



# Natural Grocers by Vitamin Cottage, Inc.

Investor Presentation

May 2017

# Disclosures

## Forward-Looking Statements

This presentation includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, in addition to historical information. All statements that are not statements of historical fact, including those that relate to matters such as our industry, business strategy, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity, capital resources, future growth and other financial and operating information, are forward-looking statements. We may use the words “anticipate,” “assume,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “future,” “target” and similar terms and phrases to identify forward-looking statements in this presentation.

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Any forward-looking statement made by us in this presentation speaks only as of the date of this presentation. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by any applicable securities laws.

## Non-GAAP Financial Measures

In addition to reporting financial results in accordance with U.S. generally accepted accounting principles (GAAP), this presentation provides information regarding EBITDA, which is not in accordance with, or an alternative to, GAAP (i.e., a non-GAAP measure). We define EBITDA as net income before interest expense, provision for income taxes and depreciation and amortization. EBITDA is a supplemental measure of operating performance which should not be considered in isolation or as an alternative to, or substitute for, net income or other financial statement data presented in our consolidated financial statements as an indicator of financial performance. EBITDA has limitations as an analytical tool and should not be considered in isolation or as an alternative to, or substitute for, analysis of our results as reported under GAAP. EBITDA should not be considered as a measure of discretionary cash available to invest in the growth of our business. The reconciliation from GAAP to this non-GAAP financial measure is provided in the appendix to this presentation.

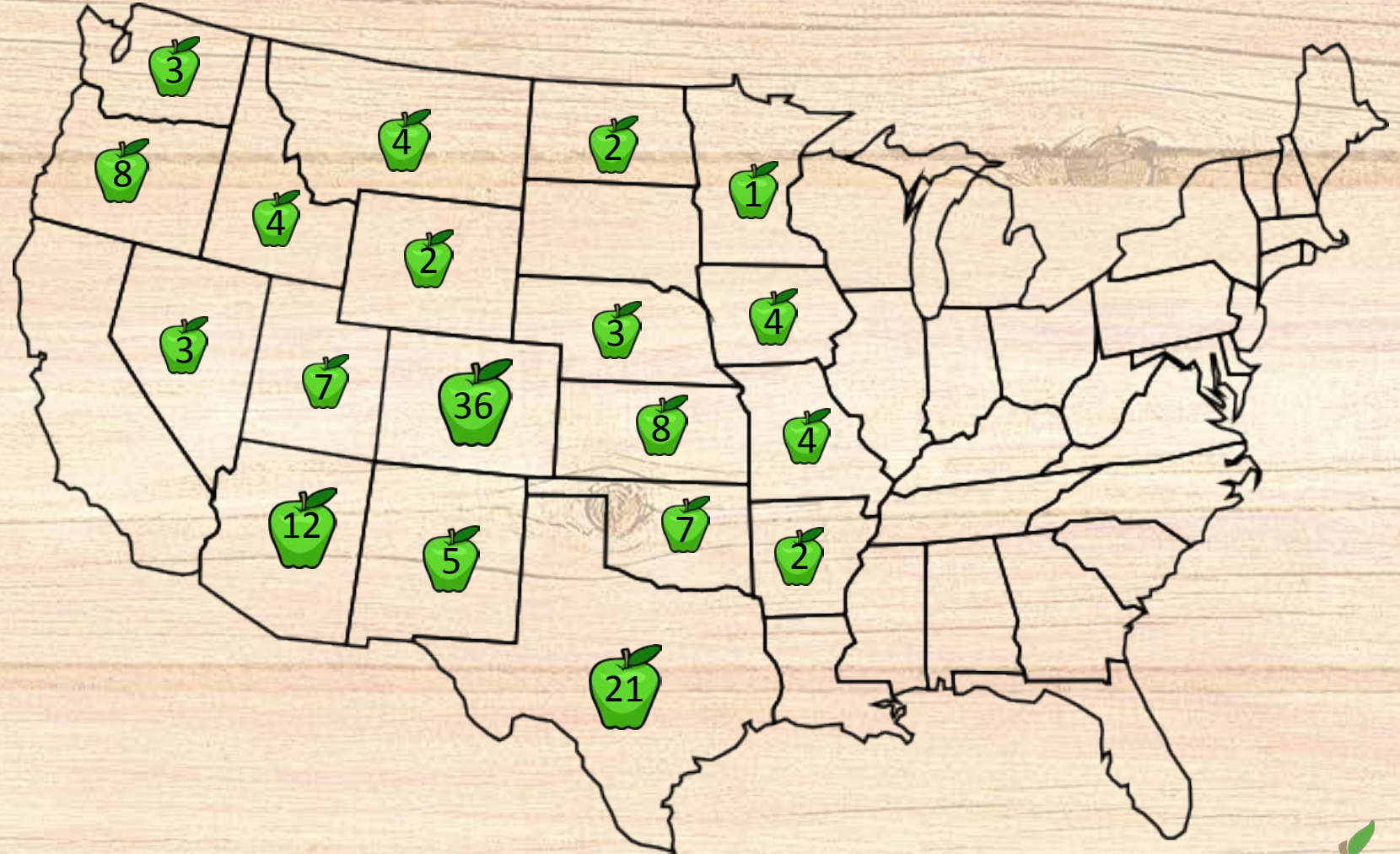
# Who We Are...


- Specialty retailer of natural and organic groceries and dietary supplements
  - Industry leading standards
  - Everyday affordable prices
  - Exceptional customer service
  - Nutrition education
  - Community outreach
- Expanding rapidly with favorable unit economics
  - Small store format
  - Highly portable to multiple markets



# Where We Are...

- Headquartered in Lakewood, CO
- Operate 136 stores in 19 states, as of 5/4/17
- Signed leases for 13 additional stores in fiscal years 2017 and beyond, as of 5/4/17



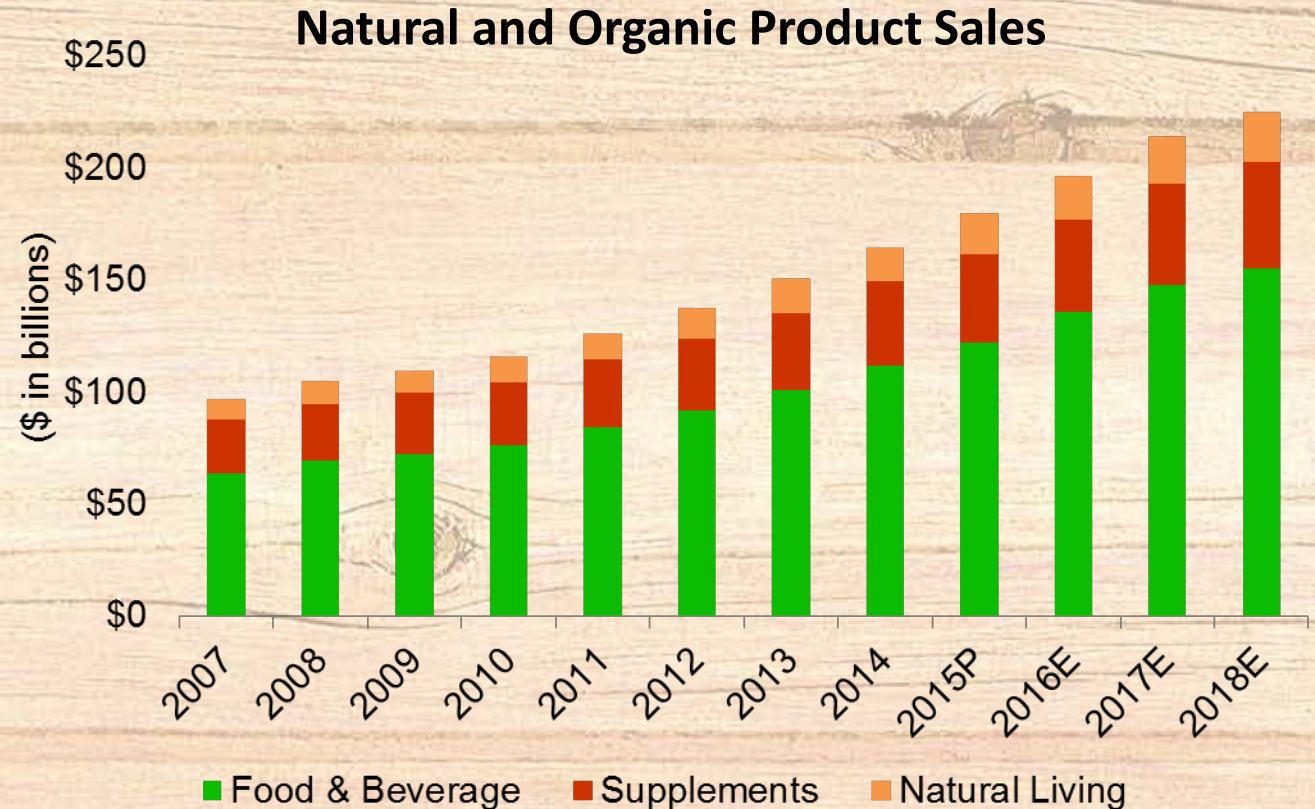
 # Number of stores per state

# Our Opportunity...

- Natural and organic products constitute a large and rapidly growing segment of the US food industry
- Organic food sales grew 10.8% in 2015 and now account for 5% of total food sales<sup>1</sup>
  - 61% of millennials prefer to buy organic fruits/vegetables<sup>2</sup>
  - 14% of millennials have tried to cut GMOs out of their diet<sup>2</sup>

1 Source: Organic Trade Association

2 Source: SunTrust Robinson Humphrey

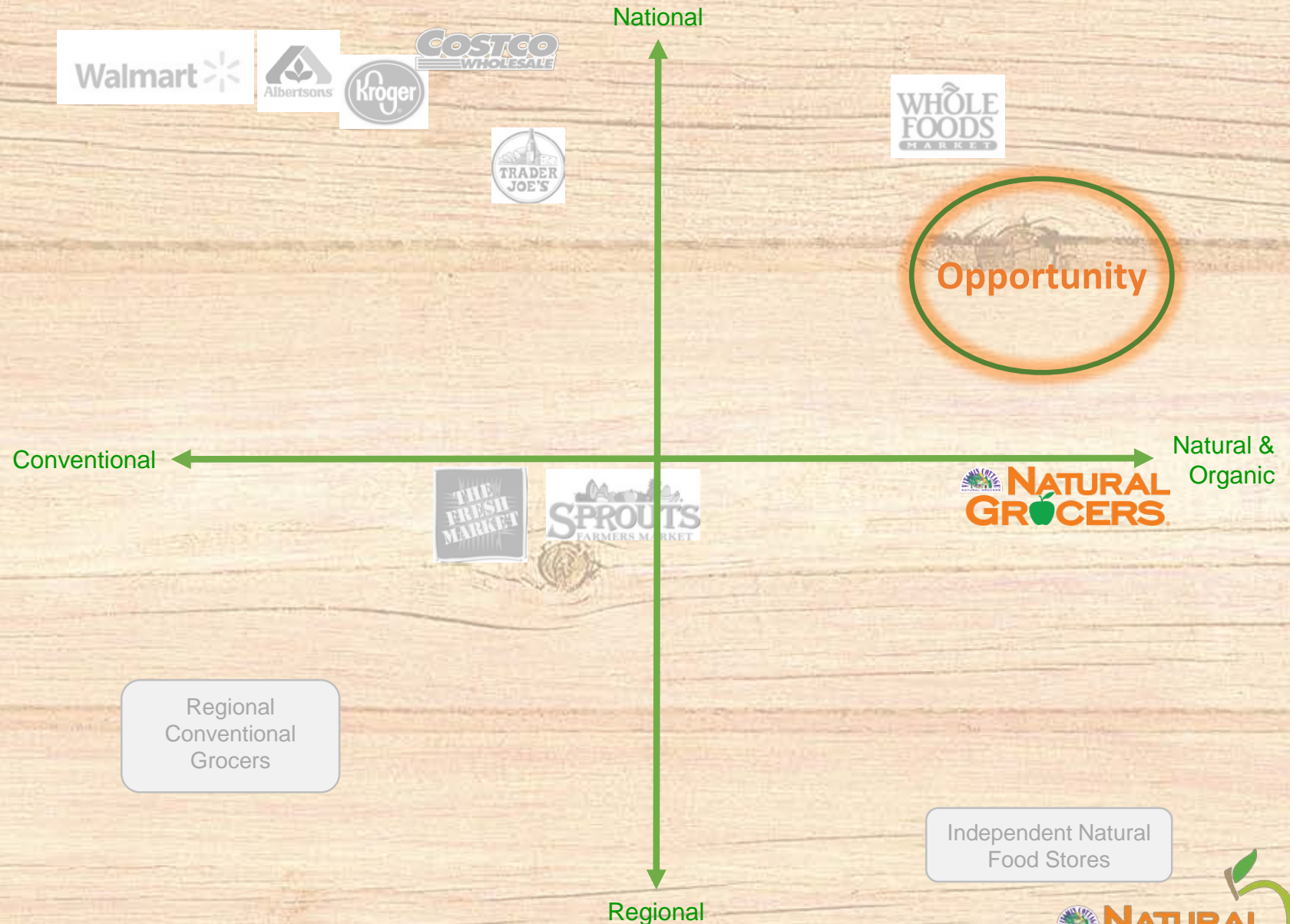


Source: Jefferies, LLC

P=Preliminary, E=Estimate

# Well positioned...

- Differentiated
- 100% focused on natural and organic
- New market opportunities
- Further penetration available in existing markets
- Buxton research has identified approximately 200 additional sites within existing markets



# The right model in the right industry...

- Large and growing market for natural and organic foods
- Proven and differentiated business model to compete in a competitive market
- Disciplined cost control
- Portable store model with scalable infrastructure
- Significant unit growth opportunities
- Enhanced marketing infrastructure and initiatives



Why we win at the register!



# Our Founding Principles Drive our Core Competencies



# Nutrition Education

- Full-time Nutritional Health Coach (NHC) in every store
- Free nutrition coaching and classes for customers
- Provides ongoing training for store associates



*Science-based nutrition education drives customer loyalty*

# Highest Quality Natural & Organic Products



- We only sell 100% certified organic produce
- Meats raised without hormones or antibiotics
- Industry leading dairy standards requiring that all dairy products are sourced from pasture raised non-confinement dairies
- Recently introduced egg standards--minimum standard is free range (cage free), no antibiotics, hormones or growth promoters
- Carefully approved products that do not contain artificial flavors, colors, preservatives, sweeteners or partially hydrogenated or hydrogenated oils

*Customer confidence in our quality drives loyalty*

# Always Affordable Pricing<sup>SM</sup>

- EDAP--Every Day Affordable Price<sup>®</sup>
- Value without compromising quality
- Focus on cost efficiencies to deliver value
- Competitively priced with a value advantage against our larger format competitors



*Our value proposition is a competitive advantage*

# Community Outreach



- Supporting our communities and environment
- Free nutritional education lectures
- Bag-free checkouts
- Donation program
- Local sourcing when available

*Building grass roots awareness and relationships with our community*

# Commitment to our Associates

- An engaged associate base that delivers excellent customer service
- Great jobs with excellent benefits
- Healthy employees enjoy free nutrition education and store discounts



*Our highly educated and engaged employees are the key to superior customer service*

# Attractive Unit Economics

# Attractive Store Model that Supports Long-term Growth

- Smaller format store
  - Highly portable to both large and small markets
- Modest initial capital investment that supports high unit growth
  - Average capex of ~\$1.7 million
  - Initial inventory of ~\$300,000
  - Pre-opening costs of ~\$200,000
- Attractive unit-level economics with ~4 year payback and high cash-on-cash returns

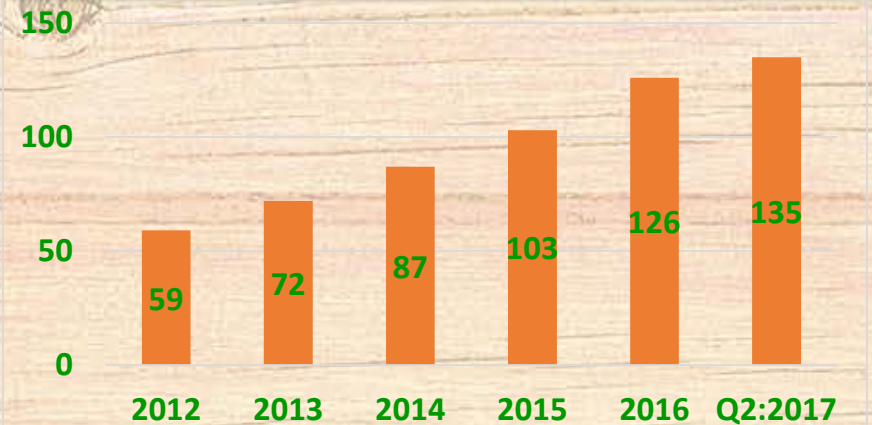
## New store model economics

Upfront capital investment ~\$2.2MM

Payback period ~4 years

All-in cash-on-cash return (5 yr) ~30%

## Store count at FYE



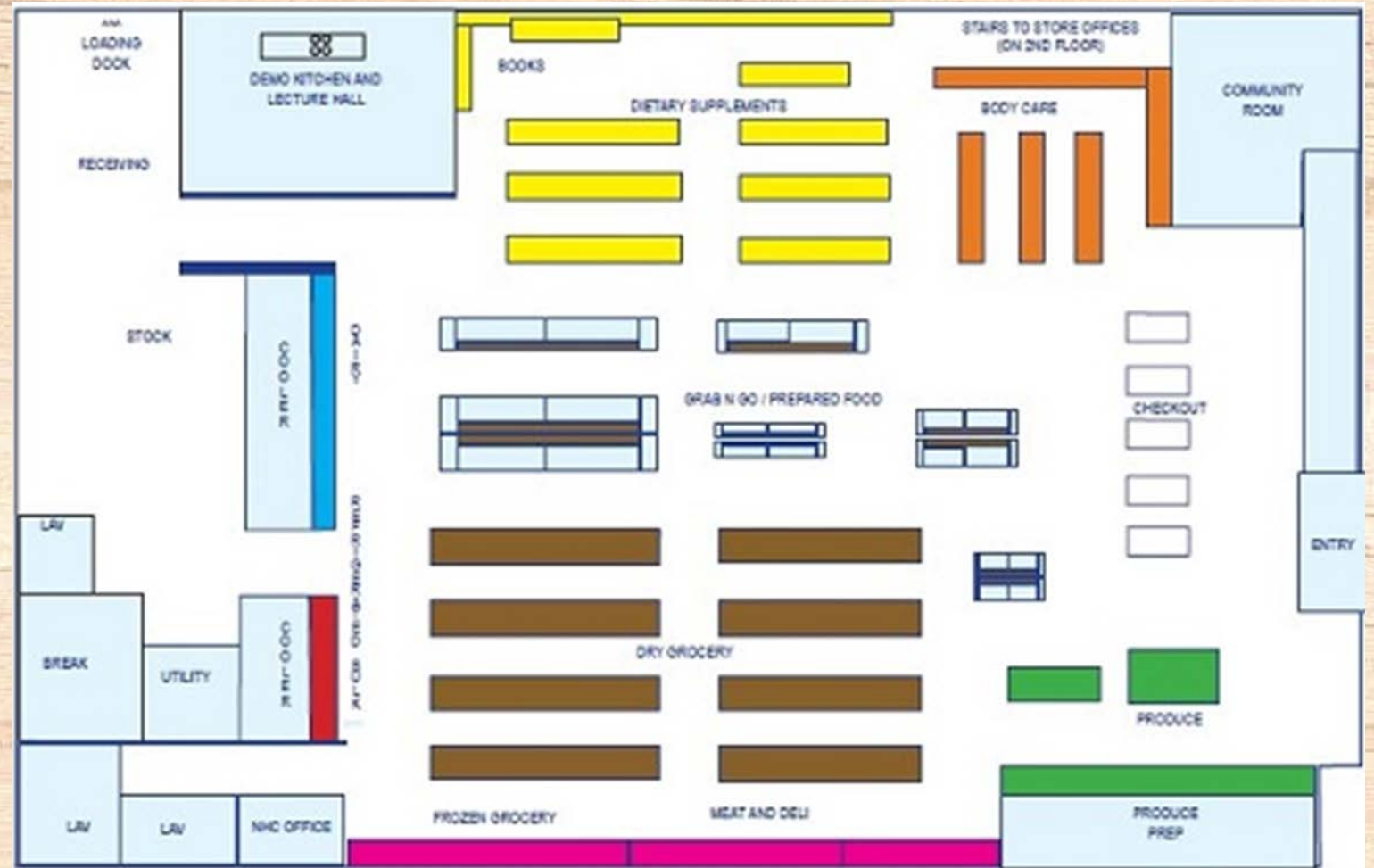


# New Unit Performance Continues to Support our Growth Equation

- New unit grand opening sales in fiscal 2016 and YTD 2017 were consistent with the prior year(s) grand opening sales
- New units are generally cash flow positive in second year of operation
- New unit ROI continues to meet expectations, with lower capital offsetting slightly lower sales
  - New units that have not faced new competition during the first five years are meeting or exceeding our investment return objectives
  - New units that have faced new competition in the first five years are on average meeting investment return objective in sixth year
  - Testing new prototype unit during fiscal 2017 that requires lower initial capital investment
- Expansion into new markets has resulted in additional productive stores and a more diverse portfolio of stores
- Expansion within existing markets has yielded incremental market sales and mitigated regional risk, although existing stores have experienced cannibalization

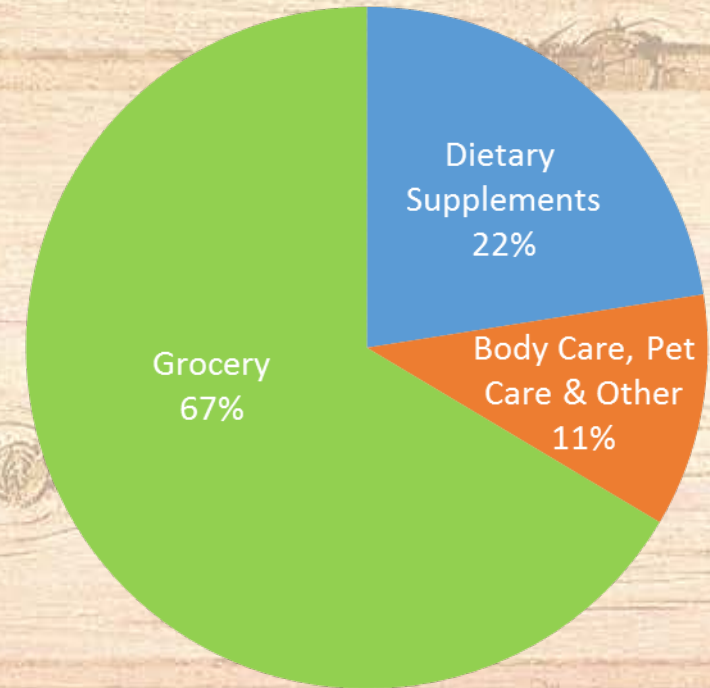
# New Store Layout

- Store-base averages 11,000 selling sq. ft.
- New units average 11,000 sq. ft. of selling space
- One-quarter of selling space dedicated to supplements



# Focused on the Core Natural and Organic Categories

- Sales mix is aligned with the key natural product industry categories
  - Dietary supplement sales and free nutrition education services are a key differentiator relative to mainstream competition
  - Over 21,000 SKUs
  - 6,500 SKUs in supplement category
- Private label in repackaged bulk and a variety of other categories

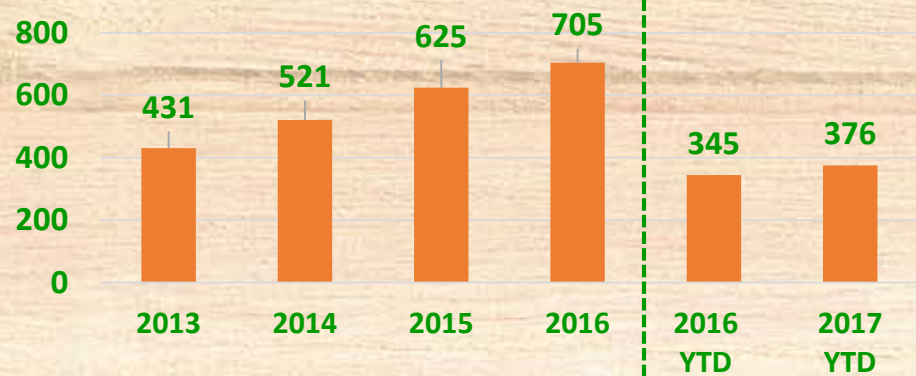


Fiscal 2016 Sales Mix

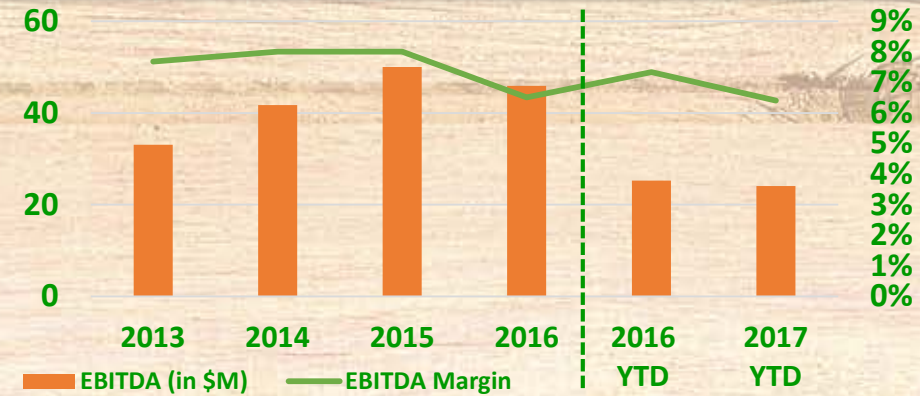
# Growth and Financial Model

# A History of Growth

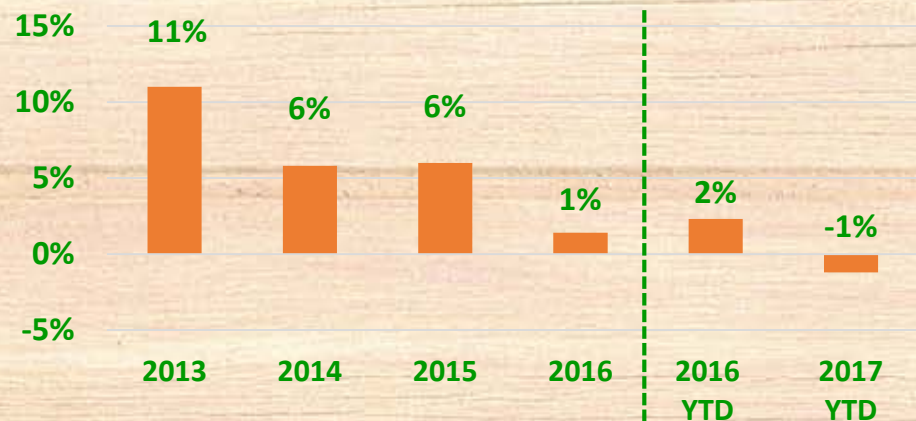
Revenue (\$ in millions)



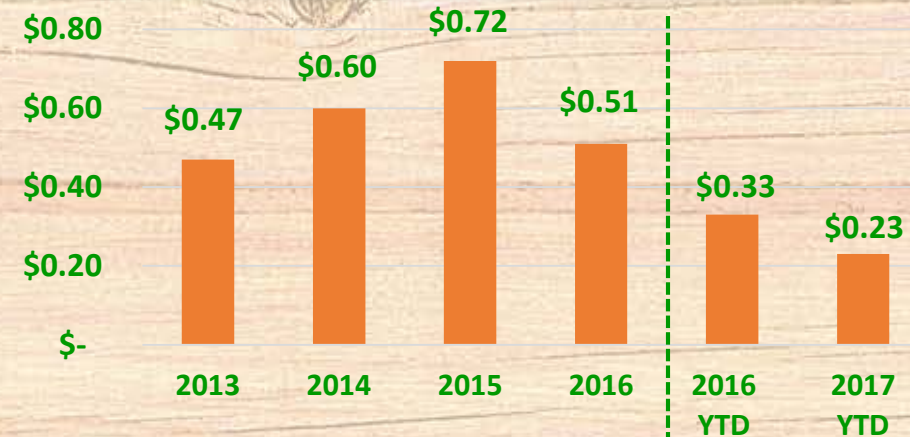
EBITDA (\$ in millions)\*



Daily Average Comparable Store Sales Growth



Earnings per Share



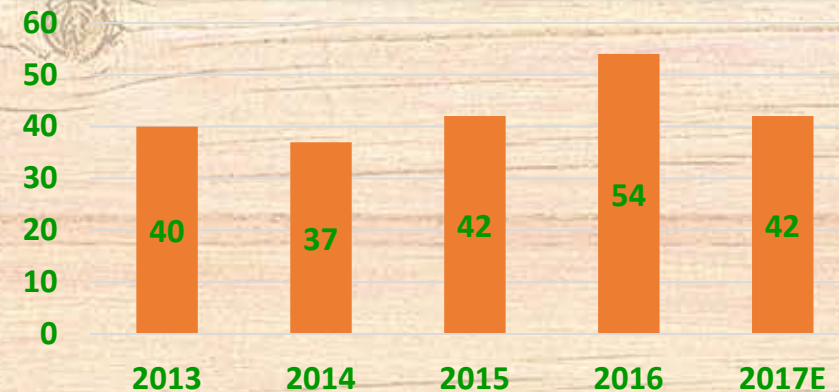
# Strong Financial Position to Support Growth Investment

- Strong operating cash flow and limited leverage to support capital investment
  - Approximately 90% of forecasted capital expenditures is to support new unit development, relocations and remodels
- \$10 million two-year share repurchase program in place
- \$17.5 million available on existing revolver, as of March 31, 2017

## Balance Sheet metrics (12/31/2016)

Cash	\$4.2M
Debt	\$58.4M
Debt/EBITDA*	1.3x

## Capital expenditures (\$ in millions)



Note: 2017 estimated capital expenditures is midpoint of \$40-\$44 million guidance

\* Debt/EBITDA calculation utilizes trailing 12 month EBITDA

\* See appendix for reconciliation of EBITDA (a non-GAAP measure) to net income (a GAAP measure)

# Fiscal 2017 Guidance

	<u>2017</u>
• New stores	15-17
• Relocations	2
• Daily avg. comps	-1 to 1%
• EBITDA margin*	6.4 to 6.7%
• Net income margin	1.4 to 1.5%
• Diluted EPS	\$0.50 to \$0.54
• Capital expenditures	\$40M to \$44M

Guidance as of May 4, 2017



# Financial Highlights—Q2 2017

- Opened 4 new stores and relocated our Boulder, CO store
  - Fully self-funding Capex with operating cash flow
- Sequential cost improvements over Q1:2017
  - 70bp reduction in store expenses QoQ
  - Sequential improvements in shrink and administrative expenses
- Comparable store sales declined 1.7%
  - Decrease driven by 1.4% decrease in daily average transaction count and a 0.4% decrease in average transaction size
  - Mature comps declined 3.1%, primarily reflecting challenging food retailing environment and regional economic pressures
  - Comps improved throughout the quarter
- Strong results from television advertising campaign in Denver market launched in March
- {N}Power® enrollments rose to 325,000





# Appendix

# EBITDA Reconciliation

EBITDA is not a measure of financial performance under GAAP. We define EBITDA as net income before interest expense, provision for income taxes and depreciation and amortization.

We believe EBITDA provides additional information about: (i) our operating performance, because it assists us in comparing the operating performance of our stores on a consistent basis, as it removes the impact of non-cash depreciation and amortization expense as well as items not directly resulting from our core operations such as interest expense and income taxes and (ii) our performance and the effectiveness of our operational strategies. Additionally, EBITDA is a component of a measure in our financial covenants under the Credit Facility. Further, our incentive compensation plans base incentive compensation payments on EBITDA.

Furthermore, management believes some investors use EBITDA as a supplemental measure to evaluate the overall operating performance of companies in our industry. Management believes that some investors' understanding of our performance is enhanced by including this non-GAAP financial measure as a reasonable basis for comparing our ongoing results of operations. By providing this non-GAAP financial measure, together with a reconciliation from net income, we believe we are enhancing analysts' and investors' understanding of our business and our results of operations, as well as assisting analysts and investors in evaluating how well we are executing our strategic initiatives. Our competitors may define EBITDA differently, and as a result, our measure of EBITDA may not be directly comparable to EBITDA of other companies. Items excluded from EBITDA are significant components in understanding and assessing financial performance. EBITDA is a supplemental measure of operating performance that does not represent, and should not be considered in isolation, alternative to, or substitute for, net income or other financial statement data presented in our consolidated financial statements as indicators of our financial performance. EBITDA has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of the limitations are:

- EBITDA does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA does not reflect any impact for straight-line rent expense for leases classified as capital and financing lease obligations;
- EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- EBITDA does not reflect our tax expense or the cash requirements to pay our taxes; and
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and EBITDA does not reflect any cash requirements for such replacements.

Due to these limitations, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using EBITDA as supplemental information.

# EBITDA Reconciliation

	Year ended September 30,			
	2016	2015	2014	2013
Net income	11,471	16,204	13,473	10,552
Interest expense	3,044	2,993	2,496	2,166
Provision for income taxes	5,864	9,432	8,281	6,379
Depreciation and amortization	25,533	21,337	17,212	13,496
EBITDA	\$ 45,912	49,966	41,462	32,593

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Net income	\$ 2,996	3,577	5,057	7,325
Interest expense	879	733	1,862	1,386
Provision for income taxes	1,640	2,139	2,762	4,432
Depreciation and amortization	7,319	6,192	14,440	12,237
EBITDA	\$ 12,834	12,641	24,121	25,380