



Bulls Active in Small Grocer

Ticker/Price: SFM (\$20.45)

Analysis:

Sprouts Farmers Market (SFM) with 3,500 September \$20 calls bought yesterday for \$2.70 up to \$2.95 to open and follows 1,750 May \$20 calls bought on 4/17 and sellers of the Sept. \$20 puts recently. SFM also had buyers of over 4,500 June \$22.50 calls in late December which remain in OI. SFM has been a relative strength name since mid-February and testing new 2020 highs yesterday. The 8- and 20-EMA have been supportive on the recent run higher and a sustained move above \$20.75 and out of a weekly base targets \$25 and multi-year VPOC. The \$2.37B company trades 14.94X earnings, 0.42X sales, and 13.75X FCF. They see mid-single digit EPS growth and low-double digit sales growth in FY21 and FY22. Net Debt/EBITDA is 2.9X and they've been working on reducing their leverage over the last year from 4.7X. SFM is in the middle of a turnaround after appointing a new CEO in June 2019 who has shifted focus towards more competitive pricing and marketing to a smaller, but more loyal base. Prior to COVID19, the early has been flat-to-low growth in traffic but higher margins and better ticket size. Now, they're also likely benefitting from a surge in traffic due to pantry loading. SFM is also shifting strategy towards less square footage and more small-stores which allows them to target more densely populated areas in both new and existing markets, simplify their supply chain, and lower costs. Analysts have an average target for shares of \$21. Oppenheimer upgrading to Outperform on 4-21 citing the recent grocery boom, potential ongoing benefits from increased at home food consumption, and likely adverse impacts from a U.S. recession. BMO upgraded to Neutral on 3-18 while Gordon Haskett upgrading to Buy on 3-16 citing the heightened consumer stock up activity. Short interest is 5.5%, down from 11% in December. Hedge fund ownership rose 4.65% in Q4. Insiders active in the name over the last two years including a more than \$2M buy from a director in late 2018 at \$22.83.

Hawk Vision:



Hawk's Perspective: SFM has long screened as a favorite in the grocer space and this appears to be its time to shine, and could carry shares higher for a while.

Confidence Ranking: \$\$