

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 3, 2021
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number: 001-38950

Grocery Outlet Holding Corp.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

5650 Hollis Street, Emeryville, California
(Address of principal executive offices)

47-1874201
(I.R.S. Employer
Identification No.)

94608
(Zip Code)

(510) 845-1999
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	GO	Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 6, 2021, the registrant had 95,707,461 shares of common stock outstanding.

**GROCERY OUTLET HOLDING CORP.
FORM 10-Q**

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q ("Form 10-Q" or "report") and the documents incorporated by reference herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this report and the documents incorporated by reference herein other than statements of historical fact, including statements regarding our future operating results and financial position, our business strategy and plans, business trends, and our objectives for future operations, may constitute forward-looking statements. Words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "outlook," "plan," "project," "seek," "will," and similar expressions, are intended to identify such forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events and trends that we believe may affect our financial condition, operating results, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described under the headings "Item 1A. Risk Factors," and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report or as described in the other documents and reports we file with the United States ("U.S.") Securities and Exchange Commission (the "SEC"). We encourage you to read this report and our other filings with the SEC carefully. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied by the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activities, performance or achievements. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date of this report. We do not undertake any duty to update any of these forward-looking statements after the date of this report or to conform these statements to actual results or revised expectations.

As used in this report, references to "Grocery Outlet," "the Company," "registrant," "we," "us" and "our," refer to Grocery Outlet Holding Corp. and its consolidated subsidiaries unless otherwise indicated or the context requires otherwise.

Website Disclosure

We use our website, www.groceryoutlet.com, as a channel of distribution of Company information. Financial and other important information about us is routinely accessible through and posted on our website. Accordingly, investors should monitor our website, in addition to following our press releases, SEC filings and public conference calls and webcasts. The contents of our website and information accessible through our website is not, however, incorporated by reference or a part of this report. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports, and the Proxy Statement for our Annual Meeting of Stockholders are available, free of charge, on our website as soon as practicable after the we file the reports with the SEC.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GROCERY OUTLET HOLDING CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(unaudited)

	April 3, 2021	January 2, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 95,292	\$ 105,326
Independent operator receivables and current portion of independent operator notes, net of allowance \$1,176 and \$985	5,925	5,443
Other accounts receivable, net of allowance \$94 and \$39	2,645	5,950
Merchandise inventories	243,270	245,157
Prepaid expenses and other current assets	17,519	20,081
Total current assets	364,651	381,957
Independent operator notes, net of allowance \$7,827 and \$7,124	20,688	27,440
Property and equipment, net	458,313	433,652
Operating lease right-of-use assets	849,654	835,397
Intangible assets, net	47,765	48,226
Goodwill	747,943	747,943
Deferred income tax assets, net	2,500	3,529
Other assets	7,223	7,480
Total assets	\$ 2,498,737	\$ 2,485,624
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	\$ 109,841	\$ 114,278
Accrued expenses	36,079	35,699
Accrued compensation	9,399	26,447
Current lease liabilities	35,382	48,675
Income and other taxes payable	6,353	7,547
Total current liabilities	197,054	232,646
Long-term debt, net	449,743	449,233
Long-term lease liabilities	903,854	881,438
Total liabilities	1,550,651	1,563,317
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Voting common stock, par value \$0.001 per share, 500,000,000 shares authorized; 95,501,473 and 94,854,336 shares issued and outstanding, respectively	96	95
Additional paid-in capital	793,933	787,047
Retained earnings	154,057	135,165
Total stockholders' equity	948,086	922,307
Total liabilities and stockholders' equity	\$ 2,498,737	\$ 2,485,624

See Notes to Condensed Consolidated Financial Statements

GROCERY OUTLET HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands, except per share data)
(unaudited)

	13 Weeks Ended	
	April 3, 2021	March 28, 2020
Net sales	\$ 752,466	\$ 760,308
Cost of sales	520,539	523,282
Gross profit	231,927	237,026
Operating expenses:		
Selling, general and administrative	188,598	186,931
Depreciation and amortization	15,543	12,945
Share-based compensation	3,939	20,277
Total operating expenses	208,080	220,153
Income from operations	23,847	16,873
Other expenses:		
Interest expense, net	3,906	5,834
Debt extinguishment and modification costs	—	198
Total other expenses	3,906	6,032
Income before income taxes	19,941	10,841
Income tax expense (benefit)	1,049	(1,801)
Net income and comprehensive income	\$ 18,892	\$ 12,642
Basic earnings per share	\$ 0.20	\$ 0.14
Diluted earnings per share	\$ 0.19	\$ 0.13
Weighted average shares outstanding:		
Basic	95,195	89,481
Diluted	99,570	94,869

See Notes to Condensed Consolidated Financial Statements

GROCERY OUTLET HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)
(unaudited)

	Voting Common		Additional Paid-In Capital	Retained Earnings	Stockholders' Equity
	Shares	Amount			
Balance as of January 2, 2021	94,854,336	\$ 95	\$ 787,047	\$ 135,165	\$ 922,307
Exercise and vesting of share-based awards	647,137	1	2,952		2,953
Share-based compensation expense			3,939		3,939
Dividends paid			(5)		(5)
Net income and comprehensive income				18,892	18,892
Balance as of April 3, 2021	<u>95,501,473</u>	<u>96</u>	<u>793,933</u>	<u>154,057</u>	<u>948,086</u>

See Notes to Condensed Consolidated Financial Statements

GROCERY OUTLET HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY, continued
(in thousands, except share amounts)
(unaudited)

	Voting Common		Additional Paid-In Capital	Retained Earnings	Stockholders' Equity
	Shares	Amount			
Balance as of December 28, 2019	89,005,062	\$ 89	\$ 717,282	\$ 28,013	\$ 745,384
Cumulative effect of accounting change				439	439
Exercise and vesting of share-based awards	902,132	1	6,032		6,033
Share-based compensation expense			20,277		20,277
Dividends paid			(147)		(147)
Net income and comprehensive income				12,642	12,642
Balance as of March 28, 2020	<u>89,907,194</u>	<u>\$ 90</u>	<u>\$ 743,444</u>	<u>\$ 41,094</u>	<u>\$ 784,628</u>

See Notes to Condensed Consolidated Financial Statements

GROCERY OUTLET HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	13 Weeks Ended	
	April 3, 2021	March 28, 2020
Cash flows from operating activities:		
Net income	\$ 18,892	\$ 12,642
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment	14,221	11,788
Amortization of intangible and other assets	1,923	1,782
Amortization of debt issuance costs and debt discounts	628	502
Debt extinguishment and modification costs	—	198
Share-based compensation	3,939	20,277
Provision for accounts receivable	955	848
Deferred income taxes	1,029	(1,801)
Other	477	1,055
Changes in operating assets and liabilities:		
Independent operator and other accounts receivable	2,482	(3,219)
Merchandise inventories	1,887	31,073
Prepaid expenses and other current assets	2,562	847
Income and other taxes payable	(1,194)	722
Trade accounts payable, accrued compensation and other accrued expenses	(16,458)	(14,412)
Changes in operating lease assets and liabilities, net	(4,930)	5,518
Net cash provided by operating activities	<u>26,413</u>	<u>67,820</u>
Cash flows from investing activities:		
Advances to independent operators	(2,659)	(1,485)
Repayments of advances from independent operators	1,188	1,136
Purchases of property and equipment	(36,570)	(28,173)
Proceeds from sales of assets	17	79
Intangible assets and licenses	(1,140)	(1,350)
Net cash used in investing activities	<u>(39,164)</u>	<u>(29,793)</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options	2,953	6,033
Proceeds from revolving credit facility loan	—	90,000
Principal payments on term loans	—	(187)
Principal payments on other borrowings	(231)	(191)
Dividends paid	(5)	(147)
Debt issuance costs paid	—	(700)
Net cash provided by financing activities	<u>2,717</u>	<u>94,808</u>
Net increase (decrease) in cash and cash equivalents	(10,034)	132,835
Cash and cash equivalents at beginning of period	105,326	28,101
Cash and cash equivalents at end of period	<u>\$ 95,292</u>	<u>\$ 160,936</u>

See Notes to Condensed Consolidated Financial Statements

GROCERY OUTLET HOLDING CORP.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Organization and Summary of Significant Accounting Policies

Description of Business — Based in Emeryville, California, and incorporated in Delaware in 2014, Grocery Outlet Holding Corp. (together with its wholly owned subsidiaries, collectively, "Grocery Outlet," "we," or the "Company") is a high-growth, extreme value retailer of quality, name-brand consumables and fresh products sold through a network of independently operated stores. As of April 3, 2021, we had 389 stores throughout California, Washington, Oregon, Pennsylvania, Idaho and Nevada.

Secondary Public Offerings — On February 3, 2020, certain of our selling stockholders completed a secondary public offering of shares of our common stock. We did not receive any of the proceeds from the sale of these shares by the selling stockholders. We incurred related offering costs of \$1.1 million which we recognized in selling, general and administrative expenses ("SG&A") during the first quarter of fiscal 2020. We received \$1.4 million in cash (excluding withholding taxes) in connection with the exercise of 191,470 options by certain stockholders participating in this secondary public offering.

On April 27, 2020, certain of our selling stockholders completed another secondary public offering of shares of our common stock. We did not receive any of the proceeds from the sale of these shares by the selling stockholders. We incurred related offering costs of \$1.0 million which we recognized in SG&A during the second quarter of fiscal 2020. We received \$1.6 million in cash (excluding withholding taxes) in connection with the exercise of 269,000 options by certain stockholders participating in this secondary public offering.

On May 28, 2020, the stockholder affiliated with our former private equity sponsor, Hellman and Friedman LLC, distributed the remainder of its holdings representing 9.6 million shares of our common stock to its equity holders. We did not receive any proceeds or incur any material costs related to this distribution.

Basis of Presentation — The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the applicable rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") for interim reporting. Certain information and note disclosures included in our annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended January 2, 2021 filed with the SEC on March 2, 2021. The condensed consolidated balance sheet as of January 2, 2021 included herein has been derived from those audited consolidated financial statements.

Our unaudited condensed consolidated financial statements include the accounts of Grocery Outlet Holding Corp. and its wholly owned subsidiaries. All intercompany balances and transactions were eliminated. In the opinion of management, these condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the periods presented. The interim results of operations and cash flows are not necessarily indicative of those results and cash flows expected for any future interim or annual period.

Use of Estimates — The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from these estimates depending upon certain risks and uncertainties. Changes in these estimates are recorded when known.

Segment Reporting — We manage our business as one operating segment. All of our sales were made to customers located in the United States and all property and equipment is located in the United States.

Merchandise Inventories — Merchandise inventories are valued at the lower of cost or net realizable value. Cost is determined by the weighted-average cost method for warehouse inventories and the retail inventory method for store inventories. We provide for estimated inventory losses between physical inventory counts based on historical averages. This provision is adjusted periodically to reflect the actual shrink results of the physical inventory counts.

Leases — We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets, current lease liabilities, and long-term lease liabilities on our condensed consolidated balance sheets. Finance leases are included in other assets, current lease liabilities, and long-term lease liabilities on our condensed consolidated balance sheets. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease over the same term. Right-of-use assets and liabilities are recognized at commencement date based on the present value of the lease payments over the lease term,

reduced by landlord incentives. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate, which is estimated to approximate the interest rate on a collateralized basis with similar terms and payments based on the information available at the commencement date, to determine the present value of our lease payments. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. Amortization of finance lease right-of-use assets, interest expense on finance lease liabilities and operating and financing cash flows for finance leases are immaterial.

We have lease agreements with retail facilities for store locations, distribution centers, office space and equipment with lease and non-lease components, which are accounted for separately. Leases with an initial term of 12 months or less are not recorded on the balance sheet; lease expense for these leases is recognized on a straight-line basis over the lease term. The short-term lease expense is reflective of the short-term lease commitments on a go-forward basis. We sublease certain real estate to unrelated third parties under non-cancelable leases and the sublease portfolio consists of operating leases for retail stores.

Fair Value Measurements — Fair value is defined as the exchange price, or exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value of financial instruments is categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is measured using inputs from the three levels of the fair value hierarchy, which are described as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities

Level 2 — Quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 — Unobservable inputs in which there is little or no market data, which requires us to develop our own assumptions when pricing the financial instruments, such as cash flow modeling assumptions

The assets' or liabilities' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The fair value framework requires that we maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

There were no assets or liabilities measured at fair value on a recurring basis as of April 3, 2021 or January 2, 2021. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. There were no transfers of assets or liabilities between levels within the fair value hierarchy as of April 3, 2021 or January 2, 2021.

Our financial assets and liabilities are carried at cost, which generally approximates their fair value, as described below:

Cash and cash equivalents, independent operator ("IO") receivables, other accounts receivable and accounts payable — The carrying value of such financial instruments approximates their fair value due to factors such as their short-term nature or their variable interest rates.

IO notes receivable (net) — The carrying value of such financial instruments approximates their fair value due to the effect of the related allowance for expected credit losses.

Notes payable and term loans — The carrying value of such financial instruments approximates their fair value since the stated interest rates approximates market rates for loans with similar terms for borrowers with similar credit profiles. However, in accordance with Accounting Standards Codification ("ASC") Topic 825, *Financial Instruments*, the fair values of our term loans as of April 3, 2021 and January 2, 2021 are disclosed in the below table.

The following table sets forth by level within the fair value hierarchy the carrying amounts and estimated fair values of our significant financial liabilities that are not recorded at fair value on the condensed consolidated balance sheets (amounts in thousands):

	April 3, 2021		January 2, 2021	
	Carrying Amount ⁽¹⁾	Estimated Fair Value ⁽²⁾	Carrying Amount ⁽¹⁾	Estimated Fair Value ⁽²⁾
Financial Liabilities:				
Term loans (Level 2)	\$ 458,822	\$ 458,850	\$ 458,757	\$ 460,000

(1) The carrying amounts as of both April 3, 2021 and January 2, 2021 are net of unamortized debt discounts of \$1.2 million.

(2) The estimated fair value of our term loans was determined based on the average quoted bid-ask prices for the term loans in an over-the-counter market on the last trading day of the periods presented.

Revenue Recognition

Net Sales — We recognize revenue from the sale of products at the point of sale, net of any taxes or deposits collected and remitted to governmental authorities. Our performance obligations are satisfied upon the transfer of goods to the customer, at the point of sale, and payment from customers is also due at the time of sale. Discounts provided to customers by us are recognized at the time of sale as a reduction in sales as the products are sold. Discounts provided by IOs are not recognized as a reduction in sales as these are provided solely by the IO who bears the incremental costs arising from the discount. We do not accept manufacturer coupons.

We do not have any material contract assets or receivables from contracts with customers, any revenue recognized in the current year from performance obligations satisfied in previous periods, any performance obligations, or any material costs to obtain or fulfill a contract as of April 3, 2021 and January 2, 2021.

Gift Cards — We record a deferred revenue liability when a Grocery Outlet gift card is sold. Revenue related to gift cards is recognized as the gift cards are redeemed, which is when we have satisfied our performance obligation. While gift cards are generally redeemed within 12 months, some are never fully redeemed. We reduce the liability and recognize revenue for the unused portion of the gift cards (“breakage”) under the proportional method, where recognition of breakage income is based upon the historical run-off rate of unredeemed gift cards. Our gift card deferred revenue liability was \$2.4 million and \$3.2 million as of April 3, 2021 and January 2, 2021, respectively. Breakage amounts were immaterial for the 13 weeks ended April 3, 2021 and March 28, 2020.

Disaggregated Revenues — The following table presents sales revenue by type of product for the periods indicated (amounts in thousands):

	13 Weeks Ended	
	April 3, 2021	March 28, 2020
Perishable ⁽¹⁾	\$ 261,418	\$ 253,448
Non-perishable ⁽²⁾	491,048	506,860
Total sales	<u>\$ 752,466</u>	<u>\$ 760,308</u>

(1) Perishable departments include dairy and deli; produce and floral; and fresh meat and seafood.

(2) Non-perishable departments include grocery; general merchandise; health and beauty care; frozen foods; and beer and wine.

Variable Interest Entities — In accordance with the variable interest entities sub-section of ASC Topic 810, *Consolidation*, we assess at each reporting period whether we, or any consolidated entity, are considered the primary beneficiary of a variable interest entity (“VIE”) and therefore required to consolidate the financial results of the VIE in our consolidated financial statements. Determining whether to consolidate a VIE may require judgment in assessing (i) whether an entity is a VIE, and (ii) if a reporting entity is a VIE’s primary beneficiary. A reporting entity is determined to be a VIE’s primary beneficiary if it has the power to direct the activities that most significantly impact a VIE’s economic performance and the obligation to absorb losses or rights to receive benefits that could potentially be significant to a VIE.

We had 385, 375 and 350 stores operated by IOs as of April 3, 2021, January 2, 2021 and March 28, 2020, respectively. We have agreements in place with each IO. The IO orders merchandise exclusively from us which is provided to the IO on consignment. Under the Independent Operator Agreement (the “Operator Agreement”), the IO may select a majority of merchandise that we consign to the IO, which the IO chooses from our merchandise order guide according to the IO’s knowledge and experience with local customer purchasing trends, preferences, historical sales and similar factors. The Operator Agreement gives the IO discretion to adjust our initial prices if the overall effect of all price changes at any time comports with the reputation of our Grocery Outlet retail stores for selling quality, name-brand consumables and fresh products and other merchandise at extreme discounts. IOs are required to furnish initial working capital and to acquire certain store and safety assets. The IO is also required to hire, train and employ a properly trained workforce sufficient in number to enable the IO to fulfill its obligations under the Operator Agreement. Additionally, the IO is responsible for expenses required for business operations, including all labor costs, utilities, credit card processing fees, supplies, taxes, fines, levies and other expenses. Either party may terminate the Operator Agreement without cause upon 75 days’ notice.

As consignor of all merchandise to each IO, the aggregate net sales proceeds from merchandise sales belongs to us. Sales related to IO stores were \$739.6 million and \$745.5 million for the 13 weeks ended April 3, 2021 and March 28, 2020, respectively. We, in turn, pay IOs a commission based on a share of the gross profit of the store. Inventories and related sales proceeds are our property, and we are responsible for store rent and related occupancy costs. IO commissions were expensed and included in SG&A. IO commissions were \$112.7 million and \$114.4 million for the 13 weeks ended April 3, 2021 and March 28, 2020, respectively. IO commissions of \$6.9 million and \$6.0 million were included in accrued expenses as of April 3, 2021 and January 2, 2021, respectively.

IOs may fund their initial store investment from existing capital, a third-party loan or most commonly through a loan from us, as further discussed in Note 2. As collateral for IO obligations and performance, the Operator Agreements grant us the security interests in the assets owned by the IOs related to the respective store. Since the total investment at risk associated with each IO is not sufficient to permit each IO to finance its activities without additional subordinated financial support, the IOs are VIEs which we have variable interests in. To determine if we are the primary beneficiary of these VIEs, we evaluate whether we have (i) the power to direct the activities that most significantly impact the IO’s economic performance and (ii) the obligation to absorb losses or the right to receive benefits of the IO that could potentially be significant to the IO. Our evaluation includes identification of significant activities and an assessment of its ability to direct those activities.

Activities that most significantly impact the IO’s economic performance relate to sales and labor. Sales activities that significantly impact the IO’s economic performance include determining what merchandise the IO will order and sell and the price of such merchandise, both of which the IO controls. The IO is also responsible for all of their own labor. Labor activities that significantly impact the IO’s economic performance include hiring, training, supervising, directing, compensating (including wages, salaries and employee benefits) and terminating all of the employees of the IO, activities which the IO controls. Accordingly, the IO has the power to direct the activities that most significantly impact the IO’s economic performance. Furthermore, the mutual termination rights associated with the Operator Agreements illustrate the lack of ultimate control over the IO.

Our maximum exposure to the IOs is generally limited to the gross operator notes and receivables due from these entities, which was \$35.6 million and \$41.0 million as of April 3, 2021 and January 2, 2021, respectively. See Note 2 for additional information.

Recently Adopted Accounting Standards

ASU No. 2019-12 — In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes* (“ASU 2019-12”). ASU 2019-12 simplifies accounting guidance for certain tax matters including franchise taxes, certain transactions that result in a step-up in tax basis of goodwill, and enacted changes in tax laws in interim periods. In addition, it eliminates a company’s need to evaluate certain exceptions relating to the incremental approach for intra-period tax allocation, accounting for basis differences when there are ownership changes in foreign investments, and interim period income tax accounting for year-to-date losses that exceed anticipated losses. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. We adopted ASU 2019-12 beginning in the first quarter of fiscal 2021. The adoption of ASU 2019-12 did not have a material impact on our condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

No recently issued accounting pronouncements are expected to have a material effect on our condensed consolidated financial statements.

Note 2. Independent Operator Notes and Receivables

The amounts included in IO notes and accounts receivable consist primarily of funds we loaned to IOs, net of estimated uncollectible amounts. IO notes are payable on demand and typically bear interest at rates between 3.00% and 9.95%. Accrued interest receivable on IO notes is included within the “independent operator receivables and current portion of independent operator notes, net of allowance” line item on the condensed consolidated balance sheets and was \$0.3 million and \$0.4 million as of April 3, 2021 and January 2, 2021, respectively. There were no IO notes that were past due or on a non-accrual status due to delinquency as of April 3, 2021 or January 2, 2021. Notes and receivables of our IOs participating in our TCAP, as defined below, are not considered to be past due or on a non-accrual status due to delinquency and are excluded from such measures.

IO notes and receivables are financial assets which are measured and carried at amortized cost. An allowance for expected credit losses is deducted from (for expected losses) or added to (for expected recoveries) the amortized cost basis of these assets to arrive at the net carrying amount expected to be collected for such assets.

The allowance is estimated using an expected loss framework, which includes information about past events, current conditions, and reasonable and supportable forecasts that impact the collectibility of the reported amounts of the assets over their lifetime. The allowance is evaluated on a collective basis for assets with shared risk characteristics and credit quality indicators. The primary shared risk characteristic and credit quality indicator pools that we use as a basis for collective evaluation include:

- **TCAP** — Includes the notes and receivables of IOs with stores that have been open for more than 18 months that are participating in our Temporary Commission Adjustment Program (“TCAP”) as of the end of each reporting period. TCAP allows us to provide a greater commission to participating IOs who require assistance in meeting their working capital needs for various reasons, such as new or increased competition or differences in IO skills and experience.
- **Non-TCAP** — Includes the notes and receivables of IOs with stores that have been open for more than 18 months that are not participating in TCAP as of the end of each reporting period.
- **New store** — Includes the notes and receivables of IOs with stores that have been open for less than 18 months as of the end of each reporting period.

Assets without such shared risk characteristics or credit quality indicators, such as assets with unique circumstances or with delinquencies and historical losses in excess of their TCAP, non-TCAP or new store peers are evaluated on an individual basis.

Amounts due from IOs and the related allowances as of April 3, 2021 and January 2, 2021 consisted of the following (amounts in thousands):

	Gross	Allowance		Net	Current Portion	Long-term Portion
		Current Portion	Long-term Portion			
April 3, 2021						
Independent operator notes	\$ 30,625	\$ (524)	\$ (7,827)	\$ 22,274	\$ 1,586	\$ 20,688
Independent operator receivables	4,991	(652)	—	4,339	4,339	—
Total	\$ 35,616	\$ (1,176)	\$ (7,827)	\$ 26,613	\$ 5,925	\$ 20,688
	Gross	Allowance		Net	Current Portion	Long-term Portion
		Current Portion	Long-term Portion			
January 2, 2021						
Independent operator notes	\$ 37,238	\$ (514)	\$ (7,124)	\$ 29,600	\$ 2,160	\$ 27,440
Independent operator receivables	3,754	(471)	—	3,283	3,283	—
Total	\$ 40,992	\$ (985)	\$ (7,124)	\$ 32,883	\$ 5,443	\$ 27,440

A summary of activity in the IO notes and receivable allowance was as follows (amounts in thousands):

	13 Weeks Ended	
	April 3, 2021	March 28, 2020
Beginning balance	\$ 8,109	\$ 10,371
Provision for independent operator notes and receivables	900	848
Cumulative effect of accounting change	—	(439)
Write-off of provision for independent operator notes and receivables	(6)	(188)
Ending Balance	\$ 9,003	\$ 10,592

The following table presents the amortized cost basis of IO notes by year of origination and credit quality indicator as of April 3, 2021 (amounts in thousands):

Credit Quality Indicator	2021 (YTD)	2020	2019	2018	2017	Prior	Total
TCAP	\$ 247	\$ 1,321	\$ 2,053	\$ 1,381	\$ 380	\$ —	\$ 5,382
Non-TCAP	1,148	2,785	5,185	3,675	1,728	682	15,203
New store	1,690	7,063	1,287	—	—	—	10,040
Total	\$ 3,085	\$ 11,169	\$ 8,525	\$ 5,056	\$ 2,108	\$ 682	\$ 30,625

Note 3. Long-term Debt

Long-term debt consisted of the following (amounts in thousands):

	April 3, 2021	January 2, 2021
First Lien Credit Agreement:		
Term loan	\$ 460,000	\$ 460,000
Long-term debt, gross	460,000	460,000
Less: Unamortized debt discounts and debt issuance costs	(10,257)	(10,767)
Long-term debt, net	\$ 449,743	\$ 449,233

First Lien Credit Agreement

On October 22, 2018, GOBP Holdings, Inc ("GOBP Holdings"), our wholly owned subsidiary, together with another of our wholly owned subsidiaries, entered into a first lien credit agreement (the "First Lien Credit Agreement") with a syndicate of lenders for a \$725.0 million senior term loan and a revolving credit facility for an amount up to \$100.0 million, with a sub-commitment for a \$35.0 million letter of credit and a sub-commitment for \$20.0 million of swingline loans. Borrowings under the First Lien Credit Agreement are secured by substantially all the assets of the borrower subsidiary and its guarantors. The term loan proceeds were primarily used for retiring our prior first lien credit agreement and paying cash dividends related to our 2018 recapitalization. As of April 3, 2021, we had standby letters of credit outstanding totaling \$3.5 million under the First Lien Credit Agreement.

Term Loans

The First Lien Credit Agreement permits voluntary prepayment on borrowings without premium or penalty. In connection with the closing of our IPO, we prepaid \$248.0 million of principal and \$3.8 million of interest on the outstanding term loan under the First Lien Credit Agreement on June 24, 2019 and elected to apply the prepayment against the remaining principal installments in the direct order of maturity. No further principal payment on the term loan will be due until the maturity date of this term loan. The terms of the First Lien Credit Agreement include mandatory prepayment requirements on the term loan if certain conditions are met (as described in the First Lien Credit Agreement).

First Incremental Agreement — On July 23, 2019, GOBP Holdings together with another of our wholly owned subsidiaries entered into an incremental agreement (the "First Incremental Agreement") to amend the First Lien Credit Agreement. The First Incremental Agreement refinanced the term loan outstanding under the First Lien Credit Agreement with a replacement \$475.2 million senior secured term loan (the "First Replacement Term Loan") with an applicable margin of 3.50% or 3.25% for Eurodollar loans and 2.50% or 2.25% for base rate loans, in each case depending on the public corporate family rating of GOBP Holdings. The First Replacement Term Loan was to mature on October 22, 2025,

which was the same maturity date as the prior term loan under the First Lien Credit Agreement. On October 23, 2019, we prepaid \$15.0 million of principal on the First Replacement Term Loan.

Second Incremental Agreement — On January 24, 2020, GOBP Holdings together with another of our wholly owned subsidiaries, entered into a second incremental agreement (the "Second Incremental Agreement") which amended the First Incremental Agreement. The Second Incremental Agreement refinanced the First Replacement Term loan under the First Incremental Agreement with a replacement \$460.0 million senior secured term loan (the "Second Replacement Term Loan") with an applicable margin of 2.75% for Eurodollar loans and 1.75% for base rate loans, in each case depending on the public corporate family rating of GOBP Holdings, and made certain other corresponding technical changes and updates to the First Incremental Agreement. The interest rate on the Second Replacement Term Loan was 2.86% as of April 3, 2021. The Second Replacement Term Loan matures on October 22, 2025, which is the same maturity date as prior term loans under the First Lien Credit Agreement and First Incremental Agreement. We wrote off debt issuance costs of \$0.1 million and incurred debt modification costs of \$0.1 million during the first quarter of fiscal 2020 in connection with this refinance.

Other than as described above, the Second Replacement Term Loan has the same terms as provided under the original First Lien Credit Agreement and the First Incremental Agreement. Additionally, the parties to the Second Incremental Agreement continue to have the same obligations set forth in the original First Lien Credit Agreement and the First Incremental Agreement (collectively, the "First Lien Credit Agreement").

Revolving Credit Facility

We are required to pay a quarterly commitment fee ranging from 0.25% to 0.50% on the daily unused amount of the commitment under the revolving credit facility based upon the leverage ratio defined in the agreement and certain criteria specified in the agreement. We are also required to pay fronting fees and other customary fees for letters of credit issued under the revolving credit facility. The interest rate for the revolving credit facility is determined based on a formula using certain market rates. No amounts were outstanding under the revolving credit facility as of April 3, 2021 and January 2, 2021.

On March 19, 2020, we borrowed \$90.0 million under the revolving credit facility of our First Lien Credit Agreement (the "Revolving Credit Facility Loan"), the proceeds of which were to be used as reserve funding for working capital needs as a precautionary measure in light of the economic uncertainty surrounding the COVID-19 pandemic. On May 26, 2020, we repaid the Revolving Credit Facility Loan in full. As of April 3, 2021, we had \$96.5 million of borrowing capacity available under the revolving credit facility.

Debt Covenants

The First Lien Credit Agreement contains certain customary representations and warranties, subject to limitations and exceptions, and affirmative and customary covenants. The First Lien Credit Agreement has the ability to restrict us from entering into certain types of transactions and making certain types of payments including dividends and stock repurchase and other similar distributions, with certain exceptions. Additionally, the revolving credit facility under our First Lien Credit Agreement is subject to a first lien secured leverage ratio (as defined in the First Lien Credit Agreement) of 7.00 to 1.00.

As of April 3, 2021, we were in compliance with all applicable financial covenant requirements for our First Lien Credit Agreement.

Schedule of Principal Maturities

Principal maturities of debt as of April 3, 2021 are as follows (amounts in thousands):

Remainder of fiscal 2021	\$	—
Fiscal 2022		—
Fiscal 2023		—
Fiscal 2024		—
Fiscal 2025		460,000
Thereafter		—
Total	\$	<u>460,000</u>

Interest Expense

Interest expense, net, consisted of the following (amounts in thousands):

	13 Weeks Ended	
	April 3, 2021	March 28, 2020
Interest on loans	\$ 3,564	\$ 5,790
Amortization of debt issuance costs	563	556
Interest on finance leases	93	111
Other	3	6
Interest income	(317)	(629)
Interest expense, net	<u>\$ 3,906</u>	<u>\$ 5,834</u>

Debt Extinguishment and Modification Costs

Debt extinguishment and modification costs consisted of the following (amounts in thousands):

	13 Weeks Ended	
	April 3, 2021	March 28, 2020
Write off of debt issuance costs	\$ —	\$ 74
Debt modification costs	—	124
Debt extinguishment and modification costs	<u>\$ —</u>	<u>\$ 198</u>

Note 4. Share-based Awards

For a discussion of our share-based incentive plans, refer to NOTE 7 —Share-based Awards of our Annual Report on Form 10-K for the fiscal year ended January 2, 2021 filed with the SEC on March 2, 2021.

Grant Activity

The following table summarizes stock option activity under all equity incentive plans during the 13 weeks ended April 3, 2021:

	Time-Based Stock Options		Performance-Based Stock Options	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Options outstanding as of January 2, 2021	3,864,772	\$ 12.42	2,325,580	\$ 4.54
Exercised	(207,946)	7.35	(321,009)	4.23
Forfeitures	(11,538)	17.94	—	—
Options outstanding as of April 3, 2021	<u>3,645,288</u>	\$ 12.69	<u>2,004,571</u>	\$ 4.59
Options vested and exercisable as of April 3, 2021	<u>2,144,243</u>	\$ 7.51	<u>2,004,571</u>	\$ 4.59

The following table summarizes restricted stock unit ("RSU") activity under all equity incentive plans during the 13 weeks ended April 3, 2021:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested balance as of January 2, 2021	341,842	\$ 35.16
Granted	319,638	35.45
Vested	(96,138)	36.91
Forfeitures	(5,838)	33.57
Unvested balance as of April 3, 2021	<u>559,504</u>	<u>\$ 35.04</u>

The following table summarizes performance-based restricted stock unit ("PSU") activity under the 2019 Plan during the 13 weeks ended April 3, 2021:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested balance as of January 2, 2021	407,462	\$ 36.90
Granted ⁽¹⁾	319,606	35.45
Forfeitures	(1,396)	36.88
Unvested balance as of April 3, 2021 ⁽²⁾	<u>725,672</u>	<u>\$ 36.26</u>

(1) Represents initial grant of PSUs based on performance target level achievement of 100%.

(2) An additional 454,961 PSUs could potentially be included if the maximum performance level is reached.

Share-Based Compensation Expense

We recognize compensation expense for stock options, RSUs and PSUs by amortizing the grant date fair value on a straight-line basis over the expected vesting period to the extent we determine the vesting of the grant is probable. We recognize share-based award forfeitures in the period such forfeitures occur.

Share-based compensation expense consisted of the following (amounts in thousands):

	13 Weeks Ended	
	April 3, 2021	March 28, 2020
Time-based stock options	\$ 722	\$ 759
Performance-based stock options	—	18,498
RSUs	1,496	873
PSUs	1,716	—
Dividends ⁽¹⁾	5	147
Share-based compensation expense	<u>\$ 3,939</u>	<u>\$ 20,277</u>

(1) Represents cash dividends paid on vested share-based awards as a result of dividends declared in connection with recapitalizations that occurred in fiscal 2018 and 2016.

Note 5. Income Taxes

Our income tax expense (benefit) and effective income tax rate were as follows (amounts in thousands, except percentages):

	13 Weeks Ended	
	April 3, 2021	March 28, 2020
Income tax expense (benefit)	\$ 1,049	\$ (1,801)
Effective income tax rate	5.3 %	(16.6)%

The change from a net income tax benefit of \$1.8 million for the 13 weeks ended March 28, 2020 to a net income tax expense of \$1.0 million for the 13 weeks ended April 3, 2021 was primarily driven by higher pretax income during the 13 weeks ended April 3, 2021 as well as a reduction in excess tax benefits, related to the exercise of stock options and vesting of RSUs as compared to the same period in fiscal 2020.

The Company's tax provision for interim periods is determined using an estimated annual effective tax rate, adjusted for discrete events arising in each respective quarter. During each interim period, the Company updates the estimated annual effective tax rate. Our effective income tax rate for the 13 weeks ended April 3, 2021 was lower than the U.S. statutory income tax rate of 21% primarily due to excess tax benefits related to the exercise of stock options and vesting of RSUs. The increase in our effective income tax rate for the 13 weeks ended April 3, 2021 compared to the corresponding period in fiscal 2020 was primarily due to the above mentioned higher pretax income and the reduction in discrete items related to the exercise of stock options and vesting of employee RSUs.

Our policy is to recognize interest and penalties associated with uncertain tax benefits as part of the income tax provision and include accrued interest and penalties with the related income tax liability on our condensed consolidated balance sheets. To date, we have not recognized any interest and penalties in our condensed consolidated statements of operations and comprehensive income, nor have we accrued for or made payments for interest and penalties. We had no unrecognized tax benefits as of April 3, 2021 and January 2, 2021, respectively, and do not anticipate any changes to our uncertain tax positions within the next 12 months.

Note 6. Related Party Transactions***Related Party Leases***

We leased property from entities affiliated with certain of our non-controlling stockholders for 15 store locations and one warehouse location as of both April 3, 2021 and March 28, 2020. Affiliated entities received aggregate lease payments from us of \$1.5 million for each of the 13 weeks ended April 3, 2021 and March 28, 2020, respectively. We had total prepaid rent for these properties of \$0.5 million as of April 3, 2021 and zero as of January 2, 2021.

Independent Operator Notes and Receivables

We offer interest-bearing notes to IOs and the gross operating notes and receivables due from these IOs was \$35.6 million and \$41.0 million as of April 3, 2021 and January 2, 2021, respectively. See Note 2 for additional information.

Note 7. Commitments and Contingencies

We are involved from time to time in claims, proceedings and litigation arising in the normal course of business. We do not believe the impact of such litigation will have a material adverse effect on our condensed consolidated financial statements taken as a whole.

Note 8. Earnings Per Share

The following table sets forth the calculation of basic and diluted earnings per share (amounts in thousands, except per share data):

	13 Weeks Ended	
	April 3, 2021	March 28, 2020
Numerator		
Net income and comprehensive income	\$ 18,892	\$ 12,642
Denominator		
Weighted-average shares outstanding — basic	95,195	89,481
Effect of dilutive stock options	4,252	5,323
Effect of dilutive RSUs	123	65
Weighted-average shares outstanding — diluted ^{(1) (2)}	99,570	94,869
Earnings per share :		
Basic	\$ 0.20	\$ 0.14
Diluted	\$ 0.19	\$ 0.13

(1) On April 27, 2020 in conjunction with a secondary offering, certain performance criteria were achieved resulting in the vesting of 1.7 million unvested performance-based stock options, and accordingly, these vested performance-based stock options were included in the diluted weighted-average shares outstanding beginning in the second quarter of fiscal 2020.

(2) We are required to include in diluted weighted-average shares outstanding contingently issuable shares that would be issued assuming the end of our reporting period was the end of the relevant PSU award contingency period. No PSUs were included in diluted weighted-average shares outstanding for the 13 weeks ended April 3, 2021.

The following weighted-average common stock equivalents were excluded from the calculation of diluted earnings per share because their effect would have been anti-dilutive (amounts in thousands):

	13 Weeks Ended	
	April 3, 2021	March 28, 2020
RSUs	3	2

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with the unaudited condensed consolidated financial statements and related notes thereto included elsewhere in this report, and the audited consolidated financial statements and related notes thereto and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the fiscal year ended January 2, 2021 filed with the U.S. Securities and Exchange Commission (the "SEC") on March 2, 2021 ("2020 Annual Report on Form 10-K"). This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in other sections of this report.

We operate on a fiscal year that ends on the Saturday closest to December 31st each year. References to the first quarter of fiscal 2021 and the first quarter of fiscal 2020 refer to the 13 weeks ended April 3, 2021 and March 28, 2020, respectively.

As used in this report, references to "Grocery Outlet," "the Company," "the registrant," "we," "us" and "our," refer to Grocery Outlet Holding Corp. and its consolidated subsidiaries unless otherwise indicated or the context requires otherwise.

Overview

We are a high-growth, extreme value retailer of quality, name-brand consumables and fresh products sold through a network of independently operated stores. Our flexible buying model allows us to offer quality, name-brand opportunistic products at prices generally 40% to 70% below those of conventional retailers. Entrepreneurial independent operators ("IOs") run our stores and create a neighborhood feel through personalized customer service and a localized product offering. As of April 3, 2021, we had 389 stores in California, Washington, Oregon, Pennsylvania, Idaho and Nevada.

Secondary Public Offerings

On February 3, 2020, certain of our selling stockholders completed a secondary public offering of shares of our common stock. We did not receive any of the proceeds from the sale of these shares by the selling stockholders. We incurred related offering costs of \$1.1 million which we recognized in selling, general and administrative expenses during the first quarter of fiscal 2020. We received \$1.4 million in cash (excluding withholding taxes) in connection with the exercise of 191,470 options by certain stockholders participating in this secondary public offering.

On April 27, 2020, certain of our selling stockholders completed another secondary public offering of shares of our common stock. We did not receive any of the proceeds from the sale of these shares by the selling stockholders. We incurred related offering costs of \$1.0 million which we recognized in selling, general and administrative expenses during the second quarter of fiscal 2020. We received \$1.6 million in cash (excluding withholding taxes) in connection with the exercise of 269,000 options by certain stockholders participating in this secondary public offering.

On May 28, 2020, the stockholder affiliated with our former private equity sponsor, Hellman and Friedman LLC, distributed the remainder of its holdings representing 9.6 million shares of our common stock to its equity holders. We did not receive any proceeds or incur any material costs related to this distribution.

COVID-19

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus, COVID-19, a global pandemic and recommended containment and mitigation measures worldwide. As a result, many states, including states where we have significant operations, declared a state of emergency, closed schools and non-essential businesses and enacted limitations on the number of people allowed to gather at one time in the same space. As of the date of this filing, grocery stores are considered essential businesses in states and counties that have enacted requirements that residents leave their homes only for essential business ("shelter in place requirements") and are able to continue operating. As COVID-19 continued to spread and the situation has continued to evolve, there was a surge of positive COVID-19 cases around the country, particularly in California, during the first quarter of fiscal 2021, especially in January due to family gatherings during the holiday period.

Our IOs have faced and will continue to face staffing challenges including overtime pay, increased payroll attributable to employees who are compensated for their time to receive vaccines, and staffing shortages for a variety of reasons that are attributable to the COVID-19 pandemic, including school and childcare closures. In early 2021, counties in California and Washington have enacted or are considering enacting ordinances mandating "hazard pay" for grocery workers. While most of those ordinances have applied to large companies with more than 300 employees and have not applied to smaller businesses operated by a single employer, these ordinances do create staffing issues as many competitors are subject to those ordinances. In addition, federal and state governments have recently enacted legislation, such as the American Rescue Plan Act of 2021 and California's Senate Bill No. 95 to provide additional company paid benefits for employees and former employees impacted by the COVID-19 pandemic. Also, in the event that a Company employee, an IO, or IO employee tests positive for COVID-19, we may have to temporarily close a store, office or distribution center for cleaning and/or quarantine one or more employees which could negatively impact our financial results. We have incurred, and expect to continue to incur, cleaning and safety costs, costs for protective equipment and supplies, and higher personnel expenses. In addition, since the start of the pandemic certain inventory items have at times been, and may in the future again be, in short supply. All of these factors could impact the ability of stores to operate normal hours of operation or have sufficient inventory at all times which may disrupt our business and negatively impact our financial results. Further, planned construction and opening of new stores have been and may continue to be negatively impacted due to increased time periods to get permits and set up utilities. Finally, we have incurred, and expect to continue to incur, additional expenses as a result of certain increased costs related to our IOs. For example, we are paying a portion of the costs of protective equipment and cleaning supplies for our IOs as well as reducing interest rates on outstanding IO notes. We cannot reasonably estimate the length or severity of this pandemic, but it could have a material adverse impact on our consolidated financial position, consolidated results of operations, and consolidated cash flows in fiscal 2021. See "Item 1A. Risk Factors—Major health epidemics, such as the outbreak caused by COVID-19, and other outbreaks could disrupt and adversely affect our operations, financial condition and business" in our 2020 Annual Report on Form 10-K for additional information.

Key Factors and Measures We Use to Evaluate Our Business

We consider a variety of financial and operating measures in assessing the performance of our business. The key GAAP measures we use are net sales, gross profit and gross margin, selling, general and administrative expenses ("SG&A") and operating income. The key operational metrics and non-GAAP measures we use are number of new stores, comparable store sales, EBITDA, adjusted EBITDA and non-GAAP adjusted net income.

First Quarter of Fiscal 2021 Overview

Key financial and operating performance results for the first quarter of fiscal 2021 were as follows:

- Net sales decreased by 1.0% to \$752.5 million from \$760.3 million in the first quarter of fiscal 2020; comparable store sales decreased by 8.2% compared to a 17.4% increase in the same period last year.
- We opened 10 new stores and closed one, ending the first quarter of fiscal 2021 with 389 stores in six states.
- Net income increased 49.4% to \$18.9 million, or \$0.19 per diluted share, compared to net income of \$12.6 million, or \$0.13 per diluted share, in the first quarter of fiscal 2020.
- Adjusted EBITDA⁽¹⁾ decreased 13.7% to \$48.8 million compared to \$56.6 million in the first quarter of fiscal 2020.
- Non-GAAP adjusted net income⁽¹⁾ decreased 19.6% to \$23.1 million, or \$0.23 per non-GAAP diluted share, compared to \$28.8 million, or \$0.30 per non-GAAP diluted share, in the first quarter of fiscal 2020.

(1) Adjusted EBITDA, non-GAAP adjusted net income and non-GAAP adjusted diluted earnings per share are non-GAAP financial measures and should be considered as a supplement to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. Beginning with the fourth quarter of fiscal 2020, we updated our definitions of adjusted EBITDA and non-GAAP adjusted net income to simplify our presentation and enhance comparability between periods. The presentations for adjusted EBITDA, non-GAAP adjusted net income and non-GAAP adjusted diluted earnings per share for the first quarter of fiscal 2020 have been recast to reflect these changes. See GAAP to non-GAAP reconciliations in the "Operating Metrics and Non-GAAP Financial Measures" section below for additional information.

Key Components of Results of Operations

Net Sales

We recognize revenues from the sale of products at the point of sale, net of any taxes or deposits collected and remitted to governmental authorities. Discounts provided to customers by us are recognized at the time of sale as a reduction in sales as the products are sold. Discounts that are funded solely by IOs are not recognized as a reduction in sales as the IO bears the incidental costs arising from the discount. We do not accept manufacturer coupons. Sales consist of sales from comparable stores and non-comparable stores, described below under “Comparable Store Sales.” Growth of our sales is generally driven by expansion of our store base in existing and new markets as well as comparable store sales growth. Sales are impacted by the spending habits of our customers, product mix and availability, as well as promotional and competitive activities. Our ever-changing selection of offerings across diverse product categories supports growth in sales by attracting new customers and encouraging repeat visits from our existing customers. The spending habits of our customers are subject to changes in macroeconomic conditions, such as those experienced beginning in March 2020 due to the COVID-19 pandemic, and changes in discretionary income. Our customers’ discretionary income is primarily impacted by wages, fuel and other cost-of-living increases including food-at-home inflation, as well as consumer trends and preferences, which fluctuate depending on the environment. Because we offer a broad selection of merchandise at extreme values, historically we have benefited from periods of economic uncertainty.

Cost of Sales, Gross Profit and Gross Margin

Cost of sales includes, among other things, merchandise costs, inventory markdowns, inventory losses and transportation, distribution and warehousing costs, including depreciation. Gross profit is equal to our sales less our cost of sales. Gross margin is gross profit as a percentage of our sales. Gross margin is a measure used by management to indicate whether we are selling merchandise at an appropriate gross profit. Gross margin is impacted by product mix and availability, as some products generally provide higher gross margins, and by our merchandise costs, which can vary. Gross margin is also impacted by the costs of distributing and transporting product to our stores, which can vary. Our gross profit is variable in nature and generally follows changes in sales. While our disciplined buying approach has produced consistent gross margins throughout economic cycles which we believe has helped to mitigate adverse impacts on gross profit and results of operations, rapid changes in consumer demand like we experienced at the beginning of the COVID-19 pandemic could result in unexpected changes to our gross margins. The components of our cost of sales may not be comparable to the components of cost of sales or similar measures of our competitors and other retailers. As a result, our gross profit and gross margin may not be comparable to similar data made available by our competitors and other retailers.

Selling, General and Administrative Expenses

SG&A expenses are comprised of both store-related expenses and corporate expenses. Store-related expenses include commissions paid to IOs, occupancy and shared maintenance costs, Company-operated store expenses, including payroll, benefits, supplies and utilities and the cost of opening new IO stores. In addition, beginning in fiscal 2020, SG&A included incremental costs associated with COVID-19, such as cleaning and safety costs, costs for protective equipment and supplies. Corporate expenses include payroll and benefits for corporate and field support, marketing and advertising, insurance and professional services and operator recruiting and training costs. SG&A generally increases as we grow our store base and invest in our corporate infrastructure. SG&A expenses related to commissions paid to IOs are variable in nature and generally increase as gross profits rise and decrease as gross profits decline. The remainder of our expenses are primarily fixed in nature. We continue to closely manage our expenses and monitor SG&A as a percentage of sales. The components of our SG&A may not be comparable to the components of similar measures of other retailers. We expect that our SG&A will continue to increase in future periods as we continue to grow our sales revenue.

Operating Income

Operating income is gross profit less SG&A, depreciation and amortization and share-based compensation. Operating income excludes interest expense, net, debt extinguishment and modification costs and income tax expense. We use operating income as an indicator of the productivity of our business and our ability to manage expenses.

Results of Operations

The following tables summarize key components of our results of operations both in dollars and as a percentage of sales (amounts in thousands, except for percentages):

	13 Weeks Ended	
	April 3, 2021	March 28, 2020
Net sales	\$ 752,466	\$ 760,308
Cost of sales	520,539	523,282
Gross profit	231,927	237,026
Operating expenses:		
Selling, general and administrative	188,598	186,931
Depreciation and amortization	15,543	12,945
Share-based compensation	3,939	20,277
Total operating expenses	208,080	220,153
Income from operations	23,847	16,873
Other expenses:		
Interest expense, net	3,906	5,834
Debt extinguishment and modification costs	—	198
Total other expenses	3,906	6,032
Income before income taxes	19,941	10,841
Income tax expense (benefit)	1,049	(1,801)
Net income and comprehensive income	\$ 18,892	\$ 12,642

	13 Weeks Ended	
	April 3, 2021	March 28, 2020
Percentage of sales ⁽¹⁾		
Net sales	100.0 %	100.0 %
Cost of sales	69.2 %	68.8 %
Gross profit	30.8 %	31.2 %
Operating expenses:		
Selling, general and administrative	25.1 %	24.6 %
Depreciation and amortization	2.1 %	1.7 %
Share-based compensation	0.5 %	2.7 %
Total operating expenses	27.7 %	29.0 %
Income from operations	3.2 %	2.2 %
Other expenses:		
Interest expense, net	0.5 %	0.8 %
Debt extinguishment and modification costs	— %	— %
Total other expenses	0.5 %	0.8 %
Income before income taxes	2.7 %	1.4 %
Income tax expense (benefit)	0.1 %	(0.2)%
Net income and comprehensive income	2.5 %	1.7 %

(1) Components may not sum to totals due to rounding.

Operating Metrics and Non-GAAP Financial Measures

Number of New Stores

The number of new stores reflects the number of stores opened during a particular reporting period. New stores require an initial capital investment in the store build-outs, fixtures and equipment which we amortize over time as well as cash required for inventory and pre-opening expenses.

We expect new store growth to be the primary driver of our sales growth over the long term. We lease substantially all of our store locations. Our initial lease terms on stores are typically ten years with options to renew for two or three successive five-year periods.

Comparable Store Sales

We use comparable store sales as an operating metric to measure performance of a store during the current reporting period against the performance of the same store in the corresponding period of the previous year. Comparable store sales are impacted by the same factors that impact sales.

Comparable store sales consists of sales from our stores beginning on the first day of the fourteenth full fiscal month following the store's opening, which is when we believe comparability is achieved. Included in our comparable store definition are those stores that have been remodeled, expanded, or relocated in their existing location or respective trade areas. Excluded from our comparable store definition are those stores that have been closed for an extended period as well as any planned store closures or dispositions. When applicable, as was the case with fiscal 2020, we exclude the sales in the non-comparable week of a 53-week year from the same store sales calculation.

Opening new stores is a primary component of our growth strategy and, as we continue to execute on our growth strategy, we expect a significant portion of our sales growth will be attributable to non-comparable store sales. Accordingly, comparable store sales is only one measure we use to assess the success of our growth strategy.

EBITDA, Adjusted EBITDA and Non-GAAP Adjusted Net Income

EBITDA, adjusted EBITDA and non-GAAP adjusted net income are key metrics used by management and our board of directors to assess our financial performance. EBITDA, adjusted EBITDA and non-GAAP adjusted net income are also frequently used by analysts, investors and other interested parties to evaluate companies in our industry. We use EBITDA, adjusted EBITDA and non-GAAP adjusted net income to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures. In addition, we use EBITDA to supplement GAAP measures of performance to evaluate our performance in connection with compensation decisions. Management believes it is useful to investors and analysts to evaluate these non-GAAP measures on the same basis as management uses to evaluate our operating results. We believe that excluding items from operating income, net income and net income per diluted share that may not be indicative of, or are unrelated to, our core operating results, and that may vary in frequency or magnitude, enhances the comparability of our results and provides a better baseline for analyzing trends in our business.

We define EBITDA as net income before net interest expense, income taxes and depreciation and amortization expenses. Adjusted EBITDA represents EBITDA adjusted to exclude share-based compensation expense, non-cash rent, asset impairment and gain or loss on disposition, provision for accounts receivable reserves and certain other expenses. Non-GAAP adjusted net income represents net income adjusted for the previously mentioned EBITDA adjustments, further adjusted for costs related to amortization of purchase accounting assets and deferred financing costs, tax impact of option exercises and vesting of RSUs, and tax effect of total adjustments. EBITDA, adjusted EBITDA and non-GAAP adjusted net income are non-GAAP measures and may not be comparable to similar measures reported by other companies. EBITDA, adjusted EBITDA and non-GAAP adjusted net income have limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. We address the limitations of the non-GAAP measures through the use of various GAAP measures. In the future we may incur expenses or charges such as those added back to calculate adjusted EBITDA or non-GAAP adjusted net income. Our presentation of adjusted EBITDA and non-GAAP adjusted net income should not be construed as an inference that our future results will be unaffected by the adjustments we have used to derive our non-GAAP measures.

Beginning with the fourth quarter of fiscal 2020, we updated our definitions of adjusted EBITDA and non-GAAP adjusted net income to simplify our presentation and enhance comparability between periods. We no longer exclude new store pre-opening expenses from our presentation of adjusted EBITDA and non-GAAP adjusted net income. We also updated our definition of non-GAAP adjusted net income to exclude the tax impact of options exercises and vesting of RSUs. Lastly, debt extinguishment and modification costs were reclassified to the other adjustments line item within the presentation of both adjusted EBITDA and non-GAAP adjusted net income. The presentations for adjusted EBITDA and non-GAAP adjusted net income for the 13 weeks ended March 28, 2020 have been recast to reflect these changes and

reconciliations between the revised and previous definitions of adjusted EBITDA and non-GAAP adjusted net income for each quarter of fiscal years 2020 and 2019 were provided in our Form 8-K filed with the SEC on March 2, 2021.

The following table summarizes key operating metrics and non-GAAP components of our results of operations for the periods presented (amounts in thousands, except for percentages and store counts):

	13 Weeks Ended	
	April 3, 2021	March 28, 2020
Other Financial and Operations Data		
Number of new stores	10	10
Number of stores open at end of period	389	355
Comparable store sales increase (decrease) ⁽¹⁾	(8.2)%	17.4 %
EBITDA ⁽²⁾	\$ 39,991	\$ 30,245
Adjusted EBITDA ⁽²⁾	\$ 48,837	\$ 56,621
Non-GAAP adjusted net income ⁽²⁾	\$ 23,124	\$ 28,753

(1) Comparable store sales consist of sales from our stores beginning on the first day of the fourteenth full fiscal month following the store's opening, which is when we believe comparability is achieved.

(2) See "GAAP to Non-GAAP Reconciliations" section below for a reconciliation from our net income to EBITDA and adjusted EBITDA, net income to non-GAAP adjusted net income, and GAAP to non-GAAP earnings per share for the periods presented. Beginning with the fourth quarter of fiscal 2020, we updated our definitions of adjusted EBITDA and non-GAAP adjusted net income to simplify our presentation and enhance comparability between periods.

GAAP to Non-GAAP Reconciliations

The following tables provide a reconciliation from our GAAP net income to EBITDA and adjusted EBITDA, GAAP net income to non-GAAP adjusted net income, and our GAAP to non-GAAP earnings per share for the periods presented (amounts in thousands, except per share data):

	13 Weeks Ended	
	April 3, 2021	March 28, 2020
Net income	\$ 18,892	\$ 12,642
Interest expense, net	3,906	5,834
Income tax expense (benefit)	1,049	(1,801)
Depreciation and amortization expenses ⁽¹⁾	16,144	13,570
EBITDA	39,991	30,245
Share-based compensation expenses ⁽²⁾	3,939	20,277
Non-cash rent ⁽³⁾	2,908	2,214
Asset impairment and gain or loss on disposition ⁽⁴⁾	452	975
Provision for accounts receivable reserves ⁽⁵⁾	955	848
Other ⁽⁶⁾	592	2,062
Adjusted EBITDA	\$ 48,837	\$ 56,621

	13 Weeks Ended	
	April 3, 2021	March 28, 2020
Net income	\$ 18,892	\$ 12,642
Share-based compensation expenses ⁽²⁾	3,939	20,277
Non-cash rent ⁽³⁾	2,908	2,214
Asset impairment and gain or loss on disposition ⁽⁴⁾	452	975
Provision for accounts receivable reserves ⁽⁵⁾	955	848
Other ⁽⁶⁾	592	2,062
Amortization of purchase accounting assets and deferred financing costs ⁽⁷⁾	2,943	2,936
Tax impact of option exercises and vesting of restricted stock units ⁽⁸⁾	(4,256)	(4,994)
Tax effect of total adjustments ⁽⁹⁾	(3,301)	(8,207)
Non-GAAP adjusted net income	<u>\$ 23,124</u>	<u>\$ 28,753</u>
GAAP earnings per share		
Basic	\$ 0.20	\$ 0.14
Diluted	\$ 0.19	\$ 0.13
Non-GAAP adjusted earnings per share		
Basic	\$ 0.24	\$ 0.32
Diluted	\$ 0.23	\$ 0.30
GAAP & Non-GAAP weighted average shares outstanding		
Basic	95,195	89,481
Diluted	99,570	94,869

- (1) Includes depreciation related to our distribution centers which is included within the cost of sales line item in our Condensed Consolidated Statements of Operations and Comprehensive Income. See Note 1 to the condensed consolidated financial statements for additional information about the components of cost of sales.
- (2) Includes non-cash share-based compensation expense and cash dividends paid on vested share-based awards as a result of dividends declared in connection with recapitalizations that occurred in fiscal 2018 and 2016. See "Share-based Compensation Expense" in the "Comparison of the 13 weeks ended April 3, 2021 and March 28, 2020" section below for additional information.
- (3) Consists of the non-cash portion of rent expense, which represents the difference between our straight-line rent expense recognized under GAAP and cash rent payments. The adjustment can vary depending on the average age of our lease portfolio, which has been impacted by our significant growth in recent years.
- (4) Represents impairment charges with respect to planned store closures and gains or losses on dispositions of assets in connection with store transitions to new IOs.
- (5) Represents non-cash changes in reserves related to our IO notes and accounts receivable. See Note 2 to the condensed consolidated financial statements for additional information.
- (6) Represents other non-recurring, non-cash or non-operational items, such as transaction related costs, including costs related to employer payroll taxes associated with equity awards, personnel-related costs, store closing costs, legal expenses, secondary equity offerings, debt extinguishment and modification costs, and miscellaneous costs.
- (7) Represents the amortization of debt issuance costs and incremental amortization of an asset step-up resulting from purchase price accounting related to our acquisition in 2014 by an investment fund affiliated with Hellman & Friedman LLC, which included trademarks, customer lists, and below-market leases.
- (8) Represents excess tax benefits related to stock option exercises and vesting of RSUs to be recorded in earnings as discrete items in the reporting period in which they occur.
- (9) Represents the tax effect of the total adjustments. We calculate the tax effect of the total adjustments on a discrete basis excluding any non-recurring and unusual tax items.

Comparison of the 13 weeks ended April 3, 2021 and March 28, 2020 (amounts in thousands, except percentages)
Net Sales

	13 Weeks Ended			
	April 3, 2021	March 28, 2020	\$ Change	% Change
Net sales	\$ 752,466	\$ 760,308	\$ (7,842)	(1.0)%

The decrease in net sales for the 13 weeks ended April 3, 2021 compared to the same period in fiscal 2020 was primarily attributable to a decrease in comparable store sales, offset by non-comparable store sales growth attributable to the net 34 new stores opened over the last 12 months.

Comparable store sales decreased 8.2% for the 13 weeks ended April 3, 2021 compared to the same period in fiscal 2020. The decrease in comparable store sales was due to the initial surge in customer demand and elevated traffic in March 2020 resulting from the onset of the COVID-19 pandemic, which moderated in subsequent periods as customer shopping behaviors changed in response to the outbreak. Compared to the prior year period, the decline in customer traffic for the 13 weeks ended April 3, 2021 was partially offset by an increase in average transaction size.

Cost of Sales

	13 Weeks Ended			
	April 3, 2021	March 28, 2020	\$ Change	% Change
Cost of sales	\$ 520,539	\$ 523,282	\$ (2,743)	(0.5)%
% of net sales	69.2 %	68.8 %		

The decrease in cost of sales for the 13 weeks ended April 3, 2021 compared to the same period in fiscal 2020 was primarily the result of a decrease in comparable store sales (as discussed above), offset by new store growth.

Costs as a percentage of sales increased as a result of product inflation, fuel and freight cost increases, and inventory turns more in line with historical averages. For the 13 weeks ended March 28, 2020, costs as a percentage of sales decreased significantly compared to historical averages due to reduced product markdowns and throwaways resulting from faster inventory turns driven by COVID demand.

Gross Profit and Gross Margin

	13 Weeks Ended			
	April 3, 2021	March 28, 2020	\$ Change	% Change
Gross profit	\$ 231,927	\$ 237,026	\$ (5,099)	(2.2)%
Gross margin	30.8 %	31.2 %		

The decrease in gross profit for the 13 weeks ended April 3, 2021 compared to the same period in fiscal 2020 was primarily the result of a decrease in comparable store sales (as discussed above), offset by new store growth. Our gross margin decreased modestly for the 13 weeks ended April 3, 2021 compared to the same period in fiscal 2020 primarily due to higher cost of sales as a percentage of sales as discussed previously.

Selling, General and Administrative Expenses ("SG&A")

	13 Weeks Ended			
	April 3, 2021	March 28, 2020	\$ Change	% Change
SG&A	\$ 188,598	\$ 186,931	\$ 1,667	0.9 %
% of net sales	25.1 %	24.6 %		

The increase in SG&A for the 13 weeks ended April 3, 2021 compared to the same period in fiscal 2020 was primarily driven by store occupancy and maintenance due to a higher store count, investments in general and administrative infrastructure to support the growth of our business, and higher incremental costs associated with COVID-19. Such increases were offset by decreases in variable commission payments to IOs related to lower sales volume.

As a percentage of sales, SG&A increased slightly for the 13 weeks ended April 3, 2021 compared to the same period in fiscal 2020 due to the factors noted above.

Depreciation and Amortization Expense

	13 Weeks Ended			
	April 3, 2021	March 28, 2020	\$ Change	% Change
Depreciation and amortization	\$ 15,543	\$ 12,945	\$ 2,598	20.1 %
% of net sales	2.1 %	1.7 %		

The increase in depreciation and amortization expenses for the 13 weeks ended April 3, 2021 compared to the same period in fiscal 2020 was primarily driven by new store growth and other store capital investments.

Share-based Compensation Expense

	13 Weeks Ended			
	April 3, 2021	March 28, 2020	\$ Change	% Change
Share-based compensation	\$ 3,939	\$ 20,277	\$ (16,338)	(80.6)%
% of net sales	0.5 %	2.7 %		

The decrease in share-based compensation expenses for the 13 weeks ended April 3, 2021 compared to the same period in fiscal 2020 was primarily due to \$18.5 million in share-based compensation expense we incurred in February 2020 related to 4.1 million performance-based stock options that vested in connection with the closing of the February 3, 2020 secondary offering, offset by an increase in expense related to RSUs and PSUs granted during fiscal 2021 and 2020. See Note 4 to the condensed consolidated financial statements for additional information.

Interest Expense, Net

	13 Weeks Ended			
	April 3, 2021	March 28, 2020	\$ Change	% Change
Interest expense, net	\$ 3,906	\$ 5,834	\$ (1,928)	(33.0)%
% of net sales	0.5 %	0.8 %		

The decrease in net interest expense for the 13 weeks ended April 3, 2021 compared to the same period in fiscal 2020 was primarily driven by lower interest rates under our First Lien Credit Agreement. See Note 3 to the condensed consolidated financial statements for additional information.

Debt Extinguishment and Modification Costs

	13 Weeks Ended			
	April 3, 2021	March 28, 2020	\$ Change	% Change
Debt extinguishment and modification costs	\$ —	198	\$ (198)	(100.0)%
% of net sales	— %	— %		

During the 13 weeks ended March 28, 2020 we wrote off approximately \$0.1 million of debt issuance costs and incurred \$0.1 million of debt modification costs related to the repricing and amendment of our First Lien Credit Agreement. See Note 3 to the condensed consolidated financial statements for additional information.

Income Tax Expense (Benefit)

	13 Weeks Ended			
	April 3, 2021	March 28, 2020	\$ Change	% Change
Income tax expense (benefit)	\$ 1,049	\$ (1,801)	\$ 2,850	158.2 %
% of net sales	0.1 %	(0.2)%		
Effective tax rate	5.3 %	(16.6)%		

During the 13 weeks ended April 3, 2021, we recorded a net income tax expense of \$1.0 million, compared to a net income tax benefit of \$1.8 million for the 13 weeks ended March 28, 2020. This change was primarily driven by higher pretax income during the 13 weeks ended April 3, 2021 as well as a reduction in excess tax benefits related to the exercise

of stock options and vesting of RSUs as compared to the same period in fiscal 2020. Such excess tax benefits totaled \$4.3 million for the 13 weeks ended April 3, 2021 compared to \$5.0 million for the 13 weeks ended March 28, 2020.

Net Income

	13 Weeks Ended			
	April 3, 2021	March 28, 2020	\$ Change	% Change
Net income	\$ 18,892	\$ 12,642	\$ 6,250	49.4 %
% of net sales	2.5 %	1.7 %		

As a result of the foregoing factors, net income increased for the 13 weeks ended April 3, 2021 compared to the same period in fiscal 2020.

Adjusted EBITDA

	13 Weeks Ended			
	April 3, 2021	March 28, 2020	\$ Change	% Change
Adjusted EBITDA	\$ 48,837	\$ 56,621	\$ (7,784)	(13.7)%

The decrease in adjusted EBITDA for the 13 weeks ended April 3, 2021 compared to the same period in fiscal 2020 was primarily due to the decrease in net sales, which was primarily driven by a decrease in comparable store sales of 8.2% for the 13 weeks ended April 3, 2021, along with an increase to SG&A compared to the same period in fiscal 2020, each as discussed above.

Non-GAAP Adjusted Net Income

	13 Weeks Ended			
	April 3, 2021	March 28, 2020	\$ Change	% Change
Non-GAAP adjusted net income	\$ 23,124	\$ 28,753	\$ (5,629)	(19.6)%

The decrease in non-GAAP adjusted net income for the 13 weeks ended April 3, 2021 compared to the same period in fiscal 2020 was primarily due to an decrease in net sales, which was primarily driven by a decrease in comparable store sales of 8.2% for the 13 weeks ended April 3, 2021, along with an increase to SG&A compared to the same period in fiscal 2020, each as discussed above.

Liquidity and Capital Resources

Sources of Liquidity

As of April 3, 2021, we had cash and cash equivalents of \$95.3 million, which consisted primarily of cash held in checking and money market accounts with financial institutions.

Our liquidity requirements arise primarily from our working capital needs, capital expenditures and debt service requirements. We have funded our working capital and capital expenditures requirements with internally generated cash on hand and through proceeds from the initial public offering of our common stock in June 2019. Our current primary sources of liquidity are net cash provided by operating activities and borrowings and availability under our First Lien Credit Agreement. In addition, we also have a \$100.0 million revolving credit facility available under our First Lien Credit Agreement. As of April 3, 2021, we had \$3.5 million of outstanding standby letters of credit and \$96.5 million of remaining borrowing capacity available under this revolving credit facility.

Public Offerings

On February 3, 2020, certain of our selling stockholders completed a secondary public offering of shares of our common stock. We did not receive any of the proceeds from the sale of these shares by the selling stockholders. We incurred offering costs of \$1.1 million, which we recognized in SG&A during the first quarter of fiscal 2020. We received \$1.4 million in cash (excluding withholding taxes) in connection with the exercise of 191,470 options by certain stockholders participating in this secondary public offering.

On April 27, 2020, certain of our selling stockholders completed another secondary public offering of shares of our common stock. We did not receive any of the proceeds from the sale of these shares by the selling stockholders. We incurred related offering costs of \$1.0 million, which we recognized in SG&A during the second quarter of fiscal 2020. We received \$1.6 million in cash (excluding withholding taxes) in connection with the exercise of 269,000 options by certain stockholders participating in this secondary public offering.

First Lien Credit Agreement

First Incremental Agreement — On July 23, 2019, we entered into an incremental agreement (the "First Incremental Agreement") to amend the First Lien Credit Agreement. The First Incremental Agreement refinanced the term loan outstanding under the First Lien Credit Agreement with a replacement \$475.2 million senior secured term loan credit facility (the "First Replacement Term Loan") with an applicable margin of 3.50% or 3.25% for Eurodollar loans and 2.50% or 2.25% for base rate loans, in each case depending on the public corporate family rating of GOBP Holdings, Inc. The First Replacement Term Loan was to mature on October 22, 2025, which was the same maturity date as the prior term loan under our First Lien Credit Agreement. On October 23, 2019, we prepaid \$15.0 million of principal on the First Replacement Term Loan.

Second Incremental Agreement — On January 24, 2020, we entered into a second incremental agreement (the "Second Incremental Agreement") to further amend the First Lien Credit Agreement. The Second Incremental Agreement refinanced the First Replacement Term loan under the First Incremental Agreement with a replacement \$460.0 million senior secured term loan credit facility (the "Second Replacement Term Loan") with an applicable margin of 2.75% for Eurodollar loans and 1.75% for base rate loans, and made certain other corresponding technical changes and updates to the previously amended First Lien Credit Agreement. The interest rate on the Second Replacement Term Loan was 2.86% as of April 3, 2021. The Second Replacement Term Loan matures on October 22, 2025, which is the same maturity date as the prior term loans under the original First Lien Credit Agreement and First Incremental Agreement.

Other than as described above, the Second Replacement Term Loan has the same terms as provided under the original First Lien Credit Agreement and the First Incremental Agreement. Additionally, the parties to the Second Incremental Agreement continue to have the same obligations set forth in the original First Lien Credit Agreement and the First Incremental Agreement (collectively, the "First Lien Credit Agreement").

Revolving Credit Facility — On March 19, 2020, we borrowed \$90.0 million under the revolving credit facility of our First Lien Credit Agreement (the "Revolving Credit Facility Loan"), the proceeds of which were to be used as reserve funding for working capital needs as a precautionary measure in light of the economic uncertainty surrounding the COVID-19 pandemic. On May 26, 2020, we repaid the Revolving Credit Facility Loan in full. As of April 3, 2021, we had \$96.5 million of borrowing capacity available under the revolving credit facility.

Liquidity Requirements

Our primary working capital requirements are for the purchase of inventory, payroll, rent, issuance of IO notes, other store facilities costs, distribution costs and general and administrative costs. Our working capital requirements fluctuate during the year, driven primarily by the timing of inventory fluctuations, new store openings and capital spending.

Our capital expenditures are primarily related to new store openings, ongoing store maintenance and improvements, expenditures related to our distribution centers and infrastructure-related investments, including investments related to upgrading and maintaining our information technology systems and corporate offices. We expect to fund capital expenditures through cash generated from our operations.

Based on our new store growth plans, we believe our existing cash and cash equivalents position, cash generated from our operations, and borrowings under our revolving credit facility will be adequate to finance our working capital requirements, planned capital expenditures and debt service over the next 12 months. If cash generated from our operations and borrowings under our revolving credit facility are not sufficient or available to meet our liquidity requirements, then we will be required to obtain additional equity or debt financing in the future. There can be no assurance equity or debt financing will be available to us when we need it or, if available, the terms will be satisfactory to us and not dilutive to our then-current stockholders. Additionally, we may seek to take advantage of market opportunities to refinance our existing debt instruments with new debt instruments at interest rates, maturities and terms we deem attractive. We may also, from time to time, in our sole discretion, purchase or retire all or a portion of our existing debt instruments through privately negotiated or open market transactions.

Debt Covenant

The First Lien Credit Agreement contains certain customary representations and warranties, subject to limitations and exceptions, and affirmative and customary covenants. The First Lien Credit Agreement has the ability to restrict us from entering into certain types of transactions and making certain types of payments including dividends and stock repurchase and other similar distributions, with certain exceptions. Additionally, the revolving credit facility under our First Lien Credit Agreement is subject to a first lien secured leverage ratio (as defined in the First Lien Credit Agreement) of 7:00 to 1:00.

As of April 3, 2021, we were in compliance with all applicable financial covenant requirements for our First Lien Credit Agreement.

Cash Flows

The following table summarizes our cash flows for the periods presented (amounts in thousands, except percentages):

	13 Weeks Ended			
	April 3, 2021	March 28, 2020	\$ Change	% Change
Net cash provided by operating activities	\$ 26,413	\$ 67,820	\$ (41,407)	(61.1)%
Net cash used in investing activities	\$ (39,164)	\$ (29,793)	\$ (9,371)	31.5 %
Net cash provided by financing activities	\$ 2,717	\$ 94,808	\$ (92,091)	(97.1)%
Net increase (decrease) in cash and cash equivalents	\$ (10,034)	\$ 132,835	\$ (142,869)	(107.6)%

Cash Provided by Operating Activities

Net cash provided by operating activities was \$26.4 million for the 13 weeks ended April 3, 2021, compared to \$67.8 million for the same period in fiscal 2020. The decrease in net cash provided by operating activities of \$41.4 million for the 13 weeks ended April 3, 2021 compared to the same period in fiscal 2020 was primarily the result of the first quarter of fiscal 2020 seeing an increase in working capital largely driven by a reduction in merchandise inventory due to increased net sales resulting from the onset of the COVID-19 pandemic.

Cash Used in Investing Activities

Net cash used in investing activities was \$39.2 million for the 13 weeks ended April 3, 2021 compared to \$29.8 million for the same period in fiscal 2020. The increase in net cash used in investing activities of \$9.4 million for the 13 weeks ended April 3, 2021 compared to the same period in fiscal 2020 was primarily related to capital expenditures including the construction of newly opened stores and stores under development as well as existing store capital investments. We had 10 new store openings and two store relocations in the 13 weeks ended April 3, 2021 compared to 10 new store openings and one store relocation in the same period of fiscal 2020.

Cash Provided by Financing Activities

Net cash provided by financing activities was \$2.7 million for the 13 weeks ended April 3, 2021 compared to \$94.8 million net cash provided by financing activities for the same period in fiscal 2020. The net cash provided by financing activities of \$2.7 million for the 13 weeks ended April 3, 2021 was primarily due to proceeds from the exercise of stock options while the net cash provided by financing activities of \$94.8 million for the same period in fiscal 2020 was primarily related to \$90.0 million in proceeds received from our Revolving Credit Facility Loan as well as proceeds from the exercise of share-based awards.

Off-Balance Sheet Arrangements

As of April 3, 2021, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Contractual Obligations

There have been no material changes outside the ordinary course of business to our contractual obligations during the 13 weeks ended April 3, 2021 from those disclosed in our 2020 Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the applicable rules and regulations of the SEC for interim reporting. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

There have been no material changes to our critical accounting policies and estimates during the 13 weeks ended April 3, 2021 from those disclosed in our 2020 Annual Report on Form 10-K.

Recent Accounting Pronouncements

Refer to Note 1 to the condensed consolidated financial statements included elsewhere in this report.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our operating results are subject to market risk from interest rate fluctuations on our credit facilities, which bear variable interest rates. As of April 3, 2021, our outstanding credit facilities included a \$460.0 million term loan (the "Second Replacement Term Loan"). As of April 3, 2021, the interest rate on the Second Replacement Term Loan was 2.86%. See Note 3 to the condensed consolidated financial statements for additional information. Based on the outstanding balance and interest rate of our Second Replacement Term Loan as of April 3, 2021, a hypothetical 10% relative increase or decrease in the effective interest rate would cause an increase or decrease in interest expense of approximately \$1.3 million over the next 12 months.

We do not currently use derivative financial instruments for speculative or trading purposes. This practice does not preclude our adoption of specific hedging strategies in the future.

Item 4. Control Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report. Our disclosure controls are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of April 3, 2021.

Changes in Internal Control over Financial Reporting

During the quarter ended April 3, 2021, there was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be party to litigation that arises in the ordinary course of our business. Management believes that we do not have any pending litigation that, separately or in the aggregate, would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described in Part I, Item 1A of our 2020 Annual Report on Form 10-K under the heading "Risk Factors," any one or more of which could, directly or indirectly, cause our actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, operating results and stock price. There have been no material changes to our risk factors since the 2020 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Default Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Exhibit	Incorporated by Reference			
		Form	File No.	Filing Date	Exhibit No.
3.1	Amended and Restated Certificate of Incorporation of Grocery Outlet Holding Corp.	S-8	333-232318	6/24/2019	4.1
3.2	Amended and Restated Bylaws of Grocery Outlet Holding Corp.	S-8	333-232318	6/24/2019	4.2
10.1†*	Employment Offer Letter by and between Heather L. Mayo and the Company dated August 29, 2019				
31.1*	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2*	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH	Inline XBRL Taxonomy Extension Schema Document				
101.CAL	Inline XBRL Extension Calculation Linkbase Document				
101.DEF	Inline XBRL Extension Definition Linkbase Document				
101.LAB	Inline XBRL Extension Label Linkbase Document				
101.PRE	Inline XBRL Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				

† Management contract or compensatory plan or arrangement.

* Filed herewith.

** Furnished herewith. The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Grocery Outlet Holding Corp. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 12, 2021

Grocery Outlet Holding Corp.
By: /s/ Charles C. Bracher
Charles C. Bracher
Chief Financial Officer
(Principal Financial Officer)

Date: May 12, 2021

Grocery Outlet Holding Corp.
By: /s/ Lindsay E. Gray
Lindsay E. Gray
Vice President and Corporate Controller
(Principal Accounting Officer)



August 29, 2019

Heather Mayo

Dear Heather,

Congratulations! This letter is our offer of employment to you, and your opportunity to join Grocery Outlet family. We hope you give this offer serious consideration. Should you decide to accept this offer, Human Resources will e-mail an electronic version of this letter via DocuSign for your signature of acceptance.

This letter briefly outlines our hiring process, compensation and benefits for the position. Further details regarding employee pay and benefits will be available to you in the Employee Handbook and in the Summary Plan Descriptions, should you accept this offer. As with any employment relationship, your duties, responsibilities, pay and benefits may change over time as Grocery Outlet continues to grow and we become more familiar with your unique skills and capabilities.

Title: Executive Vice President, Sales & Merchandising-East

Location: Grocery Outlet PA Corporate Office

Start Date: Monday, October 7, 2019

Reports To: Eric Lindberg | Chief Executive Officer

Salary: \$400,000 base salary – EXEMPT

50% of base salary per year predicated on achievement of Company objectives with eligibility for bonus beginning with fiscal year 2019 and commencing with the first day of employment, prorated from your start date for the first year.

On January 1, 2020, your bonus opportunity will increase to 60% of your base salary.

Subject to board approval, you will be provided with equity grants equal to **\$1,000,000** in value. The grants shall be made pursuant to the 2019 Incentive Plan. A portion of the grant will be made as part of the annual grant program in Q1 2020 and will be a mix of time based and performance based restricted stock units and/or options. Please note that the form of the ongoing equity program is being finalized by the Compensation Committee. The remaining portion of the grant shall be in the form of an RSU with a four-year cliff vesting (i.e., 100% of the RSU would vest four years from your initial hire date). The grants will be subject to all terms and other provisions set forth in the Plan.

Signing

Bonus: Grocery Outlet will provide you with a sign-on bonus of \$25,000 (net), payment to be granted to you as soon as feasibly possible after your start date.

Relocation

Allowance: Grocery Outlet will provide you with a relocation allowance of **\$75,000** (net) for you move to the Philadelphia Area. This relocation allowance will be paid to you as soon as feasibly possible after your start date.

If you voluntarily terminate your employment with Grocery Outlet, repayment of all or a portion of the sign-on bonus or relocation allowance may be required based on the following schedule:

- ***Within twelve (12) months of your start date – 100% of the sign-on bonus and relocation allowance (less applicable local, state and federal taxes)***

Temporary

Housing:

Grocery Outlet will reimburse you for up to a maximum of **\$1,500 per month** for temporary housing for a **period of twelve (12) months**, as required for business related decisions, with the intent to extend this period, if determined necessary due to business decisions (office location determination).

Home Visits:

Grocery Outlet will reimburse your airfare and airport parking or transportation fees for **two (2) home visit per month** for a **period of twelve (12) months**.

Transportation

Expense:

Grocery Outlet will reimburse you for the lease of a vehicle up to a **maximum of \$650 per month** for a **period of twelve (12) months**. In addition, Grocery Outlet will reimburse you for maintenance expenses for the leased vehicle up for a period of twelve (12) months.

For the temporary housing, home visits and transportation expense outlined above, Grocery Outlet requires receipts for all expenses incurred in order to be eligible for reimbursement.

Emersion:

Housing during the emersion time (October – December/January) will be paid be Grocery Outlet as travel reimbursement expense. This will include airfare, hotel/meals (until appropriate accommodation is identified - corporate or longer term AirBnB), transportation to/from the airport and car rental. This is not considered part of the relocation or temporary housing plan.

Pre-Employment

Background &

Drug Checks:

This offer of employment is conditional and is contingent upon satisfactory completion of a background check and pre-employment drug test. Grocery Outlet will provide you with instructions for scheduling your drug test and providing the required information for completion of a background check.

- ***You must successfully complete a pre-employment drug screen test within 48-business hours of receipt of instructions for scheduling from Grocery Outlet.***

In some situations, you may start work while the results of your background check and/or drug test are still pending. In such cases, we reserve the right to terminate your employment with Grocery Outlet should the results of your background check will not be satisfactory or if you fail your drug test.

Employment

Verification:

Verification to federal law, you will be asked to provide satisfactory proof of your eligibility to work in the United States on your first day of work. Information regarding the required documentation will be provided to you upon acceptance of this job offer.



At-Will

Employment Your employment with the Company is at all times "At-Will." This means that you have the right to terminate your employment at any time and for any reason. Likewise, the Company may terminate your employment with or without cause at any time and for any reason. Accordingly, this letter is not to be construed or interpreted as containing any guarantee of continued employment. As such, the recitation of certain time periods in this letter is solely for the purpose of defining your compensation. It is also not to be construed or interpreted as containing any guarantee of any level or nature of compensation.

Employees are eligible to defer up to 50% of their annual compensation (up to the legally allowed maximum) and are eligible to participate immediately following three months of continuous service with automatic enrollment beginning with a 4% contribution and an automatic annual increase of 1% per year up to a cap of 10%, unless you elect otherwise.

Grocery Outlet will contribute \$0.35 for each dollar that you contribute up to a maximum of 6% of your eligible pay. To be eligible for discretionary matching contributions you are required to: make employee pretax deferral contributions or Roth 401(k) after tax deferral contributions. Contributions made by Grocery Outlet to your 401(k) are subject to a vesting schedule. Further information regarding the 401(k), discretionary contributions and the vesting schedule will be provided at time of enrollment.

Life

Insurance: Group Term life and Accidental Dismemberment Insurance equal to one time your annual base salary is provided on the first day of the month following the month you complete 30 days of continuous employment. The cost of coverage is paid in full by the Company.

Medical, Dental & Vision:

Eligible for Medical, Vision, Dental and Long-Term Disability Insurance starting the first day of the month following the month you complete 30 days of continuous employment.

Holidays: Grocery Outlet Corporate Offices observes **nine (9) holidays per year.**

Vacation: You will be eligible to participate in the Executive Vacation Plan. This plan enables you to self-manage your work/life balance through offering unlimited vacation days. The Company does require appropriate notification of any planned time off.

Grocery Outlet will compensate you for your pre-arranged vacation October 15-22, 2019.

Sick Leave: Upon hire all employees will begin to accrue **one (1) hour for every thirty (30) hours worked** towards the accrual of Paid Absence Days. Paid Absence Days accrue only in one-hour increments. Paid Absence Days accrue to a maximum of seventy-two (72) hours and can be carried over from year to year.

Heather, I think you understand the uniqueness of Grocery Outlet and the people who make it what it is. We are confident that a career at Grocery Outlet will be highly rewarding and are most eager to have you join us. Please call or email me if you have any questions regarding this information.

Sincerely,



/s/ Eric Lindberg
Eric Lindberg
Chief Executive Officer

Accepted by:

/s/ Heather Mayo
Heather Mayo

9/9/2019
Date



**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Eric J. Lindberg, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Grocery Outlet Holding Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2021

By: /s/ Eric J. Lindberg, Jr.

Eric J. Lindberg, Jr.
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Charles C. Bracher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Grocery Outlet Holding Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2021

By: /s/ Charles C. Bracher

Charles C. Bracher
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Grocery Outlet Holding Corp. (the "Company") on Form 10-Q for the period ended April 3, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric J. Lindberg, Jr., certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 12, 2021

By: /s/ Eric J. Lindberg, Jr.
Eric J. Lindberg, Jr.
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Grocery Outlet Holding Corp. (the "Company") on Form 10-Q for the period ended April 3, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles C. Bracher, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 12, 2021

By: /s/ Charles C. Bracher

Charles C. Bracher
Chief Financial Officer
(Principal Financial Officer)