

<b>Company: Best Buy Co.</b>	<b>Ticker: BBY</b>	<b>Current Price: \$108.5</b>	<b>Industry: Retail</b>	<b>Sub Industry: Consumer &amp; Electronics Retail</b>
Target Price: \$51.43 Stop Loss: \$23.28 52 Week High/ Low: \$31.31/20.52	TTM P/E: 12.39 Forward P/E: 11.25 EPS: 2.35		Beta: 0.31 Credit Rating: Rating Outlook: Stable	Market Cap: 3.27B Avg Vol ( 12 M): 1.904m Dividend Yield: n/a

#### Company Background:

Sprouts Farmers Market is a unique and differentiated healthy grocer which is structured to resemble the atmosphere of a farmer's market. SFM offers fresh, natural and organic food products in the U.S. including produce, meat, seafood, deli, bakery, dairy, vitamins/supplements, frozen foods, beer/wine and body care products. SFM is headquartered in Phoenix, AZ and was founded in 2002. They operate 370+ stores in 23 states and employ 31,000 team members predominantly within the South/Midwest regions.

#### Industry Outlook:

The food and grocery retail market is expected to grow at a compound annual growth rate of ~5% until 2027 with many consumers shifting towards healthier/attribute driven food products. The key players within this industry have been facing increased pressure on labor, product and transportation costs due to the lingering effects of COVID-19. Top line within this segment is expected to benefit with inflation and analysts predict that ecommerce will be a priority going forward as more grocers offer an omnichannel shopping experience. With giant companies like Walmart and Amazon entering into the space many smaller companies will have to seek ways to differentiate themselves within the industry.

#### Investment Thesis:

Sprouts Farmers Market is a unique grocery store operating in a very niche industry. Consumer trends are strongly in favor of SFM due to many individuals swaying towards a more healthy lifestyle/diet. Leadership has established a new strategy which they will be employing moving forward in order to increase their profitability/efficiency. Their CEO Jack Sinclair plans to reduce store square footage, implement a new growth strategy to increase unit growth by 10% annually, and channel their marketing strategy more efficiently in order to target the right consumers. This new strategy should greatly benefit the company as a whole as well as drastically improve bottom line growth.

#### Investment Risks:

- The lingering effects of COVID-19 may negatively impact the business operations of SFM due to supply chain/distribution efforts. SFM heavily relies on their strong supply chain network to provide customers with the freshest produce at the lowest possible cost. Further COVID-19 implications may affect their business model.
- SFM's new growth plan may negatively impact their financials in the short run due to newer stores having lower return on investment because it takes time for new units to build a strong customer base.
- SFM's differentiated store format may not offer enough perceived value to customers which would cause them to shop at different grocery chains for cheaper prices. Much of SFM's customer value comes from their unique store format and offerings.
- Material increases in labor costs due to inflation may negatively impact SFM's financials due to the labor intensive nature of their business.

#### 3-5 take away from last quarter investor call transcript:

- New smaller square footage locations have shown increased sales as well as reduced investment costs.
- Gross profit margin of 35.8% (superior to historic trends) due to efficient promotions, shrink improvement, attractive pricing offerings and differentiated product assortment
- Sprouts opened 3 new stores this quarter resulting in 366 total stores nationwide - 6 new stores planned to be constructed in Q4 2021 have been delayed to 2022

#### Financial Performance:

	2017	2018	2019	2020	Q1-2021	Q2-2021	Q3-2021
Revenue	4664.6	5207.3	5634.8	6468.8	3122.7	2936	2488.3
Operating Profit	227.7	238.2	217.9	400.5	113.2	83.7	85.8
Net Income	140.8	168.1	150	294	83	61	63.9
Revenue Growth %	15.3%	11.6%	8.2%	14.8%	-4.3%	-7.4%	-4.3%
EBITDA%	7.0%	6.7%	9.2%	11.1%	9.2%	7.6%	7.8%
Operating Profit %	4.8%	4.57%	3.86%	6.19%	3.6%	2.85%	3.45%
Net Income Margin	3.0%	3.2%	2.7%	4.5%	5.3%	4.0%	4.2%
D/E	41.14	35.16	34.34	50.0	27.02	27.51	26.9
EPS	1.02	1.29	1.25	2.49	0.70	0.52	0.56
PE Ratio	23.82	17.93	15.57	8.09	10.98	10.91	9.27
Current Ratio	1.00	1.08	0.93	0.94	1.18	1.14	1.16
ROE	23.94	25.57	25.55	39.29	34.04	32.23	31.12
ROA	10.49	9.73	6.80	10.40	9.6	9.34	9.68
Dividend Per share	0	0	0	0	0	0	0
FCF	81.6	92.56	160.89	305.59	88.8	49.1	88.8

#### Discounted Cash Flow

	2016-2021	2022-2025
Avg Revenue growth	12.50%	3.46%
Avg Gross Margin	34.25%	36.10%
Avg EBIT Margin	4.86%	5.43%
Avg NOPLAT Margin	3.71%	4.13%
Avg FCF / Margin	2.94%	4.62%
Tax Rate		24%
Hurdle Rate		9%
Perpetuity growth rate		3%

#### Analyst Opinion

Buy: 6	Hold: 9	Sell: 6
	Rating	Target
S&P Net Advantage	Sell	21.00
Bloomberg	Hold	24.60
Value Line	N/A	N/A

Relative Valuation							Total Return			
	SFM	COST	KR	ACI	TGT	*Peer Group Avg		SFM	Food & Staples	SP500
P/E	12.39	42.56	12.59	10.70	15.47	20.33	YTD	-2.9%	-9.1%	-6.8%
P/B	3.38	12.29	3.53	7.94	7.03	6.83	LTM	32.9%	7.4%	11.8%
Dividend Yield	0%	0.62%	1.85%	1.65%	1.78%	1.18%	Last 3 Years	15.6%	50.9%	55.8%
PEG Ratio	.30	14.27	.83	.05	4.55	4.00	Last 5 Years	50.4%	74.5%	83.4%
EPS	2.35	12.33	3.48	2.94	9.42	6.10	<b>CSR Characteristics</b>			
Revn Grth	14.8%	17.5%	8.4%	1.6%	19.8%	12.42%		SFM	Peers	
NI Grth	96%	35.88%	54.8%	535%	44.4%	153.22%	Governance Disclosure Score	51.79	47.14	
Operating Margin	6.19%	3.72%	3.08%	3.81%	7.01%	4.76%	ESG Disclosure:	45.87	36.57	
Debt / Equity	26.9	41.8	140.4	284.38	87.8	116.26	Social Disclosure Score	43.86	32.37	
Market Cap (M)	3.248.8	226937.7	33465.2	14087.7	96656.1	92786.68	Environmental Disclosure Score	44.19	33.71	
Revenue TTM (M)	6208.9	203084	135577	70275.8	103348	103698.74	<b>Prepared by Nicholas Good, Nick Kinsella and Aidan Hamilton using Bloomberg, Value Line, S&amp;P Net Advantage, Morning Star, Yahoo Finance</b>			
Net Income TTM (M)	277.7	5339.4	2749.8	1483.3	6504	3270.84				
FCF TTM (M)	284.3	5819.0	2898.0	1925.7	5955	4149.43				

\*Includes Companies Listed