the interesting findings that we have consistently across all the stores that we offer the service is we have this great visibility to the ZIP Codes in which the orders are originating from. And it clearly is incremental sales because the orders are coming from ZIP Codes outside of the customary trade area that we draw when we look at locating a brand-new store. So we're seeing incrementality and we're seeing the brand awareness, particularly in newer markets, gets supercharged, if you will, because of that reach, that greater reach that you have from a geographic standpoint.

Shane Paul Higgins - *Deutsche Bank AG, Research Division - Research Analyst*

How was the -- so how was the economics? You actually -- you guys actually picked the product when the orders come in, is that -- and then Amazon actually delivers it? Is that how it works and then you guys pay Amazon a fee?

Bradley S. Lukow - *Sprouts Farmers Market, Inc. - CFO, Principal Accounting Officer and Treasurer*

So it's a mix within the store. We have a financial arrangement that we do pay a fee. And from our perspective and from Amazon's perspective, it's a very positive win-win relationship. But the key for us, we've had tremendous operational learnings. So when we think about what it takes to provide home delivery, maybe at the first instance you don't think it's very complicated, but because it all happens in our store, we've had great operational learnings in terms of what you need to do day-in, day-out from an in-stock position, servicing the customer, being efficient on the order picks, multiple orders at once. And so we've, through these operational learnings, have positioned ourselves well in terms of taking on additional growth and have a lot of flexibility when we think geographically how we may want to go to market where we don't have an exclusive with Amazon and there may be other approaches to home delivery in the future, but what we're getting out of it is muscle memory around how to service the customer in a home delivery model.

Shane Paul Higgins - *Deutsche Bank AG, Research Division - Research Analyst*

That's great. And I know you guys have your mobile app out now. And obviously, one of the big trends that we're seeing is the focus on getting access to consumer data, consumer insights, leveraging those insights. Can you just talk about kind of where you guys are with the app today? Maybe how many of your -- how many downloads you've had? I think you're still pretty much in the early innings, but just kind of where you are in that process? And what kind of insights you guys are starting to gain from the data and how you apply those?

Bradley S. Lukow - *Sprouts Farmers Market, Inc. - CFO, Principal Accounting Officer and Treasurer*

As you say, we are in the very early innings of this opportunity. As you may be aware, we launched our mobile app in the second quarter of last year, so it's very early days. We already have, notwithstanding the newness of the app, 850,000 and growing known customer IDs, which is starting to give us more and more visibility to buying behaviors and allowing us to do more from a personalization perspective. I will say that we are redoing, upgrading our overall digital platform, both from a web perspective and digital mobile app perspective, that will be completed by the end of this year for rollout in the first quarter of next year. That will add significant functionality to the application, that will enhance the usability of that app with our customer. I think it's important to realize that our go-to-market strategy includes being -- from an overall perspective, the pillars being healthy, value, service, selection. We are already a value player. We're not looking at this app affinity program as one where we need to go out and have differential pricing or give points or anything of that like. Our customer feedback from our surveys tell us that, that customer wants to engage with us more and more online, in store, out of the store from a product knowledge perspective. So if you've self-selected that you're a vegan, but I have visibility to the fact that there are many product categories in that space where you're not shopping, I can now provide you with customized, relevant offers to expand your basket within my store. We're also looking at -- there's great functionality in terms of sharing new product introductions, whether that's a private label product, recipes. So that whole digital engagement is going to step up significantly with this greater technology that we'll have in place by the end of the year.

Shane Paul Higgins - *Deutsche Bank AG, Research Division - Research Analyst*

That sounds exciting. And you guys have a number of, obviously, other sales-driving initiatives currently ongoing that you're rolling out. Obviously, deli and prepared food, that's very much on trend. I think the trend towards people eating or grabbing more on-the-go meals, taking things home, is definitely something that we're seeing and hearing a lot more from these day, especially with the millennial customers. Can you just kind of talk about where you guys are with that initiative, with the rollout and where it's headed and kind of just some of the incremental economics around the deli and prepared foods as you guys rolled that out?

Bradley S. Lukow - *Sprouts Farmers Market, Inc. - CFO, Principal Accounting Officer and Treasurer*

Sure. So in 2016, we really started the deli initiative, which includes many other -- many facets within that particular area of the store. We've got 8 foot service case with great product that we prepare, we cook in-house, that's natural, with sides. So it is an offering that allows the customers who come in, grab a healthy meal to feed their family, heat and eat at home, it's 10 minutes and no issues, and they're eating healthy. In addition to that, we've got home meal replacement that we again prepare in-house. We've got salad bars, juice bars, sandwiches, to name a few. And so to your point around the relevance, customers today and the trends are that people are snacking more and more, and they're time-starved. So we're -- we are giving meal solutions to people who don't want to make a trade-off between quick and easy versus healthy. So it's putting those 2 together. We are also pretty excited about the grab 'n' go meal kits that we're providing in our stores, just another value-add that the millennial customer, to your point, is really interested in. And so when we look at what the impact that is having, I think, number one, for that core customer, we're adding a lot of relevance in terms of the overall completeness of the shop available in our store. And particularly with stores with high daytime traffic, 12:00, 5:00, it's right on point and on trend, and we're making it easy for the consumer to give them that great option. When we look at new stores that open with the full deli initiative and offering, we're seeing pretty significant growth in the penetration of the overall sales mix in deli. And we certainly like that because a department like deli adds frequency of trips and visits and just overall improves the offering to the customer. I think we are also pretty excited about the fact that we are enhancing the quality of some of the products that we see opportunity on. So by way of example, over the last 6 months, we've hired a culinary director who has worked across the globe, in Michelin star restaurants. And other retailers importantly has great execution, experience in not only creating these incredible salads with great protein, salmon and other elements. It all comes down to can you execute in-store. And he brings with him that great experience and we're starting to roll that out across the chain in the next coming days and weeks. Sandwiches have been upgraded as well in terms of the ingredient set and the flavor and the taste and the wrap. It's all incredible in terms of what we're adding. I had the luxury of sampling a lot of those new products that were on our boardroom table last Monday, and I'm pretty excited about that enhancement to that program. And -- but importantly, it's a program that can be efficiently executed at store level.

Shane Paul Higgins - *Deutsche Bank AG, Research Division - Research Analyst*

It's interesting. Who do you guys think -- I get this question sometimes from investors in the restaurant space. Are you guys taking -- do you think you're taking business from the restaurants? Is it business you might be taking from other grocery chains? Where do you think this -- the fresh prepared meal business is coming from, because it sounds like it's incremental for the most part for you guys. I mean, where do you think that's coming from? And as you continue to roll it out, do you -- is this going to be a nice comp driver and margin driver over the next year or 2?

Bradley S. Lukow - *Sprouts Farmers Market, Inc. - CFO, Principal Accounting Officer and Treasurer*

I think it's coming from a number of different places, including restaurant, but other grocery retailers. I think customers are just looking for more options and their value options. So you're also -- number one, you're not trading off time, so you're getting an advantage on time when you compare that to a restaurant or preparing a meal yourself. And number two, you're getting great quality because you know when you're coming to a Sprouts you're getting a clean ingredient set. And we've got tremendous variety for that customer. So I think it's coming from a number of different places. And it's just, to your point, it's a growing trend, and Sprouts is really focused, laser-focused on being on trend and continuing to listen to feedback from consumers in terms of what they want to see from Sprouts. In fact, the reason why we accelerated our rollout and expanded our offering in deli came specifically out of consumer feedback. So I think it's -- the millennial population, for sure, is driving this. The whole trend towards snacking and healthy eating is driving this. And yes, it will be an added benefit, over time, to driving comp.

Shane Paul Higgins - *Deutsche Bank AG, Research Division - Research Analyst*

Yes, I mean -- and it's also -- I believe it's a much higher gross margin area as well. But there's also higher cost and training cost and all, especially when you're talking about highly perishable and there's food safety concern. So how are you guys managing that process? And the way I think about it is as you guys continue to move up the learning curve here, that it will become that much more profitable for you guys going forward because you're still fairly early. I believe you guys said you're going to roll out 50 or so of these this year, including new stores.

Bradley S. Lukow - *Sprouts Farmers Market, Inc. - CFO, Principal Accounting Officer and Treasurer*

Yes, we're really in the early days of executing this program. You're absolutely right, it does -- this deli department comes at a much higher margin, but also higher labor. And so one of the areas that we've been really focused on, and we've talked to the fact that we need to continue to build out efficiency within the organization, and as a result, we will continue with the automation programs that we have scheduled and have in place that will drive operational efficiency and give us labor leverage in the stores. So by way of example, last year, we rolled out a labor scheduling module to all of our stores, but it was only in respect of the non-production labor departments. The more complex aspect of that is being done this year. We brought on an industrial engineer who is working with the team to develop the engineered standards for the production departments within the store. And that addresses labor productivity, identifying not only when you need to produce, but how much time it should take you to produce and then you integrate that with your labor scheduling system. And importantly, today, we don't have an automated tool that determines when you should be producing all of the products within the store to align that with sales. So the new application that we are implementing has the built-in tool and technology to handle the demand forecasting. So from that point of view, that will enhance your in-stock position, maximizing sales, and it will reduce shrink. It will be sort of the best of both worlds. And it will allow us to scale that across the organization as we grow. So those are just some of the areas that we're looking at driving automation to enhance the efficiency in the store that we can then take those savings and decide what we want to do from a reinvestment point view.

Shane Paul Higgins - *Deutsche Bank AG, Research Division - Research Analyst*

Yes, it's interesting. And circling back to the competitive environment, yes, you guys have always gone to market on your strong produce and fresh offering, obviously. And you've always been priced 20%, 25% below conventional grocers in that key category. Would you say -- are you guys still kind of at that gap versus your competitors? Have you seen any of the conventional guys narrow that at all? Or just give us a sense of kind of what's transpired with respect to your gaps today versus conventionals.

Bradley S. Lukow - *Sprouts Farmers Market, Inc. - CFO, Principal Accounting Officer and Treasurer*

Sure. First, when we look at the produce area of our business, which is an important traffic driver, and given that it's 20% to 25% of our business, we are absolutely committed to ensuring we're maintaining our price positioning in the market. We do weekly price checks, market-by-market, on all the SKUs within our produce department, where there's comparables, like-for-like. And we are 20% to 25% better-priced than our nearest competitor. And while that has been difficult in the context of deflation, we think it's very important to maintain that position. It enhances -- it maintains and it actually enhances the overall value proposition and positioning of the store. And so yes, you can always -- anybody on any item on any week can be taken out on a front page ad. But when we look week in, week out across the entire spectrum of what our offering is in produce, we're maintaining that price position.

Shane Paul Higgins - *Deutsche Bank AG, Research Division - Research Analyst*

That's great. Actually, I'll open up the floor. If there are any questions, please feel free to raise your hand.

Unidentified Analyst

It looks like -- I'm not so familiar -- not familiar with the company, but it looks like there has been a decline in margins over the last 3, 4 years. You mentioned deflation at the beginning of the -- in the beginning. Are there any other reasons, please?

Bradley S. Lukow - *Sprouts Farmers Market, Inc. - CFO, Principal Accounting Officer and Treasurer*

Yes. So obviously, deflation has had a negative impact on the entire industry, but us, as well, because we skew more to perishable and fresh. So as your top line is negatively impacted and in the context of our typical operating experience of 200 basis points of inflation, the first quarter of this last year we saw 300 basis points of deflation, so you've got a 500 basis point swing. So when that happens to your top line, you're not able to leverage your largest cost, which is labor. In fact, if you look at the major area of EBITDA reduction as a percent of sales, it has been in the area of our DSEs, which is principally our labor. We talked last year about making some incremental investments, both in the wage area in terms of certain geographies and certain positions that were critical for us in terms of our strategic positioning and really critical departments in the store. But also, because of the service elements and how important that is and we keep getting reinforcement from our customer research that, that is a key differentiation point for Sprouts, we stepped up our training initiative last year from 2 perspectives: one, from product knowledge in the various departments, including vitamins, which is very important for us as well as in meat and seafood. While others are scaling back on their service and their product, we were stepping it up. We graduated 80 butchers last year. We have a differential product offering. You can get anything cut custom at that counter. So in the context of also opening up roughly 30 stores a year, we needed to ensure that we had a pipeline of team members on the bench that could step up and move into these department managers or store manager positions to enable us to continue with the most important part of the growth, which is the human element of that. And so that was a one-time step-up in 2016. We are maintaining our level of dollar investment. And I think what you'll see is, as we return to a more normalized inflationary environment, we'll see that margins are certainly stable to then increasing depending on what level of reinvestment we choose to make, from all these efficiency savings, which will be governed by the competitive landscape.

Shane Paul Higgins - *Deutsche Bank AG, Research Division - Research Analyst*

Any other questions? So you touched on the labor cost. So this year, I guess, you've made a lot of investments in training and whatnot, obviously very important. So going forward, the incremental investments will be a little bit less, I guess, that's the way to kind of think about the impact on DSE?

Bradley S. Lukow - *Sprouts Farmers Market, Inc. - CFO, Principal Accounting Officer and Treasurer*

Yes, 2016, we really made the incremental step-up in the wage and training line. And as we progress through 2017, you'll see the comparatives get easier sequentially throughout the year. We have not stepped up our investment, we are maintaining it at a level that we believe is prudent and appropriate in the context of the operating environment and our growth plans. So you'll see improvements as a percent of sales throughout the year.

Shane Paul Higgins - *Deutsche Bank AG, Research Division - Research Analyst*

Yes. So that's interesting. Also, I know you guys have moderated your unit growth a little bit. You were growing at 14% per year. You're still kind of in that low double digits and one of the few food retailers in the U.S. that's still growing at a nice rate. Can you just kind of talk about the decision to slow unit growth and kind of how that's going to impact maybe the P&L over the next couple of quarters?

Bradley S. Lukow - *Sprouts Farmers Market, Inc. - CFO, Principal Accounting Officer and Treasurer*

Sure. We really sat back as an executive team and reflected on all the initiatives that we have on the plate for the next 24 months. And as we spoke about it a little bit, there are several initiatives that require a lot of touching at store level in terms of rolling out systems. So there are a number of applications that we are going to put into the stores from an automation standpoint that will enhance operational efficiency. We believe that, that is critical to enable ourselves to scale efficiently going forward and deliver operational savings to the business. With that as the backdrop, notwithstanding that we have tremendous white space opportunity, we sat back and said, in the context of opening 30-plus stores a year, with 2/3 being in existing markets and 1/3 being in new markets, what we didn't want to happen is that we weren't opening stores flawlessly. And so we wanted to ensure that, from a capacity standpoint within the organization, we were finding the right balance and ensuring that everything that we chose to do was doing -- we were executing flawlessly. And so when you think about going into new markets, like we entered in Florida and North Carolina markets, we took a different approach, and we had some learnings from our entry into Georgia that we've brought to bear in our recent market openings. So we reinforced and enhanced the regional operations team. We brought in more Sprouts experienced knowledge onto that team. We fed stores with management team members that had the Sprouts experience. We also went to market differently in terms of enhanced grassroots marketing, social media, bloggers, community events. All of that was wrapped up in a different go-to-market strategy that has been very successful. So we sort of -- we're trying to balance all elements. When I think about the impact, number one, sales are going to open stronger in new stores and we've seen really terrific results from our 2016 and '17 vintages, both in existing and new markets. Also, it will, opening 30 stores a year, which to your point is still best-in-class, nobody is opening that kind of units and as profitably as we are, with 35% to 40% cash-on-cash returns, that will help us manage the balance on cannibalization. So while we've been running above our customary range of 125 to 150 basis points over the last several quarters, we did so because we had opportunities to pick up incremental sites, so we picked up 4 incremental Haggen sites last year, 3 in California, one in Nevada, and those have been home runs, notwithstanding the cannibalization. But we're -- we will get a better balance opening, only 30 stores a year, in terms of managing that cannibalization. By way of example, the back half of this year will be well within our customary range of 125 to 150 basis points. And the pipeline is strong and set for next year and will be within that range next year as well. So it gives us a great balance from a financial perspective, and operationally, it will help ensure that we're executing all initiatives extremely well.

Shane Paul Higgins - *Deutsche Bank AG, Research Division - Research Analyst*

Yes. And it sounds like -- I mean, you guys are generating -- you mentioned free -- the cash flow -- cash-on-cash returns have been very strong. So you're growing your units and you're also generating quite a bit of free cash flow. You're really conservatively levered as well. And just in terms of thinking about how you guys are going to deploy your free cash flow over the next couple of years, how should investors kind of think about that? Are you guys trying to stay opportunistic in respect to maybe taking advantage of some of the market dislocations that some weaker competitors that may be closing doors out there? Because I suspect that we may see some more of that the next couple of years. You may have some more Haggen-like situations that could give you an opportunity to maybe pick up some stores.

Bradley S. Lukow - *Sprouts Farmers Market, Inc. - CFO, Principal Accounting Officer and Treasurer*

You're absolutely right. Look, last year, when we did a fundamental review of our capital structure in the context of our updated 5-year strategic and financial plan, given the capital efficiency of the model and the excess free cash flow generation that the business is rolling up, we thought it was prudent and appropriate to add leverage to the balance sheet. We've communicated very transparently to the market in February of this year in terms of leverage levels going forward, which will -- our target range is 1.2 to 1.5x net debt to EBITDA, which middle of that range translates into at least adjusted 3.2, which is very conservatively financed. And part of the backdrop as to why we wanted to be at that leverage level, which is conservative, is to allow us a lot of financial flexibility, to the extent any bolt-on acquisitions could be executed over the next few years. So I think it was us finding the right spot from a cost to capital perspective and enhancing financial returns to our investors, again capital-friendly model. We are first going to invest in organic growth, and that is only limited by what we think we can do flawlessly, which is the 30 stores a year at this point in time. We'll revisit that in a few years when the heavy-lifting of all these automation tools are in the stores. And as we add in-stores into new markets and have opportunities to leverage the operational teams, then we can always step that up. We will be opportunistic. We wouldn't not look at opportunities if it meant adding 5 more stores than we planned on. Again, a great example is the Haggen stores, which are just tremendous store performers.

Shane Paul Higgins - *Deutsche Bank AG, Research Division - Research Analyst*

So you've had them for about a year now, I guess?

Bradley S. Lukow - *Sprouts Farmers Market, Inc. - CFO, Principal Accounting Officer and Treasurer*

That's right, yes.

Shane Paul Higgins - *Deutsche Bank AG, Research Division - Research Analyst*

Okay, great. I mean, I guess, anymore -- is there any more questions? Maybe we can take one more. If not, going once, going twice. All right, thanks a lot, Brad. Thank you all for participating.

Bradley S. Lukow - *Sprouts Farmers Market, Inc. - CFO, Principal Accounting Officer and Treasurer*

Thank you.
