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SFM.OQ - Q4 2022 Sprouts Farmers Market Inc Earnings Call

EVENT DATE/TIME: MARCH 02, 2023 / 3:00PM GMT

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Sprouts Fourth Quarter 2022 Earnings Conference Call.

(Operator's Instructions)

Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Susannah Livingston.

Susannah Livingston - *Sprouts Farmers Market, Inc. - VP of IR & Treasury*

Thank you, and good morning, everyone. We are pleased you are taking the time to join Sprouts on our fourth quarter and full year 2022 earnings call. Jack Sinclair, Chief Executive Officer; and Chip Molloy, Chief Financial Officer, are with me today. The earnings release announcing our fourth quarter and full year 2022 results, the webcast of this call and quarterly slides can be accessed through our Investor Relations section of our website at investors.sprouts.com. During this call, management may make certain forward-looking statements, including statements regarding our expectations for 2023 and beyond. The statements involve several risks and uncertainties that could cause results to differ materially from those described in the forward-looking statements. For more information, please refer to the risk factors discussed in our SEC filings and the commentary on forward-looking statements at the end of our earnings release. Our remarks today include references to non-GAAP measures. Please see the tables in our earnings release to reconcile our non-GAAP measures to the comparable GAAP figures. With that, let me hand it over to Jack.

Jack L. Sinclair - *Sprouts Farmers Market, Inc. - CEO & Director*

Thanks, Susannah, and good morning, everyone. We ended 2022 on a strong note with fourth quarter results that included comparable store sales growth of 2.9%, total sales growth of 6% and diluted earnings per share growth of 31%. For the full year, our diluted earnings per share growth was 14%, which is in line with our long-term strategy. Highlights for the year include opening 16 new stores, 60% in our new smaller prototype, growing sales of our Sprouts brand to over $1 billion, increasing sales of local produce by over 100%, creating 1,600 new jobs, launching approximately 8,400 new innovative products and digitally connecting with 13% more customers. I want to take a moment and commend our 31,000 team

members for driving these results in another very challenging year across the consumer landscape. Their continued dedication and commitment to making Sprouts a place for discovering healthy eating continues to make me proud. In a few moments, I'll follow up with more on our journey in 2023. For now, let me hand it to Chip to review our financial performance in the fourth quarter, the full year and our 2023 outlook. Chip?

Lawrence P. Molloy - *Sprouts Farmers Market, Inc. - CFO & Treasurer*

Thanks, Jack, and good morning, everyone. For the fourth quarter, total sales were $1.6 billion, up $84 million or 6% from the same period in 2021, driven by new stores and comparable store sales growth of 2.9%. Comp sales were supported by an increase in basket due to retail inflation, partially offset by a slight reduction of items in the basket. Our e-commerce sales grew 16.5%, representing 11.4% of our total sales for the quarter. During the quarter, we also launched our partnership with DoorDash to acquire new customers and expand their access to Sprouts. DoorDash is now available in every store and continues to grow with each passing month. Deli continued to be a strong performer in the fourth quarter as healthy prepared meal solutions are favored by our customers in-store and online. We experienced relatively strong performances in categories with the most differentiation such as dairy, frozen, grocery and bakery.

Bulk is also experiencing a positive turnaround as customers take advantage of the value and flexibility our offering provides. Our fourth quarter gross margin was 36.3%, an increase of approximately 60 basis points compared to last year. As you may remember, during the fourth quarter of 2021, our margins compressed as our price changes lagged input costs. This past quarter, as we did during all of 2022, we kept our price changes more in line with input costs. SG&A for the quarter totaled $473 million, an increase of $24 million. New stores, additional marketing spend, increases in labor costs and higher commodity prices were the primary drivers. Store closure and other costs relating to noncash store asset impairments totaled approximately $8 million for the quarter. For the quarter, our earnings before interest and taxes were $62 million, interest expense was $1 million, and our effective tax rate was 25%.

Net income was $45 million, and diluted earnings per share were $0.42, an increase of 31% compared to the same quarter in the prior year. During the fourth quarter, we opened 7 new stores, spent $41 million in capital expenditures, net of landlord reimbursements and repurchased 1.5 million shares. For the fiscal year 2022, total sales increased 5% to $6.4 billion, driven by new stores and comparable store sales growth of 2.2%. Comp sales for the full year were also supported by an increase in basket due to retail inflation, partially offset by a slight reduction of items in the basket. Our annual gross margin was 36.7%, up 45 basis points compared to last year. The year-over-year increase results from slightly less promotional mix, managing overall price changes more in line with cost increases and reducing shrink via operational improvements and systems support. SG&A expenses for the year increased $107 million to $1.86 billion. The increase is due primarily to additional stores, inflationary conditions driving increases in store costs, credit card fees and increased e-commerce fees associated with higher sales.

The strides we've made in improving our labor management tools helped to offset rising labor costs. For the year, our earnings before interest and taxes were $358 million. Interest expense was $9 million, and our effective tax rate was 25%. Net income was $261 million and diluted earnings per share were $2.39, an increase of 14% compared to the prior year. During the year, we opened 16 new stores, 9 in our new smaller format and closed 4. We ended the year with 386 stores across 23 states. Now let's turn to the balance sheet and cash flow highlights. We ended the year with $293 million in cash and cash equivalents, $250 million outstanding on our $700 million revolver and $25 million of outstanding letters of credit. Cash flow generation remained strong for the year. We generated $371 million in operating cash flow and spent $112 million in capital expenditures, net of landlord reimbursements. Our robust cash flow generation allowed us to invest in the growth of our business, predominantly new stores, while also returning cash to our owners through our ongoing share repurchase program.

For the year, we repurchased 6.9 million shares of common stock for a total investment of $200 million. Our diluted weighted average shares outstanding were down 6% compared to last year, and we have $412 million remaining under our current share repurchase authorization. Turning to our current expectations for 2023. We continue to operate in a challenging consumer environment, focusing on what we can control to drive meaningful results. One area of focus is ensuring our store portfolio's ongoing health and profitability. We are pleased with the performance of our more recent store openings, especially the smaller prototypes. We're also encouraged by the momentum of those newer markets as we begin to densify and establish more brand awareness. In 2023, we plan to open at least 30 new stores, all of which are our current prototype. Back in early 2020, we consider closing some underperforming locations as we shifted our store growth strategy to a smaller, more productive prototype. We consciously decided not to close those stores as the pandemic struck, so our communities would continue to have access to fresh, healthy groceries.

We recently revisited that decision. And as you may have seen in our release this morning, we plan to close 11 stores in 2023. These stores, on average, are approximately 30% larger than our current prototype and generate negative 4-wall cash flow. One store will close during the first quarter as its lease expires and the remaining stores will close during the second quarter. Team members from the closed stores will be transferred to other stores if they so desire. On the supply chain front, we will relocate our Southern California distribution center to a larger brand-new facility in the second quarter. In addition to supporting our growing capacity needs, the facility's location will reduce the miles traveled to our stores and is in a more robust labor market. There will be special transition costs associated with this relocation. The total cost for the store closings and supply chain transition will be approximately $40 million to $50 million pretax, of which close to 75% will be noncash. With this backdrop, for the full year, we expect total sales growth of 4% to 6% and comp sales in the low single digits.

We expect gross margin to be flat to slightly up and slight deleverage in SG&A costs. Adjusted earnings before interest and taxes are expected to be between $355 million and $370 million, and adjusted earnings per share are expected to be between $2.41 and $2.53, assuming no additional share repurchases. That said, we do expect to continue to repurchase shares opportunistically. Both adjusted EBIT and EPS exclude the store closing and supply chain transition costs. During the year, we expect capital expenditures, net of landlord reimbursements, to be between $210 million and $230 million. Most of the CapEx is for the 30 new stores and the new distribution center. Other areas include technology enhancements, ongoing refresh and remodel expenditures, merchandising initiatives and maintenance. Ongoing, we expect CapEx to be approximately 3.5% of sales annually. For the first quarter of the year, we expect comp sales in the range of 1.5% to 2.5% and adjusted earnings per share between $0.83 and $0.87. And with that, I'll turn it back to Jack.

Jack L. Sinclair - *Sprouts Farmers Market, Inc. - CEO & Director*

Thanks, Chip. Nearly 3 years ago, we embarked on a journey under our new strategy, which happened to correspond directly with a global pandemic. As the noise of the erratic past few years begins to fade, our progress is clear. We are a stronger, more profitable company and expect to sustain this business performance. Our mission was to transform Sprouts into a more relevant healthy living brand. We defined a clear target customer, then sought to expand and market our product differentiation to our customers, reduce our store size to reinforce our farmers' market appeal, grow our store base, integrate and expand our supply chain, inspire our team and drive attractive profit growth along the way. Despite all the challenges in the world in the last few years, this strategy has progressed and resulted in a financially stronger company. The past few years, we have reset our margin structure, improved our labor productivity and implemented needed systems. Since 2019, our gross margins have improved by 300 basis points.

We estimate that about 2/3 of this was through decisive actions to promote more effectively. The remaining 1/3 were operational improvements, such as less shrink from an expanded and well-placed fresh supply chain and systems that improved our ordering and in-stock positions. As part of our improved strategy, we intentionally changed our tactics to narrow our focus on our health-conscious target customers. And we also made numerous investments in our business, such as increased wages for team members and systems for improved labor management, inventory, and financials, among others. As a result, our EBIT margins improved by 170 basis points, our 3years earnings per share CAGR was 24%, and our EBIT per square foot increased by 49%. Our ROIC has also improved by 270 basis points, all in line with our strategic goals. These foundational initiatives have allowed us to move on to the next leg of our journey. We have plenty of work to do. To build on this foundation in 2023, we will be focused on growing customer engagement, expanding category leadership and product innovation, a more efficient and effective supply chain and accelerate our store unit growth.

On the customer front, we continue to focus on driving engagement with health enthusiasts. Last quarter, we conducted a comprehensive research study to understand better what is most important to our customers post pandemic. They consistently told us they are looking for us to help them take new measures to be healthy. Freshness, quality, innovative variety and commitment to sustainability are all key drivers for our customers. These learnings prompted us to pivot our marketing positioning to launch our new 'Find Your Healthy' campaign in January. The campaign connects by sharing several ways customers can create their own health journey at Sprouts and is anchored by what customers tell us they love -our fresh, high-quality and innovative products you can't find anywhere else. This differentiates us and creates a sense of discovery for our customers. As I stated at the beginning of the call, Sprouts brand hit $1 billion in sales late last year, a remarkable accomplishment, largely due to our focus on innovation.

We plan to accelerate this growth even more in 2023. You will see additional new Sprouts brand products, an increased focus on seasonal programs and a brand style and packaging redesign that is already showing promising results. In 2022, we invested in growing our convenience meals and plan to double down again in 2023. We bring differentiation to this growing category with higher quality and healthier options. Our customers will find even more chef-driven creations in seasonal offerings, added plant-based and health-attribute options and additional family meals. We doubled our local produce sales in 2022 with more than 11% of our produce sales now from local growers. We believe our relationships with farmers, scale and expertise in fresh produce enable us to own and grow this space. That advantage led to the launch of our rescued organics produce program in California, benefiting our farmers and customers and helping to combat food waste. The farmer gets the added benefit of selling produce that is still completely fresh and tasty, but it could have otherwise ended up being wasted, all because of irregular shape, sizes or blemishes.

So customers can buy delicious organic fruits and vegetables, which simply don't meet visual specifications, at a great price. We also learned that our customers strongly desire to engage with Sprouts more often, especially regarding more convenient occasions. Proof point of this is that our e-commerce growth has been one of the fastest in grocery at 400% since 2019. Building on this, last quarter, Sprouts launched a partnership with DoorDash to provide a new channel of e-commerce focused on the convenience of delivery to customers. These channels offer new opportunities for engagement for our high-value customers. Lastly, to connect with customers more effectively, we are scaling our personalization efforts to develop a stronger one-to-one relationship. We're investing significantly with the right partners to build a more robust marketing and technology platform. These investments will continue to be a top priority to meet customer needs for additional engagement, ultimately boosting customer loyalty. Chip has briefly spoken about investments to create an advantaged supply chain from which we can grow.

More than 85% of our stores are within 250 miles of our distribution channels, up 20% from 2019. This year, we'll be focused on investments at our current DCs, replacing our SoCal DC and expanding our Texas DC to account for growing demand while adding ripening rooms to our Arizona, Texas and Southern California DCs to deliver even better produce to our customers. As we expand our brick-and-mortar capabilities, we are also expanding our supply chain systems, allowing us to leverage our technology better to ensure we have the right products in the right location for our customers to enjoy. This includes a DC replenishment system expansion and perpetual inventory computer-assisted ordering at our store operations. We started implementing PICAO in 2022 and have experienced much success. Produce, dairy, frozen and grocery are benefiting on the sales front from better in stocks and optimized inventory levels with more fast-moving items and fewer slow movers. We have reduced our shrink by improving turns and freshness from transitioning to a just-in-time replenishment model, and we have experienced labor savings by allowing the computer to do the work for us.

Lastly, on the real estate front, we are expanding with our new 23,000 square foot store, and every store opened this year will be in our new format. We are excited about our robust pipeline of more than 80 approved stores and nearly 60 executed leases. We have already opened 4 new stores in this first quarter with a plan to open at least 30 stores this year, and we are on track to reach our 10% unit growth starting in 2024. In summary, we remain focused on advancing our strategy to differentiate Sprouts further as a unique specialty retailer focused on health and wellness while expanding our footprint with an advantaged unique store format. We will also continue efforts to manage all costs during these uncertain times effectively. I firmly believe these general principles will guide us through another year of success, and I look forward to sharing our progress. With that, I'd like to turn it over for questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator's Instructions)

Our first question comes from Parikh with Oppenheimer.

Erica A Eiler - *Oppenheimer & Co. Inc., Research Division - Equity Research Associate*

This is actually Erica Eiler on for Tesh. So first, I wanted to touch on comps here. So comp growth obviously accelerated on a multiyear basis. So I was hoping to get a better sense of what you're seeing from the consumer here from a trade-down perspective? Or any other notable changes in consumer behavior lately?

Jack L. Sinclair - *Sprouts Farmers Market, Inc. - CEO & Director*

Well, I think the pattern over the past -- going in the fourth quarter was kind of consistent to what it's been through the year. We've seen a kind of pretty steady traffic, which we've been encouraged by. And in terms of the consumer behavior with the level of food inflation, you've seen a trade down as we've talked about, people have been trading down in terms of both the number of items in the basket and trading down in certain categories. You've seen a little bit of a trade down in the protein space. You've seen a little bit of a trade down. You can see the strength of our Sprouts brand business. You've seen a little bit of a trade into that as well. So I think the consumer behavior in Q4 was pretty consistent to what it was throughout the year of 2022. And I think we're seeing that same pattern as we go through this year.

Erica A Eiler - *Oppenheimer & Co. Inc., Research Division - Equity Research Associate*

And then we know you have a difficult compare with the King Super strike from last year. And then we've seen industry headwinds lately in the vitamin category. So just curious if there's any more color you can provide to us on quarter-to-date trends at this juncture? And then just any commentary on the vitamin category performance here?

Lawrence P. Molloy - *Sprouts Farmers Market, Inc. - CFO & Treasurer*

Specifically to the vitamin category, what you're trying in there is the patterns are trending very much around the ups and downs of Covid comparisons from the previous year. There were such extreme numbers in different directions across different years. So you're seeing that pattern continue. The cold and flu what happens with cold and flu clearly affects the vitamin business pretty significantly as well. So we see some great months and not so great month, so it's fairly volatile. And it continues to be a very important category to us, and we're very excited about the people that are operating in the middle of that vitamin department. What works really well for Sprouts is in the vitamin department, we've got a lot of expertise of people who can really understand how vitamins and supplements can help our customers. So we're excited about the team and excited about what's happening, but there's a lot of volatility in that. Maybe Jack could talk a little bit about the broader context of your question.

Jack L. Sinclair - *Sprouts Farmers Market, Inc. - CEO & Director*

Yes, sure. The -- so as we were going through the end of the year, obviously, we're comping against Omicron towards the end of the year and then into the beginning of this year. And then while we were comping against the King Super strike at the beginning of this year. So our comp compares a little bit more difficult coming into the beginning of the year, but we're seeing it. We're past that now are steady. And you can see in our guidance, we feel pretty good. We're 1.5% to 2.5% comp from guidance there for the quarter.

Operator

Thank you. Our next question comes from Mark Carden with UBS.

Mark David Carden - *UBS Investment Bank, Research Division - Associate Director and Associate Analyst*

Nice quarter. So you guys noted that you're looking to close 11 new stores following your real estate review. Are these stores being replaced ultimately by near-store prototypes in similar geographies? What were some of the local markets simply too weak to support a Sprouts longer

term? And then just longer term, how should we think about additional closures in the years ahead and any potential impacts on your long-term 10% unit growth algorithm?

Jack L. Sinclair - *Sprouts Farmers Market, Inc. - CEO & Director*

Yes. Well, specifically, strategically, when I got this job a few years ago now, it seems a long time ago now, we set out a strategy very clearly about the smaller stores would be more effective going forward. in terms of returns and what we expected to be able to deliver in terms of returns from those stores. As we've looked at the store portfolio, that strategy playing out really made us take a very hard look at those stores that are a little bit bigger. The lovely stores that were built by the previous team, a little bit bigger and not the kind of -- and in certain locations, we picked the wrong locations. We would have acted sooner on these stores had it not been for the pandemic. We didn't think it was appropriate to shut grocery stores in the middle of a pandemic in terms of giving access to healthy foods. So the specifics on the 11 stores, you won't see direct replacements coming in in those geographies going forward because they're probably in the wrong place. and there probably the leases aren't quite where we want them to be. But going forward, there will always be leases that we've got to deal with, but this is a kind of one and done. Let's clear up a big chunk of some of the stores from our strategy that we laid out 3 years ago. And as I say, we would probably have acted a little bit sooner on these having not been for the pandemic. Chip?

Lawrence P. Molloy - *Sprouts Farmers Market, Inc. - CFO & Treasurer*

And I would just add, as we go forward, we have a much more robust modeling gone -- we instituted a new system last year. We are mitigating the risk of opening those stores. The new models give us a much better location, sort of main and main. And we're not opening up 30,000, 40,000 square foot stores.

Mark David Carden - *UBS Investment Bank, Research Division - Associate Director and Associate Analyst*

And then as a follow-up, there's been some press that one of your largest natural organic competitors has been getting more aggressive on pricing. Are you seeing any ripple effects impacting the broader natural organic space? And do you see any more likelihood of competitors becoming less rational in year ahead?

Jack L. Sinclair - *Sprouts Farmers Market, Inc. - CEO & Director*

Well, we haven't seen too much irrationally in terms of what's happening in our space. We're very confident that we've got a strategy that we can follow, and we're sticking to our guns on our strategy. I haven't seen a lot of volatility in pricing in our direct space, in the natural and organic space. We obviously watch that pretty closely. We're very sensitive to our produce pricing. And with that particular competitor that you're outlining, we're in a very good shape with regard to produce pricing. Overall, that's something that we would pay a lot of attention to, but we haven't seen anything that causes us too much to worry about right at the moment.

Operator

Our next question comes from Karen Short with Credit Suisse.

Karen Fiona Short - *Barclays Bank PLC, Research Division - Former MD & Senior Equity Research Analyst*

Good to talk to you again. A couple of questions. With respect to your comp guidance and your results in 4Q, can you just talk a little bit about what traffic versus ticket was in 4Q? And then how you're thinking about traffic versus ticket throughout '23? And then also triangulate that with what your expectations are for inflation in '23? And then I just had one other question.

Jack L. Sinclair - *Sprouts Farmers Market, Inc. - CEO & Director*

So traffic was just a hair down in the fourth quarter and then the ticket was up, and we're picking that up through both inflation or AUR, it is offsetting a slight decline in units. As we go into the year, this year, we feel good about traffic. So far year-to-date, it's up slightly. Our expectations are that we'll maintain traffic pretty steady throughout the year. Our expectations are inflation will still be with us year-over-year, but it will start to decline as we progress into the back half of the year. And at the same time, as the sequential units per basket slows that year-over-year, that will improve. And net-net, you kind of get into that low single-digit range. Okay.

Karen Fiona Short - *Barclays Bank PLC, Research Division - Former MD & Senior Equity Research Analyst*

And then just wondering, when you look at sales growth versus EBIT growth, obviously, I know what you've given in terms of margins. So you did say, I think, on 3Q that you thought EBIT margins would remain more or less steady, and it looks like you're kind of guiding to a slight decline in EBIT margins. So I want to ask about that, but I also just want to talk just broadly about what you think the right relationship should be on sales growth versus EBIT growth.

Lawrence P. Molloy - *Sprouts Farmers Market, Inc. - CFO & Treasurer*

Well, fundamentally, yes, we did guide in a way that suggests that operating margin will decline here. We could -- we'll get flat to some slight increase in gross through the year. SG&A. We're managing it really tight working it really hard, as you know, with most of the retail landscape, managing cost is becoming the challenge of the day. And we're working through that. We'll probably have a pair of deleverage this year. As we go forward to answer the second part, we think it's a healthy place to believe that our operating margin would essentially stay flat and that our sales growth and earnings growth will grow appropriate accordingly.

Operator

Our next question comes from John Heinbockel with Guggenheim.

John Edward Heinbockel - *Guggenheim Securities, LLC, Research Division - Analyst*

On Jack, Chip, you have Anders Meyer on for John Heinbockel, nice results this quarter. So you plan on enhancing customer engagement in 2023, calling out the launch of your new marketing campaign and further personalization efforts. With that, we were curious on where we stand with the loyalty program, when it might launch, and how much incremental wallet share might drive.

Jack L. Sinclair - *Sprouts Farmers Market, Inc. - CEO & Director*

Thanks for the question. We're spending a lot. We've done a lot of different experiments over the past couple of years in terms of trying to get our target customer and encouraging them to spend a little bit more. We've made some progress in different categories and made some progress at different times of the year, which we've been encouraged by. We're looking at investing a little bit of money to try and understand what we can do to inspire our customers to come a little bit more often or spend a little bit more. We've got a customer base that we've talked about in the past that really in terms of affinity to the brand really truly love Sprouts. And we're encouraging -- we're looking at tactics as to how we can get them to extend and spend a little bit more on the one hand. And on the second hand, how do we get more customers who look like the customers that are loving us at the moment, of which we know there are lots out there. So the work we're doing in the broader customer communication and customer engagement is, one, trying to work directly with those customers that love us and two, drive more customers who should be loving us.

And as we've talked about, there's a significant opportunity for us to increase the number of people who are giving us the information. We're pretty low relative to competitors in terms of the number of people that scan their information when they come through the register. And how to do that

will be about making an experience for us -- for those customers that differentiate Sprouts so that they can almost become a member of a club. And the grocery environment for loyalty, we're seeing to be very different for us going forward. Our interpretation of what's happening with loyalty cards, if you like, in the grocery space is that it's a pretty -- it's a zero-sum game and everyone's got the cards and nobody. We don't want to be the next card in the wallet when people or the person people open up when people go through the register. So we're working very hard at becoming differentiated in that space. And the timing of that, well, we're going to invest some money in it this year. We'll make some progress on it this year, but this is going to be a multiyear effort to get us where we need to get to.

Operator

Our next question comes from Edward Kelly with Wells Fargo.

Edward Joseph Kelly - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

You've got Anthony on for Ed. So first, I wanted to ask about trade down. I know you guys said bulk sort of seeing a turnaround as people care more about value. Can you just talk a little bit more about what you're seeing from consumers in terms of value seeking behavior? And then how does that dynamic typically impact you based on what you've seen historically?

Jack L. Sinclair - *Sprouts Farmers Market, Inc. - CEO & Director*

Yes. Well, I think what -- I think across the industry, you're seeing some trading down across the board. -- bulks, One of the things that we've picked out because certainly, when you look back at the history of Sprouts and you look forward, people kind of migrate to bulk a little bit because it allows them to get the portion control and allows a significant price advantage per pound against equivalent things in packaged parts of the store. So we've got a pretty extensive range in that space. And we've seen some encouraging trends in that category as people move into that. And I think it's part of the economics is partly because the team have done a really nice job in trying to put the right products in the right place at the right time in that space. So we've seen that. As I said a little bit earlier, we've seen a little bit of a trade down in the protein space across across different proteins as people migrate to slightly cheaper cuts in that category.

We've seen some trade into Sprouts brand, which I think is a combination of new products that we've put into that space and this sort of chasing for a little bit better value as you go through the assortment. One of the things that happens in our environment probably differently to the more traditional grocery environment is. We've got customers who are very focused on the attributes and the products that we sell, very focused on. We sell more plant-based milk than dairy milk -- so if you're a plant-based shopper, you're unlikely to translate to places where you can't buy the whole plant base. So the elements of trading down in our environment, I think, is a little different to what it is in other places, but we are seeing that trend across our customer base coming into the store, if that helps in any way.

Edward Joseph Kelly - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Yes. That's helpful. And then I also just wanted to ask about the share repo. You guys have been able to repurchase quite a lot of stock over the last couple of years. And you're still sitting on quite a bit of cash, but you're also accelerating unit growth. Can you just talk about how you're thinking about the prospect of additional repo this year?

Lawrence P. Molloy - *Sprouts Farmers Market, Inc. - CFO & Treasurer*

Yes. Well, we're always going to invest cash in the business first as we start to get closer and closer to that 10% unit growth a year. I suspect that we'll be around 3.5% of sales or CapEx, it still gives us a lot of cash. And we're a share repurchase friendly company. Our goal is to try and see if we can reduce our share count anywhere from 4% to 6% a year.

Operator

Our next question comes from Krisztina Katai with Deutsche Bank.

Krisztina Katai - *Deutsche Bank AG, Research Division - Research Associate*

Congratulations on the nice results. I wanted to go to the fourth -- just wanted to go back to the fourth quarter complementum, which was really nice to see that step up, especially coming in better than even what your guidance called for. So how much of the improvement do you think is related to Sprout specific actions that you are doing on merchandising and differentiation and just overall marketing versus the overall macro with a little bit less commodity pressure on the consumer really outside of food inflation.

Jack L. Sinclair - *Sprouts Farmers Market, Inc. - CEO & Director*

Well, I think we always talk about what we can control and what we're doing within it. And we saw a strong -- we saw a strong end to the quarter, which we were encouraged by. We think firstly, we were much better in stock in the holidays than we usually are partly because of the focus of the team on some of the implementation of some of the systems that we've been talking about. So certain categories, we saw a really strong end to the quarter, I think, because of the PICO investment. So you saw our grocery business strong. Our dairy business is strong. 1 or 2 of the key seasonal businesses were strong. And we think we could -- next year, as a platform to do even better seasonally as we chase the volume in that space. So first of all, I think in stock was better, and we're getting better at managing that, both at the store level and the distribution with our distribution partners.

So we think we'd probably take -- I would say that was us that did that as much as in else. The other piece, I think we made some nice experiment in our marketing space. We did stimulate some business going into the holidays, some specific activity that I think helped us a little bit in the fourth quarter going into the holiday company. Against more traditional grocery businesses, we don't have those huge peaks for Thanksgiving and the holidays that other companies have. And I've always seen that as an opportunity for us. And I think we saw the first kind of -- the first part of that coming alive in Q4 as we work through that. Some of the category work, I think, has been pretty exciting. We've seen some pretty strong -- our meat business has come a little bit better than maybe we expected to initially. So probably some good category work, some good in-stock work and a little bit of marketing. We think we did a little better at the end of Q4 than maybe we had indicated in our discussions previously.

Krisztina Katai - *Deutsche Bank AG, Research Division - Research Associate*

And I guess just on the unit growth, it's nice to see you reiterate those 30 new doors for the year. You also talked about the model now that you're using for real estate selection as being much more precise with forecasting these new openings. I guess what can you share in terms of how these new stores are opening up? And as it relates to improving the unaided awareness, I guess, where are you on that journey to get that number up in these newer markets? And what is the gap? Like how does it compare to established markets like in Arizona and California versus if we say Florida and Mid-Atlantic.

Jack L. Sinclair - *Sprouts Farmers Market, Inc. - CEO & Director*

Yes, you asked a lot of questions, I... Through in my mind. The first thing is we introduced and I'll let Chip contribute as well here. The first thing is the new model that Chip talked about in one of the answers a little while ago. We're much more comfortable that it's robust and it gives us more confidence. And we've identified a lot of what we call seed points right around the country. And as long as they're within 250 miles of our distribution center, the real estate team are chasing that hard, and we know there's plenty of opportunities for us to keep this 10% growth plan that we're going to hit in 2024, and we'll be able to do that for a long period of time, and we're feeling more confident about the model. Why are we feeling more confident. It always takes a little time to real estate change our strategy from a bigger store to a smaller store. There's always a pipeline that you're working your way through. And I'm kind of -- we're really -- this year, all of them will be in the size of stores that we want them to be.

And the first 4 that we've opened, we've been very encouraged by. It's a very early data point, but we've been encouraged by the first 4. And those have opened in both established markets and nonestablished markets. We put a higher investment hurdle on nonestablished markets, and we're pretty confident that this model that we've put in place is giving us more confidence going forward that we've got, we're picking stores in the right place with the right mix of people who look like our target customers. So that's encouraging. And in terms of the specifics you're asking about new markets and how we're performing. And I've been delighted and just shout out to the team in Tampa, where it's a market that we were pretty immature in a couple of years ago. We've now got decent critical mass of stores in that market.

And we're seeing that what you should start to see in terms of 2 years and 3 years comps. I mean it's not a data point that you can extrapolate across the business, but there are certain data points in our unestablished or less-established markets in Florida, particularly that we're feeling comfortable and in some elements of the Mid-Atlantic, we've seen some when you get to the 2-, 3-year plan on some of these stores, it's encouraging. And when you get critical mass when you get enough stores all in the one place, we get a strength both in terms of being able to recruit customer knows who we are. And from a marketing point of view, you can get efficient on your spend. We've got a lot of work to do to really make sure that people do know who we are in unestablished markets, and the marketing team are working hard at that. Do you want to take...

Lawrence P. Molloy - *Sprouts Farmers Market, Inc. - CFO & Treasurer*

I'll just follow on a little bit when you think about the strength of the quarter. We had a strong quarter in California, but the other places where we're seeing strength, Mid-Atlantic and Florida where we're really starting to get that brand awareness, we're starting to see the strength build and over-indexing. As you would expect in those markets, but it's now encouraging, it feels like it's -- we're starting to get that brand awareness.

Operator

Our next question comes from Kelly Bania with BMO Capital.

Kelly Ann Bania - *BMO Capital Markets Equity Research - Director & Senior Food Retailers Analyst*

This is Ben Wood on for Kelly Bania. We first wanted to discuss the comment on the trade between units and basket increasing potentially as inflation comes off a little bit, if you don't mind. It seems like, in general, that grocers are guiding to a pretty meaningful comp deceleration as inflation potentially abates. What are you guys seeing that gives you the confidence that units will accelerate throughout the year to potentially offset that expected slowdown in inflation? Anything to help us think about units and basket drivers would be helpful.

Lawrence P. Molloy - *Sprouts Farmers Market, Inc. - CFO & Treasurer*

Ben, for starters, our expectations are not units will accelerate in the basket. Our expectation is that the sequential bleed of units will slow and mitigate and when you do that year-over-year, your compares get where it's not a negative year-over-year it's flat or flat to even could be slightly up. But that's our expectation. We don't expect as inflation comes down, that will accelerate those units.

Jack L. Sinclair - *Sprouts Farmers Market, Inc. - CEO & Director*

And we've seen some data points that would support what Chip just said. Certain categories you've already seen a kind of big dilution in the inflation. It's not that it's going to deflation, but it's not been as much inflation. So cater like the meat category where you've seen a kind of flattening out of inflation. The relative -- and again, just to emphasize Chip's point, the relative reduction in units per basket slows down, and that just from a mass point of view, adds back to the number that we need going forward. So that's the basic assumption in it. And I think if you look back in history, and it's always dangerous to go too far back, when you see changes in the elasticity changes when price inflation dilutes. So I think we're feeling that there's enough data points to give us some confidence in how we're articulating how our basket is going to evolve going forward.

Kelly Ann Bania - *BMO Capital Markets Equity Research - Director & Senior Food Retailers Analyst*

And then I just want to talk about SG&A a little bit. It seems like SG&A growth in 2022 came in a little bit ahead of expectations. So just wondering if you could walk us through the puts and takes there and how that compared to your plans? And then just looking forward, how is the current labor environment? And what is your forecast going forward? And what's contemplated in guidance?

Lawrence P. Molloy - *Sprouts Farmers Market, Inc. - CFO & Treasurer*

Well, as it relates to SG&A for this past year, I think we were very articulate in the script. But as saying we're fighting labor cost, we're fighting that. But we're managing that. We're managing that through both operational improvements that we've made in our stores, the movement of ours. So we're managing through that. But certainly, it's a pressure that continues on the cost per labor hour. We've seen cost increases on supplies that direct with the stores source. -- not resellable stuff that we need to do packaging type stuff for meals, et cetera. So we've seen cost increases there that we're working really hard to manage against. And then the other side of SG&A as our e-com business has outpaced our business growth, there's e-com fees that hit the SG&A line. So those are kind of the big areas. And of course, new stores hit the SG&A line as well.

It's going to be kind of the same battle going into 2023 we're going to continue to work through those supply lines. We're going to continue to -- we're going to have more stores next year than we had this year that we grew. So as you accelerate the number of stores to open, that puts a little bit of pressure on the SG&A line. And then cost per labor hour is something that we're continuing to battle. But I do think that it's starting to -- it's starting the tide is getting to where it obviously labor wages don't come down, but the rate of growth has slowed, and we still have other opportunities within the SG&A line to try to manage through that. But net-net, it's a challenging environment there, and we're working it really hard. We do expect some slight deleverage this year. But ongoing, our goal is always to try to keep it in line with sales.

Jack L. Sinclair - *Sprouts Farmers Market, Inc. - CEO & Director*

And the broader labor environment that you touched on in your question, it's an interesting kind of dynamic as we've again playing out from the pandemic. We're finding it -- we're getting more applications than we've ever had. We're getting better quality applications than we've ever had. And that's something that's changed fairly substantially over the last 6 months or so. And that kind of supports Chip's point, the pace at which a wage inflation has gone up, it's likely to -- it's not going to go back down and nor would we want it to, but it's likely to slow down in terms of what is going to affect going forward. And we're very focused on retention in our business and working hard to make sure that the good people that we have in our stores, we can retain them and get to a better level. And that will help our SG&A as well going forward. But it's a very volatile labor environment, and our teams are working very hard to make sure we get the right quality people in our stores. And as I say, the fact that applications are going up is something that I think sends a bit of a message that that's not just for us, that's across the marketplace. So I think the wage pressure from labor is probably going to dilute a little bit going forward.

Operator

Thank you.

(Operator's Instructions)

Our next question comes from Kendall Toscano with Bank of America.

Kendall Belinda Toscano - *BofA Securities, Research Division - Research Analyst*

Congrats on the great quarter. So the first thing I wanted to ask was just more of a clarification around the 11 store closures. So you mentioned that these are in larger formats versus the new format you're going with. Can you just remind us now that you've been opening stores in this smaller format for a few years now, what's the kind of breakdown in the portfolio is between the smaller format and the larger format stores? And then I

guess the clarification kind of is just around how should we think about 11 store closures this year versus you guys potentially reevaluating the portfolio going forward and maybe deciding to close additional underperforming stores? Or is this kind of just really a onetime thing?

Jack L. Sinclair - *Sprouts Farmers Market, Inc. - CEO & Director*

Specifically to the question, as we said here, this has been part of our strategy going forward. How do we move from some of the -- the building of stores going forward, our plan is to build them at 23,000 square feet. We've only really got that moving in the last 6 to 9 months relative to the strategy that we outlined 2 or 3 years ago, we didn't -- some of these bigger stores that weren't performing the way we would want them to. We would probably have closed them before now because of the strategy that we had in place, but it would have been the wrong thing to do in the communities that those grocery stores are operating and given what's happened in the last couple of years. But this is -- the intention behind this is let's get this out of the way. Now there'll always be 1 or 2 stores going forward around if the rent goes up or the leases aren't right. So there'll always be 1 or 2 things going forward in any portfolio. But this is the big analysis of our portfolio that we did early on. And we're very comfortable that this is a kind of -- as close to how one and done as it can be without 1 or 2 other things, 1 or 2 things that might happen around leases or something like that, but it's not something that we're seeing a significant -- this is not part of an ongoing exercise. This is a kind of, as I say, I want and do think, Chip, do you want to just...

Lawrence P. Molloy - *Sprouts Farmers Market, Inc. - CFO & Treasurer*

Yes, I just might be a little bit of a pile on, but if you go back to 2019 and when we started to shift our strategy and thought about it very hard, we were building boxes at that point. There were over 30,000 square feet. They were very expensive, and we felt like it was a better economics to build them smaller. We were convinced and are still convinced that we wouldn't lose sales by having the smaller box. They were just too big and unproductive. And so we evaluated it all. At that point, we also went through the entire list of stores that were -- where we were going to build them, but yet they were bigger. And in those cases where we could get out of the potential lease -- we went ahead and moved away from those in 2019. And those where we couldn't, we tried to scale those back as much as we could to smaller boxes. So we have a kind of a -- I'll call it, we were sort of in the middle of this strategy where we actually built some boxes that weren't 32, but we got them to 25, we got them to 24.

But now we're in a place where everything we're building is our new prototype, very close to our 23,000 square foot. Thank goodness, we decided to build them smaller given the cost increases that have happened over the last couple of years on construction costs, et cetera. So we feel really good about where we are. We've got some prototypes in the ground. They're doing well. We feel really good about the stores that we recently opened, the ones that we've even opened this quarter. They're coming out of the blocks in a really good place, and we feel really good about it. As Jack said, this is sort of the whole portfolio. Of course, we might close. We're getting to become an old enough retailer and a big enough retailer that, of course, every couple of years or every year or so, you might have 1 or 2 that you -- just where the leases have expired and you don't we want to renew it or the trade areas move, but we won't see any store closings of this magnitude any time that we know anytime in the next several years.

Kendall Belinda Toscano - *BofA Securities, Research Division - Research Analyst*

And then one other question. It was just on the -- in terms of January trends, something we had seen in the data is that it looks like there was a bit of a shift away from food at home spending towards food away-from-home spending in January. I know you mentioned traffic being up quarter-to-date for 1Q. So I was just curious if you could speak to whether or not you've seen anything like that with your customers.

Lawrence P. Molloy - *Sprouts Farmers Market, Inc. - CFO & Treasurer*

Well, our business first coming out of the blocks in January, again, we were comping against the King Super strike in Colorado. We have several stores in Colorado. We're also confident against Omocron. So we saw the comps were weaker in the beginning of the quarter as we expect. They've improved traffic has been steady though, even were positive traffic even against those comps last year that I just described. So we're encouraged by that. And when you think about our deli business, which has been a very positive business for us, both the last year and it continues to be strong

going in this year. As consumers are looking for prepared meals, quick to be able to -- it's a savings of time, but our deli meals are really high quality. They're good for you, they face grade. And so that's another business that you can see where the consumer is -- they're chasing that idea of a complete meal at home but easy to make.

Jack L. Sinclair - *Sprouts Farmers Market, Inc. - CEO & Director*

And I think the contrast between food at home and food and food away from home, it's kind of getting blurred a little bit by categories like the meals thing that we've got is convenience. It seems to be driving the biggest influence here. So that -- we think we're well placed, and we're certainly doubling down and investing in both equipment and cabinets and product development to make sure that we're hyper convenient within the context of this healthy target customers that we have. So as I say, I think the fusion between away from home and in-home is kind of getting a bit blurred.

Operator

Thank you. This concludes the Q&A session. I'd now like to turn the call back over to Jack Sinclair for any further remarks.

Jack L. Sinclair - *Sprouts Farmers Market, Inc. - CEO & Director*

Well, thank you, everyone. Thank you to everyone for the questions, and thanks for everyone this listing in on the call. We appreciate your interest in our business, and we look forward to updating you throughout the year as we go through the 2023. So take care, everyone. Thanks ever so much.

Operator

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.
