# 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 March 28, 2020**
**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** | **47-1874201** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **5650 Hollis Street, Emeryville, California** | **94608** |
| **(Address of principal executive offices)** | **(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 | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

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 8, 2020, the registrant had 90,873,610 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 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, a part of this report.

## 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)

| | March 28, 2020 | December 28, 2019 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 160,936 | $ 28,101 |
| Independent operator receivables and current portion of independent operator notes, net of allowance $1,377 and $1,283 | 7,736 | 7,003 |
| Other accounts receivable, net of allowance $22 and $19 | 3,470 | 2,849 |
| Merchandise inventories | 188,346 | 219,420 |
| Prepaid expenses and other current assets | 12,606 | 13,453 |
| Total current assets | 373,094 | 270,826 |
| Independent operator notes, net of allowance $9,215 and $9,088 | 22,137 | 20,331 |
| Property and equipment, net | 366,429 | 356,614 |
| Operating lease right-of-use assets | 754,444 | 734,327 |
| Intangible assets, net | 47,526 | 47,792 |
| Goodwill | 747,943 | 747,943 |
| Other assets | 7,524 | 7,696 |
| Total assets | $ 2,319,097 | $ 2,185,529 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Trade accounts payable | $ 101,066 | $ 119,217 |
| Accrued expenses | 29,877 | 31,363 |
| Accrued compensation | 14,724 | 14,915 |
| Current portion of long-term debt | 179 | 246 |
| Current lease liabilities | 41,281 | 38,245 |
| Income and other taxes payable | 5,363 | 4,641 |
| Total current liabilities | 192,490 | 208,627 |
| Long-term debt, net | 537,487 | 447,743 |
| Deferred income taxes | 14,218 | 16,020 |
| Long-term lease liabilities | 790,274 | 767,755 |
| Total liabilities | 1,534,469 | 1,440,145 |
| Commitments and contingencies (Note 9) | | |
| Stockholders' equity: | | |
| Voting common stock, par value $0.001 per share, 500,000,000 shares authorized; 89,907,194 and 89,005,062 shares issued and outstanding, respectively | 90 | 89 |
| Series A preferred stock, par value $0.001 per share, 50,000,000 shares authorized; no shares issued and outstanding | — | — |
| Additional paid-in capital | 743,444 | 717,282 |
| Retained earnings | 41,094 | 28,013 |
| Total stockholders' equity | 784,628 | 745,384 |
| Total liabilities and stockholders' equity | $ 2,319,097 | $ 2,185,529 |

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 | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Net sales | $ 760,308 | $ 606,271 |
| Cost of sales | 523,282 | 419,254 |
| Gross profit | 237,026 | 187,017 |
| Operating expenses: | | |
| Selling, general and administrative | 186,931 | 152,854 |
| Depreciation and amortization | 12,945 | 12,296 |
| Share-based compensation | 20,277 | 211 |
| Total operating expenses | 220,153 | 165,361 |
| Income from operations | 16,873 | 21,656 |
| Other expenses: | | |
| Interest expense, net | 5,834 | 16,438 |
| Debt extinguishment and modification costs | 198 | — |
| Total other expenses | 6,032 | 16,438 |
| Income before income taxes | 10,841 | 5,218 |
| Income tax expense (benefit) | (1,801) | 1,444 |
| Net income and comprehensive income | $ 12,642 | $ 3,774 |
| Basic earnings per share | $ 0.14 | $ 0.06 |
| Diluted earnings per share | $ 0.13 | $ 0.06 |
| Weighted average shares outstanding: | | |
| Basic | 89,481 | 68,514 |
| Diluted | 94,869 | 68,553 |

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 | | Nonvoting Common | | Preferred | | Additional Paid-In Capital | Retained Earnings | Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| **Balance at December 28, 2019** | 89,005,062 | $ 89 | — | $ — | — | $ — | $ 717,282 | $ 28,013 | $ 745,384 |
| Cumulative effect of accounting change | | | | | | | | 439 | 439 |
| Exercise and vest 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 at March 28, 2020** | 89,907,194 | $ 90 | — | $ — | — | $ — | $ 743,444 | $ 41,094 | $ 784,628 |

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 | | Nonvoting Common | | Preferred | | Additional Paid-In Capital | Retained Earnings | Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| **Balance at December 29, 2018** | 67,435,288 | $ 67 | 1,038,413 | $ 1 | 1 | $ — | $ 287,457 | $ 12,426 | $ 299,951 |
| Cumulative effect of accounting change | | | | | | | | 169 | 169 |
| Exercise and vest of share-based awards | 42,438 | — | | | | | — | | — |
| Share-based compensation expense | | | | | | | 211 | | 211 |
| Dividends paid | | | | | | | | (254) | (254) |
| Net income and comprehensive income | | | | | | | | 3,774 | 3,774 |
| **Balance at March 30, 2019** | 67,477,726 | $ 67 | 1,038,413 | $ 1 | 1 | $ — | $ 287,668 | $ 16,115 | $ 303,851 |

See Notes to Condensed Consolidated Financial Statements

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

| | 13 Weeks Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| **Cash flows from operating activities:** | | |
| Net income | $ 12,642 | $ 3,774 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of property and equipment | 11,788 | 10,287 |
| Amortization of intangible and other assets | 1,782 | 2,562 |
| Amortization of debt issuance costs and bond discounts | 502 | 762 |
| Debt extinguishment and modification costs | 198 | — |
| Loss on disposal of assets | 1,053 | 182 |
| Share-based compensation | 20,277 | 211 |
| Provision for accounts receivable | 848 | 1,483 |
| Deferred income taxes | (1,801) | 1,436 |
| Other | 2 | — |
| Changes in operating assets and liabilities: | | |
| Independent operator and other accounts receivable | (3,219) | (29) |
| Merchandise inventories | 31,073 | (14,216) |
| Prepaid expenses and other current assets | 847 | 988 |
| Income and other taxes payable | 722 | (439) |
| Trade accounts payable, accrued compensation and other accrued expenses | (14,412) | 13,760 |
| Changes in operating lease assets and liabilities, net | 5,518 | 1,479 |
| Net cash provided by operating activities | 67,820 | 22,240 |
| **Cash flows from investing activities:** | | |
| Cash advances to independent operators | (1,485) | (2,171) |
| Repayments of cash advances from independent operators | 1,136 | 893 |
| Purchase of property and equipment | (28,173) | (18,399) |
| Proceeds from sales of assets | 79 | 401 |
| Intangible assets and licenses | (1,350) | (721) |
| Net cash used in investing activities | (29,793) | (19,997) |
| **Cash flows from financing activities:** | | |
| Proceeds from exercise of share-based compensation awards | 6,033 | — |
| Proceeds from loans | 90,000 | — |
| Other direct costs paid related to the initial public offering | — | (1,442) |
| Principal payments on term loans | (187) | (1,813) |
| Principal payments on other borrowings | (191) | (201) |
| Dividends paid | (147) | (254) |
| Debt issuance costs paid | (700) | — |
| Net cash provided by (used in) financing activities | 94,808 | (3,710) |
| Net increase in cash and cash equivalents | 132,835 | (1,467) |
| Cash and cash equivalents at beginning of period | 28,101 | 21,063 |
| Cash and cash equivalents at end of period | $ 160,936 | $ 19,596 |

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 our 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 March 28, 2020, we had 355 stores in California, Washington, Oregon, Pennsylvania, Idaho and Nevada.

**Initial Public Offering** — In June 2019, we completed an initial public offering (“IPO”) of 19,765,625 shares of our common stock at a public offering price of $22.00 per share for net proceeds of $407.7 million, after deducting underwriting discounts and commissions of $27.1 million and offering costs of $7.2 million. The shares of common stock sold in the IPO and the net proceeds from the IPO included the full exercise of the underwriters’ option to purchase additional shares.

Our Amended and Restated Certificate of Incorporation (the “Charter”) became effective in connection with the completion of the IPO on June 24, 2019. The Charter, among other things, provided that all of our outstanding shares of nonvoting common stock were automatically converted into shares of voting common stock on a one-for-one basis and that our authorized capital stock consisted of 500,000,000 shares of common stock, and 50,000,000 shares of preferred stock, par value $0.001 per share. Our bylaws were also amended and restated as of June 24, 2019. Additionally, upon the closing of the IPO, we redeemed all of our outstanding preferred stock for a total of $1.00.

On June 24, 2019, we used the net proceeds from the IPO to repay $150.0 million in principal on the outstanding term loan under our second lien credit agreement, dated as of October 22, 2018 (as amended, the “Second Lien Credit Agreement”), as well as accrued and unpaid interest as of that date of $3.6 million, and terminated the Second Lien Credit Agreement. In addition, using the remainder of net proceeds, together with excess cash on hand, we prepaid a portion of our outstanding senior secured term loan under our First Lien Credit Agreement totaling $248.0 million plus accrued interest of $3.8 million. See Note 4 for additional information.

**Secondary Public Offerings** — On October 8, 2019, 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 and received $3.2 million in cash (excluding withholding taxes) in connection with the exercise of 451,470 options by certain stockholders participating in this secondary public offering.

On February 3, 2020, certain of our selling stockholders completed an additional 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 and 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 and 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. See Note 10 for additional information.

**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 December 28, 2019 filed with the SEC on March 25, 2020. The condensed consolidated balance sheet as of December 28, 2019 included herein has been derived from those audited consolidated financial statements.

The accompanying unaudited condensed consolidated financial statements include the accounts of Grocery Outlet Holding Corp. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated. In the opinion of our management, these condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our financial position, results of operations, cash flows and stockholders' equity for the interim 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. Certain prior period amounts in the condensed consolidated statements of cash flows have been reclassified to conform to the current period presentation. The reclassification of these items had no impact on net income, earnings per share, or retained earnings in the current or prior 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, and 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 first-in, first-out 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 the 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. The right-of-use asset is recorded net of lease incentives. 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 is 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 or nonrecurring basis as of March 28, 2020 or December 28, 2019. There were no transfers of assets or liabilities between levels within the fair value hierarchy as of March 28, 2020 or December 28, 2019.

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

*Cash and cash equivalents, 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.

*Independent operator notes receivable (net)* — The carrying value of such financial instruments approximates their fair value.

*Notes payable and term loans* — The carrying value of such financial instruments generally 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 March 28, 2020 and December 28, 2019 are set forth below.

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 (in thousands):

| | March 28, 2020 | | December 28, 2019 | |
|---|---|---|---|---|
| | Carrying Amount (1) | Estimated Fair Value (2) | Carrying Amount (1) | Estimated Fair Value (2) |
| **Financial Liabilities:** | | | | |
| Term Loans (Level 2) | $ 458,541 | $ 411,125 | $ 458,682 | $ 466,515 |

(1) The carrying amounts as of March 28, 2020 and December 28, 2019 are net of unamortized debt discounts of approximately $1.5 million for each period presented.

(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 independent operators are not recognized as a reduction in sales as these are provided solely by the independent operator 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 March 28, 2020 and December 28, 2019.

***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 $1.6 million as of March 28, 2020 and $2.0 million as of December 28, 2019. Breakage amounts were immaterial for the 13-week periods ended March 28, 2020 and March 30, 2019.

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

| | 13 Weeks Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Perishable (1) | $ 253,448 | $ 206,956 |
| Non-perishable (2) | 506,860 | 399,315 |
| Total sales | $ 760,308 | $ 606,271 |

(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 it. 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 350, 342 and 315 stores operated by independent operators as of March 28, 2020, December 28, 2019 and March 30, 2019, respectively. We had agreements in place with each independent operator. The independent operator orders its merchandise exclusively from us which is provided to the independent operator on consignment. Under the independent operator agreement, the independent operator may select a majority of merchandise that we consign to the independent operator, which the independent operator chooses from our merchandise order guide according to the independent operator's knowledge and experience with local customer purchasing trends, preferences, historical sales and similar factors. The independent operator agreement gives the independent operator 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. Independent operators are required to furnish initial working capital and to acquire certain store and safety assets. The independent operator is required to hire, train and employ a properly trained workforce sufficient in number to enable the independent operator to fulfill its obligations under the independent operator agreement. The independent operator 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 independent operator agreement without cause upon 75 days' notice.

As consignor of all merchandise to each independent operator, the aggregate net sales proceeds from merchandise sales belongs to us. Sales related to independent operator stores were $745.5 million and $589.3 million for the 13-week periods ended March 28, 2020 and March 30, 2019, respectively. We, in turn, pay independent operators 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. Independent operator commissions were expensed and included in selling, general and administrative expenses. Independent operator commissions were $114.4 million and $91.2 million for the 13-week periods ended March 28, 2020 and March 30, 2019, respectively. Independent operator commissions of $8.8 million and $6.1 million were included in accrued expenses as of March 28, 2020 and December 28, 2019, respectively.

Independent operators 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. To ensure independent operator performance, the operator agreements grant us the security interests in the assets owned by the independent operator. The total investment at risk associated with each independent operator is not sufficient to permit each independent operator to finance its activities without additional subordinated financial support and, as a result, the independent operators 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 independent operator's economic performance and (ii) the obligation to absorb losses or the right to receive benefits of the independent operator that could potentially be significant to the independent operator. Our evaluation includes identification of significant activities and an assessment of its ability to direct those activities.

Activities that most significantly impact the independent operator economic performance relate to sales and labor. Sales activities that significantly impact the independent operators' economic performance include determining what merchandise the independent operator will order and sell and the price of such merchandise, both of which the independent operator controls. The independent operator is also responsible for all of their own labor. Labor activities that significantly impact the independent operator's economic performance include hiring, training, supervising, directing, compensating (including wages, salaries and employee benefits) and terminating all of the employees of the independent operator, activities which the independent operator controls. Accordingly, the independent operator has the power to direct the activities that most significantly impact the independent operator's economic performance. Furthermore, the mutual termination rights associated with the operator agreements do not give the Company power over the independent operator.

Our maximum exposure to the independent operators is generally limited to the gross operator notes and receivables due from these entities, which was $40.5 million and $37.7 million as of March 28, 2020 and December 28, 2019, respectively. See Note 2 for additional information.

***Recently Adopted Accounting Standards***

***ASU No. 2016-13*** — In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13, which was further updated and clarified by the FASB through issuance of additional related ASUs, amends the guidance surrounding measurement and recognition of credit losses on financial assets measured at amortized cost, including trade receivables and debt securities, by requiring recognition of an allowance for credit losses expected to be incurred over an asset's lifetime based on relevant information about past events, current conditions, and reasonable and supportable forecasts impacting the financial asset's ultimate collectability. This "expected loss" model will likely result in earlier recognition of credit losses than the previous "as incurred" model, under which losses were recognized only upon an occurrence of an event that gave rise to the incurrence of a probable loss. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and is to be adopted on a modified retrospective basis. We adopted ASU 2016-13 on December 29, 2019. The adoption of ASU 2016-13 resulted in a $0.4 million cumulative-effect adjustment to the opening balance of retained earnings. The adoption of the new standard did not have a material impact on our condensed consolidated statements of operations and comprehensive income or condensed consolidated statements of cash flows. See Note 2 for additional information.

***ASU No. 2018-15*** — In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* ("ASU 2018-15"). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective retrospectively for fiscal years and interim periods within those years beginning after December 15, 2019. We adopted ASU 2018-15 on December 29, 2019. The adoption of ASU 2018-15 did not have a material impact on our condensed consolidated financial statements.

***Recently Issued Accounting Pronouncements***

***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 will adopt ASU 2019-12 beginning in the first quarter of fiscal 2021 and are currently evaluating the impact on our consolidated financial statements.

**Note 2. Independent Operator Notes and Receivables**

The amounts included in independent operator notes and accounts receivable consist primarily of funds we loaned to independent operators, net of estimated uncollectible amounts. Independent operator notes are payable on demand and typically bear interest at rates between 3.00% and 9.95%. Accrued interest receivable on independent operator 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 $0.6 million and $0.5 million as of March 28, 2020 and December 28, 2019, respectively. There were no independent operator notes that were past due or on a non-accrual status due to delinquency as of March 28, 2020 or December 28, 2019. TCAP notes and receivables, 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.

Independent operator 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 independent operators 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 independent operators who require assistance in meeting their working capital needs for various reasons, such as new or increased competition or differences in independent operator skills and experience. For independent operators participating in TCAP, we lower the interest rate and delay repayment obligations on their outstanding notes.
- Non-TCAP — Includes the notes and receivables of independent operators 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 independent operators 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 independent operators and the related allowances as of March 28, 2020 and December 28, 2019 consisted of the following (in thousands):

| | | Allowance | | | | |
|---|---|---|---|---|---|---|
| | Gross | Current Portion | Long-term Portion | Net | Current Portion | Long-term Portion |
| **March 28, 2020** | | | | | | |
| Independent operator notes | $ 33,993 | $ (789) | $ (9,215) | $ 23,989 | $ 1,852 | $ 22,137 |
| Independent operator receivables | 6,472 | (588) | — | 5,884 | 5,884 | — |
| Total | $ 40,465 | $ (1,377) | $ (9,215) | $ 29,873 | $ 7,736 | $ 22,137 |

| | | Allowance | | | | |
|---|---|---|---|---|---|---|
| | Gross | Current Portion | Long-term Portion | Net | Current Portion | Long-term Portion |
| **December 28, 2019** | | | | | | |
| Independent operator notes | $ 31,952 | $ (678) | $ (9,088) | $ 22,186 | $ 1,855 | $ 20,331 |
| Independent operator receivables | 5,753 | (605) | — | 5,148 | 5,148 | — |
| Total | $ 37,705 | $ (1,283) | $ (9,088) | $ 27,334 | $ 7,003 | $ 20,331 |

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

| | 13 Weeks Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Beginning balance | $ 10,371 | $ 9,067 |
| Provision for independent operator notes and receivables | 848 | 1,483 |
| Cumulative effect of accounting change | (439) | — |
| Write-off of provision for independent operator notes and receivables | (188) | (291) |
| Ending Balance | $ 10,592 | $ 10,259 |

The following table presents the amortized cost basis of independent operator notes by year of origination and credit quality indicator (in thousands):

| Credit Quality Indicator | 2020 (YTD) | 2019 | 2018 | 2017 | 2016 | Prior | Total |
|---|---|---|---|---|---|---|---|
| TCAP | $ 988 | $ 1,212 | $ 1,930 | $ 1,582 | $ — | $ — | $ 5,712 |
| Non-TCAP | 779 | 5,627 | 2,409 | 2,198 | 320 | 332 | 11,665 |
| New store | 5,056 | 9,377 | 2,183 | — | — | — | 16,616 |
| Total | $ 6,823 | $ 16,216 | $ 6,522 | $ 3,780 | $ 320 | $ 332 | $ 33,993 |

**Note 3. Leases**

We generally lease retail facilities for store locations, distribution centers, office space and equipment and account for these leases as operating leases. We account for one retail store lease and certain equipment leases as finance leases. Lease right-of-use assets and lease liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on information available at the lease commencement date to determine the present value of lease payments. Leases with an initial term of 12 months or less are not recorded on the balance sheet; lease expense for these short-term leases is recognized on a straight-line basis over the lease term.

Leases for 15 of our store locations and one warehouse location are controlled by related parties. As of March 28, 2020, the right-of-use assets and lease liabilities related to these properties were $41.9 million and $46.1 million, respectively. As of March 28, 2020, we had executed leases for 37 store locations that we had not yet taken possession of with total undiscounted future lease payments of $211.4 million over approximately 17 years.

Our lease terms may include options to extend the lease when we are reasonably certain that we will exercise such options. Based upon our initial investment in store leasehold improvements, we utilize an initial reasonably certain lease life of 15 years. Most leases include one or more options to renew, with renewal terms that can extend the lease term from five to 15 years or more. Our leases do not include any material residual value guarantees or material restrictive covenants. We also have non-cancelable subleases with unrelated third parties with future minimum rental receipts as of March 28, 2020 totaling $4.6 million ending in various years through 2028, and as of December 28, 2019 totaling $4.9 million ending in various years through 2028, which have not been deducted from the future minimum payments.

The balance sheet classification of our right-of-use lease assets and lease liabilities as of March 28, 2020 was as follows (in thousands):

| Leases | Classification | | |
|---|---|---|---|
| **Assets:** | | | |
| Operating lease assets | Operating lease right-of-use assets | $ | 754,444 |
| Finance lease assets | Other assets | | 5,789 |
| Total leased assets | | $ | 760,233 |
| **Liabilities:** | | | |
| Current | | | |
| Operating | Current lease liabilities | $ | 40,507 |
| Finance | Current lease liabilities | | 774 |
| Noncurrent | | | |
| Operating | Long-term lease liabilities | | 785,169 |
| Finance | Long-term lease liabilities | | 5,105 |
| Total lease liabilities | | $ | 831,555 |

The components of lease expense were as follows (in thousands):

| | | 13 Weeks Ended | | | |
|---|---|---|---|---|---|
| Lease Cost | Classification | March 28, 2020 | | March 30, 2019 | |
| Operating lease cost | Selling, general and administrative expenses | $ | 26,514 | $ | 23,211 |
| Finance lease cost: | | | | | |
| Amortization of right-of-use assets | Depreciation and amortization | | 220 | | 173 |
| Interest on leased liabilities | Interest expense, net | | 111 | | 71 |
| Sublease income | Other income | | (294) | | (353) |
| Net lease cost | | $ | 26,551 | $ | 23,102 |

Short-term lease expense and variable lease payments recorded in operating expenses for the 13 weeks ended March 28, 2020 and March 30, 2019 were immaterial.

Maturities of lease liabilities as of March 28, 2020 were as follows (in thousands):

| | Operating Leases | Finance Leases | Total |
|---|---|---|---|
| Remainder of fiscal 2020 | $ 75,145 | $ 835 | $ 75,980 |
| Fiscal 2021 | 101,612 | 1,133 | 102,745 |
| Fiscal 2022 | 100,942 | 1,080 | 102,022 |
| Fiscal 2023 | 100,641 | 978 | 101,619 |
| Fiscal 2024 | 99,868 | 913 | 100,781 |
| Thereafter | 785,400 | 2,436 | 787,836 |
| Total lease payments | 1,263,608 | 7,375 | $ 1,270,983 |
| Less: Imputed interest | (437,932) | (1,496) | (439,428) |
| Present value of lease liabilities | $ 825,676 | $ 5,879 | $ 831,555 |

The weighted-average lease term and discount rate as of March 28, 2020 were as follows:

| | |
|---|---|
| Weighted-average remaining lease term: | |
| Operating leases | 12.2 years |
| Finance leases | 7.5 years |
| Weighted-average discount rate: | |
| Operating leases | 7.28 % |
| Finance leases | 6.25 % |

Supplemental cash flow information related to operating leases was as follows (in thousands):

| | 13 Weeks Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows used by operating leases | $ 24,256 | $ 21,225 |
| Leased assets obtained in exchange for new operating lease liabilities | $ 43,123 | $ 30,942 |

**Note 4. Long-Term Debt**

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

| | March 28, 2020 | December 28, 2019 |
|---|---|---|
| First Lien Credit Agreement: | | |
| Term loan | $ 460,000 | $ 460,188 |
| Revolving credit facility | 90,000 | — |
| Notes payable | 179 | 246 |
| Long-term debt, gross | 550,179 | 460,434 |
| Less: Unamortized debt discounts and debt issuance costs | (12,513) | (12,445) |
| Long-term debt, less unamortized debt discounts and debt issuance costs | 537,666 | 447,989 |
| Less: Current portion | (179) | (246) |
| Long-term debt, net | $ 537,487 | $ 447,743 |

***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 March 28, 2020, we had standby letters of credit outstanding totaling $3.6 million under the First Lien Credit Agreement.

***Term Loans***

The First Lien Credit Agreement permits voluntarily 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 matured on October 22, 2025, which was the same maturity date as the prior term loan under the First Lien Credit Agreement. We wrote off debt issuance costs of $0.3 million and incurred debt modification costs of $0.2 million during the third quarter of fiscal 2019 in connection with this refinance. 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 4.38% as of March 28, 2020. 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 Loan***

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.

On March 19, 2020, GOBP Holdings together with another of our wholly owned subsidiaries borrowed $90.0 million under the revolving credit facility of our First Lien Credit Agreement (the “Revolving Credit Facility Loan”), the proceeds of which are to be used as reserve funding for working capital needs as a precautionary measure in light of the economic uncertainty surrounding the current COVID-19 pandemic. The revolving credit facility loan may be repaid and reborrowed at any time. The interest rate on the revolving credit facility loan is 4.43% as of March 28, 2020. Interest on the revolving credit facility loan is due and payable at the end of each continuation period (as defined in the First Lien Credit Agreement) and the outstanding principal on the revolving credit facility loan is due and payable on October 23, 2023, the maturity date of 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 March 28, 2020, we were in compliance with all applicable financial covenant requirements and the first lien secured leverage ratio testing requirement for our First Lien Credit Agreement.

***Schedule of Principal Maturities***

Principal maturities of debt as of March 28, 2020 were as follows (in thousands):

| | |
|---|---|
| Remainder of fiscal 2020 | $ 179 |
| Fiscal 2021 | — |
| Fiscal 2022 | — |
| Fiscal 2023 | 90,000 |
| Fiscal 2024 | — |
| Thereafter | 460,000 |
| Total | $ 550,179 |

***Interest Expense***

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

| | 13 Weeks Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Interest on loans | $ 5,790 | $ 16,098 |
| Amortization of debt issuance costs | 556 | 651 |
| Interest on finance leases | 111 | 71 |
| Other | 6 | 7 |
| Interest income | (629) | (389) |
| Interest expense, net | $ 5,834 | $ 16,438 |

***Debt Extinguishment and Modification Costs***

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

| | 13 Weeks Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Write off of debt issuance costs | $ 74 | $ — |
| Debt modification costs | 124 | — |
| Debt extinguishment and modification costs | $ 198 | $ — |

## Note 5. Share-based Awards

***Share-based Incentive Plans***

The Globe Holding Corp. 2014 Stock Incentive Plan (the “2014 Plan”) became effective on October 21, 2014. Under the 2014 Plan, we granted stock options and restricted stock units (“RSUs”) to purchase shares of our common stock. Effective as of June 19, 2019, we terminated the 2014 Plan and as a result no further equity awards may be issued under the 2014 Plan. Any outstanding awards granted under the 2014 Plan will remain subject to the terms of the 2014 Plan and the applicable equity award agreements.

On June 4, 2019, our board of directors and stockholders approved the Grocery Outlet Holding Corp. 2019 Incentive Plan (the “2019 Plan”). A total of 4,597,862 shares of common stock were reserved for issuance under the 2019 Plan at that time. In addition, on the first day of each fiscal year beginning in fiscal 2020 and ending in fiscal 2029, the 2019 Plan provides for an annual automatic increase of the shares reserved for issuance in an amount equal to the positive difference between (i) 4% of the outstanding common stock on the last day of the immediately preceding fiscal year and (ii) the plan share reserve on the last day of the immediately preceding fiscal year, or a lesser number as determined by our board of directors. As of March 28, 2020, there were a total of 5,057,940 shares of common stock reserved for issuance under the 2019 Plan, which includes 460,078 shares added effective December 29, 2019 per the above noted automatic increase. As of March 28, 2020 there are 3,602,086 shares available for issuance under the 2019 Plan.

In addition, for fiscal 2020, the Compensation Committee has approved a long-term incentive program consisting of time-vesting restricted stock units (“RSUs”) and performance-based restricted stock units (“PSUs”). Although individual grants have not yet been made to our Named Executive Officers for fiscal 2020, the Compensation Committee approved the mix of long-term equity incentive value should be split 70% PSUs and 30% RSUs for our Chief Executive Officer and 60% PSUs and 40% RSUs for our other named executive officers (as defined by Item 401 of Regulation S-K).

***Fair Value Determination***

The fair value of stock option and RSU awards is determined as of the grant date. For time-based stock options, a Black-Scholes valuation model is utilized to estimate the fair value of the awards. For performance-based stock options, a Monte Carlo simulation approach implemented in a risk-neutral framework is utilized to estimate the fair value of the awards. For RSUs, the closing price of our common stock as reported on the grant date is utilized to estimate the fair value of the awards.

We determine the input assumptions for the Black-Scholes stock option valuation model as follows:

- Expected term — The expected term represents the period that a stock option award is expected to be outstanding. We have limited historical exercise data from which to derive expected term input assumptions. Consequently, we calculate expected term using the SEC simplified method whereby the expected term of a stock option award is equal to the average of the award's contractual term and vesting term.
- Volatility — We have limited historical data from which to derive stock price volatility input assumptions. Consequently, we estimate stock price volatility for our common stock by taking the average historic price volatility for industry peers based on daily price observations over a period equivalent to the expected term of the stock option award. Industry peers consist of several public companies in our industry which are of similar size, complexity and stage of development.
- Risk-free interest rate — The risk-free interest rate is based on the U.S. Treasury yield curve in effective on a stock option award's grant date for U.S Treasury securities with maturities that approximate the expected term of the stock option award.
- Dividend yield — Dividend yield is assumed to be zero as we have not paid and do not expect to pay cash dividends on our common shares subsequent to our IPO.

*Grant Activity*

The following table summarizes our stock option activity under all equity incentive plans during the 13 weeks ended March 28, 2020:

| | 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 December 28, 2019 (1) | 6,243,667 | $ | 10.57 | 5,777,121 | $ | 4.57 |
| Granted | — | | — | — | | — |
| Exercised | (510,084) | | 7.43 | (357,352) | | 6.51 |
| Forfeitures | (37,248) | | 20.57 | (10,422) | | 19.68 |
| Options outstanding as of March 28, 2020 | 5,696,335 | $ | 10.79 | 5,409,347 | $ | 4.41 |
| Options vested and expected to vest as of March 28, 2020 (1) | 5,696,335 | $ | 10.79 | 5,409,347 | $ | 4.41 |
| Options exercisable as of March 28, 2020 | 3,973,687 | $ | 7.24 | 3,728,805 | $ | 4.38 |

(1) No performance-based stock options were vested as of December 28, 2019. On February 3, 2020, in conjunction with a secondary offering, certain performance criteria were achieved resulting in the vesting of 4.1 million performance-based stock options. On April 27, 2020, in conjunction with an additional secondary offering, certain performance criteria were achieved resulting in the vesting of the remaining 1.7 million outstanding and unvested performance-based stock options. See Note 10 for additional information.

The following table summarizes our RSU activity under all equity incentive plans during the 13 weeks ended March 28, 2020:

| | Number of Shares | Weighted-Average Grant Date Fair Value | |
|---|---|---|---|
| Unvested balance as of December 28, 2019 | 190,872 | $ | 22.89 |
| Granted | — | | — |
| Vested | (37,600) | | 9.69 |
| Forfeitures | (2,455) | | 29.99 |
| Unvested balance as of March 28, 2020 | 150,817 | $ | 26.07 |

***Share-Based Compensation Expense***

We recognize compensation expense for stock options and RSUs 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.

***Time-Based Stock Options***

We did not record compensation expense for time-based stock options grants prior to the closing of our IPO because such time-based options were subject to a post-termination repurchase right by us until certain contingent events such as involuntary termination, a change in control, or an initial public offering occurred, and such contingent events were not deemed probable during any interim or fiscal period prior to our IPO. As a result of this repurchase right feature, other than in limited circumstances, stock issued upon the exercise of these options could be repurchased at our discretion at the lower of fair value or the applicable exercise price. The repurchase right feature lapsed upon the closing of our IPO on June 24, 2019 (the “IPO closing date”). Subsequent to the IPO closing date, we recognized share-based compensation expense for prior service completed as of the IPO closing date and began recognizing the remaining unamortized share-based compensation expense related to these outstanding time-based stock options over the remaining service period.

During the 13 weeks ended March 28, 2020, we recognized $0.8 million of share-based compensation expense for time-based stock options. Unamortized compensation cost related to unvested time-based stock options was $9.3 million as of March 28, 2020, $7.9 million of which relates to time-based stock options granted at the time of our IPO. The $9.3 million of unamortized compensation cost is expected to be amortized over a weighted average period of 3.20 years.

***Performance-Based Stock Options***

On February 3, 2020, certain selling stockholders completed a secondary public offering of shares of our common stock. In conjunction with this secondary offering, certain performance criteria were achieved resulting in the vesting of 4.1 million performance-based stock options. During the 13 weeks ended March 28, 2020, we recognized $18.5 million of share-based compensation expense related to the vesting of these performance-based stock options.

On April 27, 2020, certain of our selling stockholders completed an additional secondary public offering of shares of our common stock. In conjunction with this secondary offering, certain performance criteria were achieved resulting in the vesting of the remaining 1.7 million unvested outstanding performance-based stock options. We expect to recognize approximately $7.7 million of share-based compensation expense associated with the vesting of these performance-based stock options during the second quarter of fiscal 2020, after which all outstanding performance-based stock options issued by us will be fully expensed and fully vested. See Note 10 for additional information.

***Restricted Stock Units***

During the 13-week periods ended March 28, 2020 and March 30, 2019, we recognized $0.9 million and $0.1 million, respectively, of share-based compensation expense for RSUs held by employees and non-employee directors. Unamortized compensation cost related to unvested RSUs was $2.5 million as of March 28, 2020, which is expected to be amortized over a weighted average period of 2.26 years.

***Dividends***

For time-based stock option and RSU share-based awards that were outstanding on the dividend dates of June 23, 2016 and October 22, 2018 and that are expected to vest during fiscal 2020 and beyond, we intend to make dividend payments as these time-based stock option and RSU share-based awards vest. Pursuant to the 2014 Plan, if we are unable to make those payments, we may instead elect to reduce the per share exercise price of each such time-based stock option award by an amount equal to the dividend amount in lieu of making the applicable dividend payment. As such, our dividends are not considered declared and payable and are not accrued as a liability in our condensed consolidated balance sheets as of March 28, 2020. We paid $0.1 million and $0.3 million of cash dividends on vested time-based stock option and RSUs during the 13-week periods ended March 28, 2020 and March 30, 2019, respectively, which was included in share-based compensation expense for those respective periods. Unamortized compensation cost related to future dividend payments on unvested time-based stock option and RSU share-based awards was approximately $0.7 million as of March 28, 2020.

**Note 6. Income Taxes**

Our income tax expense and effective income tax rate were as follows (dollars in thousands):

| | 13 Weeks Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Income tax expense (benefit) | $ (1,801) | $ 1,444 |
| Effective income tax rate | (16.6)% | 27.7 % |

The decrease in our effective income tax rate for the 13 weeks ended March 28, 2020 compared to the corresponding period in fiscal 2019 was primarily due to excess tax benefits related to the exercise of stock options and vesting of employee restricted stock units. Our effective income tax rate for the 13 weeks ended March 30, 2019, excluding the impact of excess tax benefits, is higher than the U.S. statutory income tax rate of 21% primarily due to state income taxes and permanently nondeductible expenses.

Our policy is to include interest and penalties associated with uncertain tax positions within income tax expense 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. As of March 28, 2020 and December 28, 2019, we had no uncertain tax positions and do not anticipate any changes to our uncertain tax positions within the next 12 months

**Note 7. Related Party Transactions**

We leased property from entities affiliated with certain of our non-controlling stockholders for 15 store locations and one warehouse location as of March 28, 2020 and for 16 store locations and one warehouse location as of March 30, 2019. These entities received aggregate lease payments from of us of approximately $1.5 million for each of the 13-week periods ended March 28, 2020 and March 30, 2019, respectively.

We offer interest-bearing notes to IOs and the gross operating notes and receivables due from these entities was $40.5 million and $37.7 million as of March 28, 2020 and December 28, 2019, respectively. See Note 2 for additional information.

**Note 8. 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 9. Earnings Per Share**

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

| | 13 Weeks Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| **Numerator** | | |
| Net income and comprehensive income | $ 12,642 | $ 3,774 |
| **Denominator** | | |
| Weighted-average shares outstanding — basic | 89,481 | 68,514 |
| Effect of dilutive stock options | 5,323 | — |
| Effect of dilutive RSUs | 65 | 39 |
| Weighted-average shares outstanding — diluted (1) (2) | 94,869 | 68,553 |
| Earnings per share : | | |
| Basic | $ 0.14 | $ 0.06 |
| Diluted | $ 0.13 | $ 0.06 |

(1) The diluted weighted-average shares outstanding for the 13 weeks ended March 30, 2019 did not include performance-based stock options because the requisite performance criteria of such stock options had not been achieved as of that date.

On February 3, 2020, in conjunction with a secondary offering, certain performance criteria were achieved resulting in the vesting of 4.1 million performance-based stock options, and accordingly, these vested performance-based stock options are included in the diluted weighted-average shares outstanding for the 13 weeks ended March 28, 2020.

On April 27, 2020 in conjunction with an additional secondary offering, certain performance criteria were achieved resulting in the vesting of the remaining 1.7 million unvested performance-based stock options, and accordingly, these vested performance-based stock options will be included in diluted weighted-average shares outstanding during the second quarter of fiscal 2020. See Note 5 and Note 10 for additional information.

(2) The diluted weighted-average shares outstanding for the 13 weeks ended March 30, 2019 did not include time-based stock options because such stock options were subject to a post-termination repurchase right by us until certain contingent events such as involuntary termination, a change in control or an initial public offering occurred, and such contingent events were not deemed probable prior to the closing of our IPO. The repurchase right feature lapsed upon the closing of our IPO on June 24, 2019, and accordingly, time-based stock options are included in the diluted weighted-average shares outstanding for the 13 weeks ended March 28, 2020. See Note 5 for additional information.

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 (in thousands):

| | 13 Weeks Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Stock options | — | — |
| RSUs | 2 | — |
| Total | 2 | — |

## Note 10. Subsequent Events

***Secondary Offering of Shares of Common Stock***

On April 27, 2020, certain of our selling stockholders completed an additional 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 and 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.

In conjunction with this secondary offering, certain performance criteria were achieved for 1.7 million unvested performance-based stock options resulting in the vesting of those stock options upon the completion of the secondary offering (see Note 5 for additional information on the performance-based stock options). We expect to recognize approximately $7.7 million of share-based compensation expense associated with the vesting of these performance-based stock options during the second quarter of fiscal 2020.

***Related Party Lease Transaction***

During April 2020, we entered into an aircraft dry lease agreement with an entity controlled by our Chief Executive Officer, Mr. Lindberg, to lease a Pilatus PC-12 aircraft. We believe that this will allow us better access to visit our stores, many of which are in remote areas or are not easily accessible by car or regular commercial airline service, and to visit prospective real estate sites. The lease will give us the ability to use the aircraft in the course of our operations on an as-needed, non-exclusive basis. The lease provides that we will pay an hourly lease rate and we will bear all direct operating costs associated with our use of the aircraft, and the lessor will bear all fixed costs (e.g. maintenance, hangar, insurance). Mr. Lindberg, to the extent that he operates the aircraft for his personal use, will bear all costs associated with his operation of the aircraft. We believe that the terms of the aircraft dry lease agreement are no less favorable than could be obtained from an unrelated third party and we believe that the foregoing arrangement, including related direct operating costs, insurance and crew costs, will reduce the average hourly cost to the Company for use of private aircraft, which previously had been primarily conducted through charter arrangements.

## 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 December 28, 2019 filed with the U.S. Securities and Exchange Commission (the "SEC") on March 25, 2020. 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 2020 and the first quarter of fiscal 2019 refer to the 13 weeks ended March 28, 2020 and March 30, 2019, 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. This differentiated approach has driven 16 consecutive years of positive comparable store sales growth. As of March 28, 2020, we had 355 stores in California, Washington, Oregon, Pennsylvania, Idaho and Nevada.

### Initial Public Offering

On June 24, 2019, we completed our initial public offering ("IPO") of 19,765,625 shares of our common stock at a public offering price of $22.00 per share for net proceeds of $407.7 million, after deducting underwriting discounts and commissions of $27.1 million. We incurred related offering costs of $7.2 million, which we recognized as a charge to additional paid-in capital. The shares of common stock sold in the IPO and the net proceeds from the IPO included the full exercise of the underwriters' option to purchase additional shares.

In connection with the closing of our IPO, we repaid in full the $150.0 million outstanding principal amount and $3.6 million accrued interest on our second lien term loan and terminated the related loan agreement. Additionally, using the remainder of the net proceeds, together with excess cash on hand, we prepaid a portion of the term loan outstanding under our first lien credit agreement, dated as of October 22, 2018 (as amended, the "First Lien Credit Agreement") totaling $248.0 million and $3.8 million of accrued interest. On October 23, 2019, we prepaid an additional $15.0 million of principal on the term loan outstanding under our First Lien Credit Agreement.

### Secondary Public Offerings

On October 8, 2019, 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 fiscal 2019. We received $3.2 million in cash (excluding withholding taxes) in connection with the exercise of 451,470 options by certain stockholders participating in this secondary public offering.

On February 3, 2020, certain of our selling stockholders completed an additional 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 13 weeks ended March 28, 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 a third 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 and 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. See Note 10 to the condensed consolidated financial statements for additional information.

### 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, have 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. However, we expect that our IOs may face staffing challenges as long as school closures and COVID-19-related concerns exist. In addition, certain inventory items such as water, beans and bread as well as key cleaning supplies and protective equipment have been, and may continue to be, in short supply. 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 may be negatively impacted due to shelter in place requirements and the closure of government offices in certain areas. In the event that an employee, 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 expect to incur incremental cleaning and safety costs at our facilities, costs for protective equipment and supplies, and higher personnel expense at our warehouses and corporate offices. In addition, we will incur additional expenses as a result of certain increased costs related to our independent operators. For example, we are paying a portion of the costs of protective equipment, cleaning supplies and bags for our IOs as well as reducing interest rates on outstanding IO note balances. 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 2020. See “Item 1A. Risk Factors—Major health epidemics, such as the outbreak caused by a coronavirus (COVID-19), and other outbreaks could disrupt and adversely affect our operations, financial condition and business” 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 2020 Overview

Key financial and operating performance results for the first quarter of fiscal 2020 were as follows:

- Net sales increased by 25.4% to $760.3 million from $606.3 million in the first quarter of fiscal 2019; comparable store sales increased by 17.4% compared to a 4.2% increase in the same period last year.
- We opened 10 new stores and closed 2, ending the first quarter of fiscal 2020 with 355 stores in six states.
- Net income increased by 235.0% to $12.6 million, or $0.13 per diluted share, compared to net income of $3.8 million, or $0.06 per diluted share, in the first quarter of fiscal 2019.
- Adjusted EBITDA(1) increased 45.8% to $57.0 million compared to $39.1 million in the first quarter of fiscal 2019.
- Non-GAAP adjusted net income(1) increased 242.2% to $34.0 million, or $0.36 per non-GAAP diluted share, compared to $9.9 million, or $0.15 per non-GAAP diluted share, in the first quarter of fiscal 2019.

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(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. 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 during March 2020 as our customers reacted to 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. Corporate expenses include payroll and benefits for corporate and field support, marketing and advertising, insurance and professional services and recruiting and training costs associated with our Aspiring Operators in Training program. 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 | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Net sales | $ 760,308 | $ 606,271 |
| Cost of sales | 523,282 | 419,254 |
| Gross profit | 237,026 | 187,017 |
| Operating expenses: | | |
| Selling, general and administrative | 186,931 | 152,854 |
| Depreciation and amortization | 12,945 | 12,296 |
| Share-based compensation | 20,277 | 211 |
| Total operating expenses | 220,153 | 165,361 |
| Income from operations | 16,873 | 21,656 |
| Other expenses: | | |
| Interest expense, net | 5,834 | 16,438 |
| Debt extinguishment and modification costs | 198 | — |
| Total other expenses | 6,032 | 16,438 |
| Income before income taxes | 10,841 | 5,218 |
| Income tax expense (benefit) | (1,801) | 1,444 |
| Net income and comprehensive income | $ 12,642 | $ 3,774 |

| | 13 Weeks Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| **Percentage of Sales (1)** | | |
| Net sales | 100.0 % | 100.0 % |
| Cost of sales | 68.8 % | 69.2 % |
| Gross profit | 31.2 % | 30.8 % |
| Operating expenses: | | |
| Selling, general and administrative | 24.6 % | 25.2 % |
| Depreciation and amortization | 1.7 % | 2.0 % |
| Share-based compensation | 2.7 % | — % |
| Total operating expenses | 29.0 % | 27.3 % |
| Income from operations | 2.2 % | 3.6 % |
| Other expenses: | | |
| Interest expense, net | 0.8 % | 2.7 % |
| Debt extinguishment and modification costs | — % | — % |
| Total other expenses | 0.8 % | 2.7 % |
| Income before income taxes | 1.4 % | 0.9 % |
| Income tax expense (benefit) | (0.2)% | 0.2 % |
| Net income and comprehensive income | 1.7 % | 0.6 % |

(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 of IO stores 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 it will be in 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, purchase accounting inventory adjustments, debt extinguishment and modification costs, non-cash rent, asset impairment and gain or loss on disposition, new store pre-opening expenses, dead rent for acquired leases, 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 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.

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

| | 13 Weeks Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| **Other Financial and Operations Data** | | |
| Number of new stores | 10 | 8 |
| Number of stores open at end of period | 355 | 323 |
| Comparable store sales growth (1) | 17.4 % | 4.2 % |
| EBITDA (2) | $ 30,245 | $ 34,505 |
| Adjusted EBITDA (2) | $ 57,027 | $ 39,123 |
| Non-GAAP adjusted net income (2) | $ 34,039 | $ 9,947 |

(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.

***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:

| | 13 Weeks Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Net income | $ 12,642 | $ 3,774 |
| Interest expense, net | 5,834 | 16,438 |
| Income tax expense (benefit) | (1,801) | 1,444 |
| Depreciation and amortization expenses (a) | 13,570 | 12,849 |
| EBITDA | 30,245 | 34,505 |
| Share-based compensation expenses (b) | 20,277 | 211 |
| Debt extinguishment and modification costs (c) | 198 | — |
| Non-cash rent (d) | 2,214 | 1,862 |
| Asset impairment and gain or loss on disposition (e) | 975 | 182 |
| New store pre-opening expenses (f) | 406 | 421 |
| Provision for accounts receivable reserves (g) | 848 | 1,483 |
| Other (h) | 1,864 | 459 |
| Adjusted EBITDA | $ 57,027 | $ 39,123 |

| | 13 Weeks Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Net income | $ 12,642 | $ 3,774 |
| Share-based compensation expenses (b) | 20,277 | 211 |
| Debt extinguishment and modification costs (c) | 198 | — |
| Non-cash rent (d) | 2,214 | 1,862 |
| Asset impairment and gain or loss on disposition (e) | 975 | 182 |
| New store pre-opening expenses (f) | 406 | 421 |
| Provision for accounts receivable reserves (g) | 848 | 1,483 |
| Other (h) | 1,864 | 459 |
| Amortization of purchase accounting assets and deferred financing costs (i) | 2,936 | 3,916 |
| Tax effect of total adjustments (j) | (8,321) | (2,361) |
| Non-GAAP adjusted net income | $ 34,039 | $ 9,947 |
| GAAP earnings per share | | |
| Basic | $ 0.14 | $ 0.06 |
| Diluted | $ 0.13 | $ 0.06 |
| Non-GAAP adjusted earnings per share | | |
| Basic | $ 0.38 | $ 0.15 |
| Diluted | $ 0.36 | $ 0.15 |
| GAAP weighted average shares outstanding | | |
| Basic | 89,481 | 68,514 |
| Diluted | 94,869 | 68,553 |
| Non-GAAP weighted average shares outstanding | | |
| Basic | 89,481 | 68,514 |
| Diluted | 94,869 | 68,553 |

(a) 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.

(b) Represents non-cash share-based compensation expense of $20.1 million and $0.1 million in the 13 weeks ended March 28, 2020 and March 30, 2019, respectively. During the first quarter of fiscal 2020, we incurred $18.5 million in share-based compensation expense related to 4.1 million performance-based stock options that vested in conjunction with the closing of the February 3, 2020 secondary offering. Includes immaterial cash dividends paid on vested share-based awards during the first quarter of fiscal 2020 and 2019 for cash dividends declared in connection with our recapitalizations in fiscal 2018 and 2016.

(c) Represents the write-off of debt issuance costs and debt discounts related to the repricing and/or repayment of our credit facilities. See Note 4 to the condensed consolidated financial statements for additional information.

(d) 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.

(e) 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.

(f) Includes marketing, occupancy and other expenses incurred in connection with store grand openings, including costs that will be the IO's responsibility after store opening.

(g) Represents non-cash changes in reserves related to our IO notes and accounts receivable. The first quarter of 2020 reflects the adoption of ASU 2016-13. See Note 2 to the condensed consolidated financial statements for additional information.

(h) Other non-recurring, non-cash or discrete items as determined by management, such as transaction related costs including costs related to the February 3, 2020 secondary offering, personnel-related costs, store closing costs, legal expenses, strategic project costs, and miscellaneous costs.

(i) 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.

(j) Represents the tax effect of the total adjustments. Because of the increased impact of discrete items on our effective tax rate including the excess tax benefits from the exercise and vest of share-based awards, beginning in the fourth quarter of fiscal 2019, we changed our methodology to calculate the tax effect of the total adjustments on a discrete basis excluding any non-recurring and unusual tax items. Prior to the fourth quarter of fiscal 2019, the methodology we used was to calculate the tax effect of the total adjustments using our quarterly effective tax rate.

**Comparison of the 13 weeks ended March 28, 2020 and March 30, 2019 (dollars in thousands)**

***Net Sales***

| | 13 Weeks Ended | | | |
|---|---|---|---|---|
| | March 28, 2020 | March 30, 2019 | $ Change | % Change |
| Net sales | $ 760,308 | $ 606,271 | $ 154,037 | 25.4 % |

The increase in net sales for the first quarter of fiscal 2020 compared to the same period in fiscal 2019 was primarily attributable to an increase in comparable store sales, as well as 32 net new stores opened over the last 12 months. Comparable store sales increased 17.4% for the first quarter of 2020 compared to the same period in fiscal 2019, driven by increases in both number of transactions and average transaction size resulting from changes in customer shopping behavior caused by the COVID-19 pandemic.

***Cost of Sales***

| | 13 Weeks Ended | | | |
|---|---|---|---|---|
| | March 28, 2020 | March 30, 2019 | $ Change | % Change |
| Cost of sales | $ 523,282 | $ 419,254 | $ 104,028 | 24.8 % |
| % of net sales | 68.8 % | 69.2 % | | |

The increase in cost of sales for the first quarter of fiscal 2020 compared to the same period in fiscal 2019 was primarily the result of new store growth and an increase in comparable store sales. Costs as a percentage of sales decreased slightly due to reduced product markdowns and throwaways resulting from faster inventory turnover as well as lower distribution costs as a percentage of sales. We expect that supply chain and distribution costs will increase in the second quarter as we replenish store and warehouse inventory levels.

***Gross Profit and Gross Margin***

| | 13 Weeks Ended | | | |
|---|---|---|---|---|
| | March 28, 2020 | March 30, 2019 | $ Change | % Change |
| Gross profit | $ 237,026 | $ 187,017 | $ 50,009 | 26.7 % |
| Gross margin | 31.2 % | 30.8 % | | |

The increase in gross profit for the first quarter of fiscal 2020 compared to the same period in fiscal 2019 was primarily the result of new store growth and an increase in comparable store sales. Our gross margin increased modestly for the first quarter of fiscal 2020 compared to the same period in fiscal 2019 primarily due to lower cost of sales as a percentage of sales as discussed previously.

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

| | 13 Weeks Ended | | | |
|---|---|---|---|---|
| | March 28, 2020 | March 30, 2019 | $ Change | % Change |
| SG&A | $ 186,931 | $ 152,854 | $ 34,077 | 22.3 % |
| % of net sales | 24.6 % | 25.2 % | | |

The increase in SG&A for the first quarter of fiscal 2020 compared to the same period in fiscal 2019 was primarily driven by increased selling expenses related to higher sales volume. These increased expenses consisted primarily of variable commission payments to independent operators, store occupancy and maintenance costs, costs to comply with public company reporting requirements, costs associated with our February 3, 2020 secondary offering, as well as investments in general and administrative infrastructure to support the continued growth in the business.

As a percentage of sales, SG&A decreased for the first quarter of fiscal 2020 compared to the same period in fiscal 2019. However, we expect SG&A expense as a percentage of sales to increase in the second quarter of fiscal 2020 due to incremental costs associated with COVID-19 such as incremental cleaning and safety costs at our facilities, costs for protective equipment and supplies, and higher personnel expense at our warehouses and corporate office. In addition, we will continue to incur additional costs to comply with public company requirements including incremental insurance, accounting, and legal expense as well as costs required to comply with the Sarbanes-Oxley Act.

***Depreciation and Amortization Expense***

| | 13 Weeks Ended | | | |
|---|---|---|---|---|
| | March 28, 2020 | March 30, 2019 | $ Change | % Change |
| Depreciation and amortization | $ 12,945 | $ 12,296 | $ 649 | 5.3 % |
| % of net sales | 1.7 % | 2.0 % | | |

The increase in depreciation and amortization expenses for the first quarter of fiscal 2020 compared to the same period in fiscal 2019 is primarily driven by new store growth and other capital investments.

***Share-based Compensation Expense***

| | 13 Weeks Ended | | | |
|---|---|---|---|---|
| | March 28, 2020 | March 30, 2019 | $ Change | % Change |
| Share-based compensation | $ 20,277 | $ 211 | $ 20,066 | 9,510.0 % |
| % of net sales | 2.7 % | — % | | |

The increase in share-based compensation expenses for the first quarter of fiscal 2020 compared to the same period in fiscal 2019 was primarily driven by share-based compensation expense for time-based and performance-based stock options and RSUs granted prior to and subsequent to the closing of our IPO on June 24, 2019. During the first quarter of fiscal 2020, we incurred $18.5 million in share-based compensation expense related to 4.1 million performance-based stock options that vested in conjunction with the closing of the February 3, 2020 secondary offering. Prior to the closing of our IPO, share-based compensation expense was primarily related to share-based awards granted to our board of directors and dividends paid in relation thereto. See Note 5 to the condensed consolidated financial statements for additional information.

On April 27, 2020, certain of our selling stockholders completed an additional secondary public offering of shares of our common stock. In conjunction with this secondary offering, certain performance criteria were achieved resulting in the vesting of the remaining 1.7 million unvested outstanding performance-based stock options. We expect to recognize approximately $7.7 million of share-based compensation expense associated with the vesting of these performance-based stock options during the second quarter of fiscal 2020, after which all outstanding performance-based stock options issued by us will be fully expensed and fully vested. See Note 10 to the condensed consolidated financial statements for additional information.

***Interest Expense, net***

| | 13 Weeks Ended | | | |
|---|---|---|---|---|
| | March 28, 2020 | March 30, 2019 | $ Change | % Change |
| Interest expense, net | $ 5,834 | $ 16,438 | $ (10,604) | (64.5)% |
| % of net sales | 0.8 % | 2.7 % | | |

The decrease in net interest expense for the first quarter of fiscal 2020 compared to the same period in fiscal 2019 was primarily driven by lower total borrowings under our First Lien Credit Agreement and the repayment in full of our Second Lien Credit Agreement in June 2019. We expect interest expense for the remainder of fiscal 2020 will increase relative to the first fiscal quarter based on the amount of time the $90.0 million borrowed under the revolving credit facility remains outstanding, among other factors. See Note 4 to the condensed consolidated financial statements for additional information.

***Debt Extinguishment and Modification Costs***

| | 13 Weeks Ended | | | |
|---|---|---|---|---|
| | March 28, 2020 | March 30, 2019 | $ Change | % Change |
| Debt extinguishment and modification costs | $ 198 | — | $ 198 | 100.0 % |
| % of net sales | — % | — % | | |

During the first quarter of fiscal 2020, we wrote off approximately $0.1 million of debt issuance costs and incurred $0.1 million in debt modification costs related to the repricing and amendment of our First Lien Credit Agreement. There were no such costs incurred during the first quarter of fiscal 2019. See Note 4 to the condensed consolidated financial statements for additional information.

***Income Tax Expense***

| | 13 Weeks Ended | | | |
|---|---|---|---|---|
| | March 28, 2020 | March 30, 2019 | $ Change | % Change |
| Income tax (benefit) expense | $ (1,801) | $ 1,444 | $ (3,245) | (224.7)% |
| % of net sales | (0.2)% | 0.2 % | | |
| Effective tax rate | (16.6)% | 27.7 % | | |

The net income tax benefit for the first quarter of fiscal 2020 compared to the net income tax expense in the same period in fiscal 2019, was primarily the result of excess tax benefits from the exercise of stock options and vesting of employee restricted stock units during the first quarter of fiscal 2020.

***Net Income***

| | 13 Weeks Ended | | | |
|---|---|---|---|---|
| | March 28, 2020 | March 30, 2019 | $ Change | % Change |
| Net income | $ 12,642 | $ 3,774 | $ 8,868 | 235.0 % |
| % of net sales | 1.7 % | 0.6 % | | |

As a result of the foregoing factors, including the $5.0 million excess tax benefit described above, net income increased substantially for the first quarter of fiscal 2020 compared to the same period in fiscal 2019.

***Adjusted EBITDA***

| | 13 Weeks Ended | | | |
|---|---|---|---|---|
| | March 28, 2020 | March 30, 2019 | $ Change | % Change |
| Adjusted EBITDA | $ 57,027 | $ 39,123 | $ 17,904 | 45.8 % |

The increase in adjusted EBITDA for the first quarter of 2020 compared to the same period in fiscal 2019 was primarily due to the increase in net sales, which was primarily driven by an increase in comparable store sales of 17.4% and an increase in store count compared to the same period in fiscal 2019. Additionally, gross margin rate increased modestly for the first quarter of fiscal 2020 compared to the same period in fiscal 2019 as discussed above. We expect second quarter fiscal 2020 adjusted EBITDA to be impacted by additional costs as a result of the COVID-19 pandemic, such as incremental cleaning and safety costs, corporate and distribution center personnel expense, costs for protective equipment and supplies at our stores, and supply chain costs.

***Non-GAAP adjusted Net Income***

| | 13 Weeks Ended | | | |
|---|---|---|---|---|
| | March 28, 2020 | March 30, 2019 | $ Change | % Change |
| Non-GAAP adjusted net income | $ 34,039 | $ 9,947 | $ 24,092 | 242.2 % |

The increase in non-GAAP adjusted net income for the first quarter of 2020 compared to the same period in fiscal 2019 was primarily due to an increase in net sales, which was primarily driven by an increase in comparable store sales of 17.4% and an increase in store count compared to the same period in fiscal 2019. In addition, non-GAAP adjusted net income benefited from lower net interest expense and a net income tax benefit for the first quarter of fiscal 2020 compared to the same period in fiscal 2019 as discussed above.

## Liquidity and Capital Resources

***Sources of Liquidity***

As of March 28, 2020, we had cash and cash equivalent of $160.9 million, which consisted principally of cash held in checking and money market accounts with financial institutions, approximately $90.0 million of which is due to the borrowings under the revolving credit facility of our First Lien Credit Agreement. Our liquidity requirements arise primarily from our working capital needs, capital expenditures and debt service requirements. We funded our liquidity requirements through cash generated from our operations, cash received from the initial public offering of our common stock and borrowings and availability under our First Lien Credit Agreement.

***Public Offerings***

On June 24, 2019, we completed an initial public offering ("IPO") of 19,765,625 shares of our common stock at a public offering price of $22.00 per share for net proceeds of $407.7 million, after deducting underwriting discounts and commissions of $27.1 million and offering costs of $7.2 million. The shares of common stock sold in the IPO and the net proceeds from the IPO included the full exercise of the underwriters' option to purchase additional shares.

On October 8, 2019, 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 and received $3.2 million in cash (excluding withholding taxes) in connection with the exercise of 451,470 options by certain stockholders participating in this secondary public offering.

On February 3, 2020, certain of our selling stockholders completed an additional 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 and 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 a third 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 and 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. See Note 10 to the condensed consolidated financial statements for additional information.

The terms of our credit agreements permit voluntarily prepayment without premium or penalty. In connection with the closing of our IPO, we used the net proceeds from the IPO to repay the outstanding $150.0 million in principal on the term loan under our second lien credit agreement, dated as of October 22, 2018 (as amended, the "Second Lien Credit Agreement"), as well as accrued and unpaid interest as of that date of $3.6 million, and terminated the Second Lien Credit Agreement. In addition, using the remainder of net proceeds, together with excess cash on hand, we prepaid a portion of our outstanding senior secured term loan under our First Lien Credit Agreement (as defined below) totaling $248.0 million plus accrued interest of $3.8 million.

***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 (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. The First Replacement Term Loan matured 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, we 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, and made certain other technical changes and updates to the First Incremental Agreement. The interest rate on the Second Replacement Term Loan was 4.38% as of March 28, 2020. The Second Replacement Term Loan matures on October 22, 2025, which is the same maturity date as 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 Loan*** — 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 are to be used as reserve funding for working capital needs as a precautionary measure in light of the economic uncertainty surrounding the current COVID-19 pandemic. The revolving credit facility loan may be repaid and reborrowed at any time. The interest rate on the revolving credit facility loan is 4.43% as of March 28, 2020. Interest on the revolving credit facility loan is due and payable at the end of each continuation period (as defined in the First Lien Credit Agreement), and the outstanding principal on the revolving credit facility loan is due and payable on October 23, 2023, the maturity date of the revolving credit facility.

***Debt Covenant Requirements*** — 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 March 28, 2020, we were in compliance with all applicable financial covenant requirements and the first lien secured leverage ratio testing requirement for our First Lien Credit Agreement.

***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.

## Cash Flows

The following table sets forth a summary our cash flows for the periods presented (in thousands, except percentages):

| | 13 Weeks Ended | | | |
|---|---|---|---|---|
| | March 28, 2020 | March 30, 2019 | $ Change | % Change |
| Net cash provided by operating activities | $ 67,820 | $ 22,240 | $ 45,580 | 205 % |
| Net cash used in investing activities | $ (29,793) | $ (19,997) | $ (9,796) | 49 % |
| Net cash provided by (used in) financing activities | $ 94,808 | $ (3,710) | $ 98,518 | 2,655 % |
| Net increase in cash and cash equivalents | $ 132,835 | $ (1,467) | $ 134,302 | 9,155 % |

### *Cash Provided by Operating Activities*

Net cash provided by operating activities was $67.8 million for the 13 weeks ended March 28, 2020, compared to net cash provided by operating activities of $22.2 million for the same period in fiscal 2019. The increase in net cash provided by operating activities for the 13 weeks ended March 28, 2020 compared to the same period in fiscal 2019 was the result of an increase in working capital largely driven by a reduction in inventory due to increased net sales related to the COVID-19 pandemic, as well as increased net sales driven by comparable store sales and new store growth, partially offset by increased cost of sales and operating expenses, particularly IO commissions.

### *Cash Used in Investing Activities*

Net cash used in investing activities for the 13 weeks ended March 28, 2020 and for the same period in fiscal 2019 was primarily for capital expenditures for new store openings and cash advances to IOs. The increase in net cash used in investing activities of $9.8 million for the 13 weeks ended March 28, 2020 compared to the same period in fiscal 2019 was primarily related to capital expenditures including the construction of newly opened stores and stores under development. We had ten new store openings and one store relocation in the 13 weeks ended March 28, 2020 compared to eight new store openings in same period of fiscal 2019.

### *Cash Provided by (Used in) Financing Activities*

Net cash provided by financing activities was $94.8 million for the 13 weeks ended March 28, 2020 compared to net cash used in financing activities of $3.7 million for the same period in fiscal 2019. The increase in net cash provided by financing activities was primarily due to proceeds received from our Revolving Credit Facility Loan and proceeds received from the exercise of share-based awards, partially offset by payments on borrowings.

### Off-Balance Sheet Arrangements

As of March 28, 2020, 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 to our contractual obligations during the 13 weeks ended March 28, 2020 from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 28, 2019 filed with the U.S. Securities and Exchange Commission (the "SEC") on March 25, 2020, except for the $90.0 million Revolving Credit Facility Loan as discussed in the "Liquidity and Capital Resources" section above.

### 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 U.S. Securities and Exchange Commission (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 March 28, 2020 from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 28, 2019 filed with the SEC on March 25, 2020.

### 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 March 28, 2020, our outstanding credit facilities included a $460.0 million term loan (the "Second Replacement Term Loan") and a $90.0 million revolving credit facility loan (the "Revolving Credit Facility Loan") under our First Lien Credit Agreement. As of March 28, 2020, the interest rate on the Second Replacement Term Loan was 4.38% and the interest rate on the Revolving Credit Facility Loan was 4.43% (See Note 4 to the condensed consolidated financial statements for additional information). Based on the outstanding balances and interest rates of our credit facilities as of March 28, 2020, a hypothetical 10% relative increase or decrease in the effective interest rates would cause an increase or decrease in interest expense of approximately $2.1 million over the next 12 months.

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

### Impact of Inflation

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our historical results of operations and financial condition have been immaterial. We cannot be assured that our results of operations and financial condition will not be materially impacted by inflation 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 Rules 13a-15(e) and 15d-15(e) under 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 to accomplish their objectives at a reasonable assurance level as of March 28, 2020.

### Changes in Internal Control over Financial Reporting

During the quarter ended March 28, 2020, there was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the impact of the COVID-19 situation on our internal controls in order to ensure their continued design and operating effectiveness.

### 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

Except as described below, there have been no substantive changes or additions to the risk factors previously disclosed in our prospectus filed with the U.S. Securities and Exchange Commission (the "SEC") on April 23, 2020, and any documents incorporated by reference therein, that we believe are material to our business, financial condition, results of operations, cash flows or growth prospects.

**Major health epidemics, such as the outbreak caused by a coronavirus (COVID-19), and other outbreaks could disrupt and adversely affect our operations, financial condition and business.**

The United States and other countries have experienced, and may experience in the future, major health epidemics related to viruses or other pathogens. For example, there was an outbreak of COVID-19, a novel coronavirus, in China in December 2019, which by March 2020 had spread to the United States and other countries and declared a global pandemic. As a result, most states where we have a significant number of stores have 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. We expect that our IOs may face staffing challenges so long as school closures and COVID-19-related concerns exist. In addition, certain inventory items such as water, beans and bread as well as key cleaning supplies and protective equipment have been, and may continue to be, in short supply. Supply for inventory, including opportunistic inventory, may be negatively impacted as overall demand for inventory has increased, which could negatively impact our margin. 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. Furthermore, we and our IOs will incur additional expenditures in connection with the spread of COVID-19 and legislation that has passed or may be passed in response to COVID-19, including but not limited to costs for supplies, additional employee benefits and premium and/or premium pay, which may negatively affect our financial results. Further, for example, California recently enacted by executive order changes to the state's worker compensation standards providing that employees who have to work outside of the home and who contract COVID-19 are presumed to have a workplace injury covered by the worker's compensation system. Our planned construction and opening of new stores may be negatively impacted due to state or county shelter in place requirements and the closure of government offices in certain areas which could negatively impact our financial results. We have transitioned a significant subset of our employee population to a remote work environment in an effort to mitigate the spread of COVID-19, which may exacerbate certain risks to our business, including an increased risk of phishing and other cybersecurity attacks. In the event that an employee, IO, or IO employee tests positive for COVID-19, we have had to, and may in the future have to, temporarily close one or more stores, offices or distribution centers for cleaning and/or quarantine one or more employees, which could negatively impact our financial results. In addition, if one of more of our employees, IOs, IOs' employees or customers becomes ill from COVID-19 and attributes their exposure to such illness to us or one of our stores, we and/or our IOs could be subject to allegations of failure to adequately mitigate the risk of such exposure. Such allegations could harm our reputation and sales and expose us to the risks of litigation and liability. The rapid development and fluidity of this situation precludes any prediction as to the ultimate adverse impact to us of COVID-19. We are continuing to monitor the spread of COVID-19 and related risks. The magnitude and duration of the pandemic and its impact on our business, results of operations, financial position, and cash flows are uncertain as this continues to evolve globally.

These epidemics, or the perception that such epidemics may occur, may cause people to avoid gathering in public places, which may adversely affect our customer traffic, our ability and that of our IOs to adequately staff our stores and operations, and our ability to transport product on a timely basis. Further, outbreaks of pathogens, such as COVID-19, may also impact our ability to access and ship product from impacted locations. To the extent that a pathogen is food-borne, or perceived to be food-borne, future outbreaks may adversely affect the price and availability of certain food products and cause our customers to eat less of such product.

Additionally, a prolonged widespread epidemic, or the perception that such an epidemic may occur, could adversely impact global economies and financial markets resulting in an economic downturn that may impact demand for our products. For example, during March and April 2020, the United States saw a significant increase in unemployment claims and other indications of a significant economic slowdown related to the COVID-19 pandemic. Such impacts could adversely affect our operations, profitability, cash flows and financial results. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in the Risk Factors section of our prospectus filed with the SEC on April 23, 2020, which are incorporated by reference herein, such as those relating to our substantial level of indebtedness, our need to generate sufficient cash flows to service our indebtedness and our ability to comply with the covenants contained in the agreements that govern our indebtedness.

### 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

The Compensation Committee of our Board of Directors has approved a form of Performance Stock Unit Grant Notice and Agreement (the "PSU Award Agreement") for the award of performance-based restricted stock units ("PSUs") to eligible persons under the Grocery Outlet Holding Corp. 2019 Incentive Plan (the "2019 Incentive Plan"). As of May 12, 2020, no PSU awards had been made under the PSU Award Agreement. The PSU Award Agreement provides for the grant of PSUs, of which generally 50% will vest upon the satisfaction of certain Revenue-based targets and 50% will vest upon the satisfaction of certain Adjusted EBITDA growth-based targets during a three-year performance period (in each case, as defined in the PSU Award Agreement). The number of shares issuable pursuant to a PSU Award Agreement will depend on the level of the Company's achievement against the performance targets set forth in the PSU Award Agreement. The applicable performance targets will be set by the Compensation Committee for the performance period covered by PSU Award Agreement. In general, the PSU Award Agreement provides that payout can range from 0% of the target number of shares subject to the PSUs to 200% of the target number of shares subject to the PSUs, depending on the level of achievement.

The PSUs will generally vest, if at all, upon certification of achievement by the Compensation Committee at the end of the applicable performance period, subject to the recipient's continued service through such certification date. In the event that the award recipient's service is terminated by the Company as a result of death or Disability, in each case, prior to a Change in Control (such terms as defined in the 2019 Incentive Plan), a portion of the PSUs will vest based on target performance as of the date of such termination on a prorated basis, based on the number of days the recipient provided service to the Company in the performance period. In the event that the award recipient's service is terminated by the Company without Cause (as such term is defined in the 2019 Incentive Plan) prior to a Change in Control, a portion of the PSUs will remain outstanding and eligible to vest based on actual performance, based on the number of days the recipient provided service to the Company in the performance period (provided that, in the event of a Change in Control following such termination, the outstanding portion of the PSUs will instead be calculated based on target performance and will vest as of the last day of the performance period). In the event the award recipient's service is terminated by the Company without Cause, by the recipient for Good Reason (as defined in the PSU Award Agreement) or by reason of death or Disability, in each case, on or following a Change of Control, the number of earned PSUs (which will be calculated based on target performance as of immediately prior to the Change in Control) will vest in full as of the date service is terminated. Capitalized terms not otherwise defined this Item 5 shall have the meaning as set forth for such terms in the PSU Award Agreement.

A copy of the PSU Award Agreement is attached hereto as Exhibit 10.3. The summary of the PSU Award Agreement contained herein does not purport to be complete and is qualified in its entirety by reference to the attached form.

## Item 6. Exhibits

| | | Incorporated by Reference | | | |
|---|---|---|---|---|---|
| Exhibit No. | Exhibit | 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 | Incremental Agreement, dated as of January 24, 2020, among GOBP Holdings, Inc., Globe Intermediate Corp., certain subsidiaries of GOBP Holdings, Inc., the lenders party thereto, and Morgan Stanley Senior Funding, Inc., as Administrative Agent | 8-K | 001-38950 | 1/24/2020 | 10.1 |
| 10.2† | Transition Agreement, dated January 7, 2020, by and between Grocery Outlet Holding Corp. and S. MacGregor Read, Jr. | 8-K | 001-38950 | 1/7/2020 | 10.1 |
| 10.3†* | Form of Performance Stock Unit Grant and Agreement (Grocery Outlet Holding Corp. 2019 Stock Incentive Plan) | | | | |
| 10.4†* | Form of Restricted Stock Unit Grant and Agreement (Grocery Outlet Holding Corp. 2019 Stock Incentive Plan) | | | | |
| 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.

| | | | |
|---|---|---|---|
| | | | **Grocery Outlet Holding Corp.** |
| Date: | May 12, 2020 | By: | /s/ Charles Bracher |
| | | | Charles Bracher<br>Chief Financial Officer<br>(Principal Financial Officer) |
| | | | **Grocery Outlet Holding Corp.** |
| Date: | May 12, 2020 | By: | /s/ Lindsay Gray |
| | | | Lindsay Gray<br>Vice President and Corporate Controller<br>(Principal Accounting Officer) |

**Exhibit 10.3**

**PERFORMANCE STOCK UNIT GRANT NOTICE
UNDER THE
GROCERY OUTLET HOLDING CORP.
2019 INCENTIVE PLAN**

Grocery Outlet Holding Corp. (the "Company"), pursuant to its 2019 Incentive Plan, as it may be amended and restated from time to time (the "Plan"), hereby grants to the Participant set forth below the number of Performance Stock Units ("Performance Stock Units" or "PSUs"), set forth below. The Performance Stock Units are subject to all of the terms and conditions as set forth herein, in the Performance Stock Unit Agreement (attached hereto or previously provided to the Participant in connection with a prior grant) (the "Agreement"), and in the Plan, all of which are incorporated herein in their entirety. Capitalized terms not otherwise defined herein shall have the meaning set forth in the Plan.

**Participant**: [*Insert Participant Name*]

**Date of Grant**: [*Insert Date*]

**Number of Performance Stock Units**: [*Number of PSUs*], consisting of two tranches:

[•] Tranche I PSUs ("Tranche I PSUs"), which will vest upon satisfaction of Revenue-based targets;[1] and

[•] Tranche II PSUs ("Tranche II PSUs"), which will vest upon satisfaction of Adjusted EBITDA-based targets [2]

**Performance Period**: [*Insert Performance Period*]

**Vesting**: The PSUs will become earned ("Earned PSUs") based on achievement of the applicable Performance Condition with respect to the Performance Period, in each case, as set forth below.

*Performance Conditions*

The number of PSUs in each tranche that become Earned PSUs shall be based on the achievement of the Performance Condition set forth in the table below applicable to such tranche:

| | **Tranche I** | **Tranche II** |
|---|---|---|
| *Performance Condition* | *Revenue* | *Adjusted EBITDA Growth* |
| Minimum Level of Achievement | | |
| Target Level of Achievement | | |
| Maximum Level of Achievement | | |

[1] 50% of Number of Performance Stock Units
[2] 50% of Number of Performance Stock Units

*Calculation of Number of Earned PSUs*

The number of PSUs earned in respect of each tranche of PSUs shall equal (x) the number of Tranche I PSUs or Tranche II PSUs, as applicable, granted hereunder *multiplied by* (y) the applicable Percentage of Target Award Earned for such applicable tranche (rounded up to the nearest whole unit). Following the last day of the Performance Period, the Committee shall determine the level of achievement with respect to each Performance Condition and calculate the "Percentage of Target Award Earned" (as set forth the table below) with respect to each of the Tranche I PSUs and the Tranche II PSUs based on such level of achievement in accordance with the following table:

| **Level of Achievement** | **Percentage of Target Award Earned** |
|---|---|
| Below Minimum | 0% |
| Minimum | 50% |
| Target | 100% |
| Maximum | 200% |
| Above Maximum | 200% |

Unless otherwise determined by the Committee, if actual performance with respect to any tranche is between (i) "Minimum" and "Target" or (ii) "Target" and "Maximum" levels of achievement, the Percentage of Target Award Earned shall be determined using linear interpolation (and rounded to the nearest whole percentage point) between such numbers. For the avoidance of doubt, in the event that actual performance does not meet the "Minimum" level of achievement with respect to any tranche, the Percentage of Target Award Earned shall be 0%, and in the event that actual performance exceeds the "Maximum" level of achievement with respect to any tranche, the Percentage of Target Award Earned shall be 200%. Notwithstanding the foregoing, in the event of a Change in Control during the Performance Period, the number of Earned PSUs shall be calculated, immediately prior to such Change in Control, assuming a Percentage of Target Award Earned for each tranche equal to one hundred percent (100%) ("Target Performance").

All determinations with respect to whether and to the extent to which a Performance Condition has been achieved shall be made by the Committee in its sole discretion and the applicable Performance Conditions shall not be achieved and the applicable PSUs shall not become Earned PSUs until the date that Committee approves in writing the extent to which such Performance Conditions have been met (such date, the "Determination Date"). Notwithstanding the foregoing, in the event of a Change in Control during the Performance Period, the Determination Date shall instead occur on the last day of the Performance Period.

Any PSUs which do not become Earned PSUs based on actual performance during the Performance Period shall be forfeited as of the last day of the Performance Period.

*Vesting of Earned PSUs*

Provided that the Participant has not undergone a Termination on or prior to the Determination Date, any PSUs that become Earned PSUs shall become vested on the Determination Date.

Notwithstanding the foregoing:

- In the event that the Participant undergoes a Termination as a result of such Participant's death or Disability prior to a Change in Control, a prorated portion of the PSUs in each tranche shall vest on the date of such Termination assuming Target Performance, with such proration based on the number of days elapsed from the commencement of the Performance Period through the date of such Termination, and be settled in accordance with the Agreement.

- In the event that prior to a Change in Control the Participant undergoes a Termination by the Service Recipient without Cause, subject to the Participant's compliance during the Performance Period with any restrictive covenant by which such Participant is bound, including, without limitation, any covenant not to compete or not to solicit, in any agreement with any member of the Company Group, a prorated portion of the PSUs in each tranche will remain outstanding and eligible to vest based on the actual Percentage of Target Award Earned as determined on the Determination Date, with such proration based on the number of days elapsed from the commencement of the Performance Period through the date of such Termination; *provided* that, in the event of a Change in Control following such Termination, the outstanding portion of PSUs shall instead be calculated based on Target Performance and shall vest as of the last day of the Performance Period. Any PSUs that become Earned PSUs following the date of such Termination shall be settled in accordance with the Agreement.

- In the event the Participant undergoes a Termination (i) by the Service Recipient without Cause, (ii) by the Participant for Good Reason, or (iii) by reason of death or Disability, in each case, on or following a Change in Control, the Earned PSUs (as determined above) shall full vest as of the date of such Termination.

- In the event of any other Termination, the PSUs shall be forfeited as of the date of such Termination.

- To the extent any Participant is party to an agreement between the Participant and the Company that contains language governing the treatment of equity in connection with a Change in Control, this Performance Stock Unit Grant Notice shall govern and control regarding the treatment of such Participant's equity in connection with such Change in Control.

*Definitions*

"Adjusted EBITDA" shall mean publically disclosed in (or otherwise calculated in a manner consistent with) the Company's earnings release for the Company's [ ] fiscal year.

"Adjusted EBITDA Growth" shall mean the growth rate with respect to Adjusted EBITDA and shall be expressed as a percentage (rounded to the nearest tenth of a percent) and shall be calculated for the Performance Period using the following formula:

$$\left(\frac{Ending\ Adjusted\ EBITDA - Beginning\ Adjusted\ EBITDA)}{Beginning\ Adjusted\ EBITDA}\right) \text{x } 100$$

"Beginning Adjusted EBITDA" shall mean Adjusted EBITDA with respect to the Company's fiscal year ended [ ].

"Ending Adjusted EBITDA" shall mean Adjusted EBITDA with respect to the Company's fiscal year ended [ ].

"Good Reason" shall, in the case of any Participant who is party to an agreement between the Participant and the Service Recipient that contains a definition of "Good Reason," mean and refer to the definition set forth in such agreement, and in the case of any other Participant, "Good Reason" shall mean: (i) a material diminution in the Participant's base salary or annual cash bonus opportunity as compared to such Participant's base salary or annual cash bonus opportunity as in effect immediately prior to a Change in Control; (ii) any material diminution in Participant's duties or responsibilities as compared to such Participant's duties and responsibilities as in effect immediately prior to a Change in Control; *provided*, that in no event will any diminution in duties or responsibilities resulting from the Company no longer being publicly held constitute Good Reason hereunder; or (iii ) the relocation of the Participant's principal work location by more than 50 miles; *provided* that none of these events shall constitute Good Reason unless the Company fails to cure such event within 30 days after receipt from the Participant of written notice of the event which constitutes Good Reason; *provided*, *further*, that "Good Reason" shall cease to exist for an event on the 60th day following the later of its occurrence or the Participant's knowledge thereof, unless the Participant has given the Company's written notice thereof prior to such date.

"Revenue" shall mean the revenue which is publicly disclosed in (or otherwise calculated in a manner consistent with) the Company's earnings release for the applicable fiscal year financial results or as otherwise determined by the Audit Committee of the Board.

**Dividend Equivalents**: The Performance Stock Units shall be credited with dividend equivalent payments, as provided in Section 13(c)(iii) of the Plan.

* * *

**GROCERY OUTLET HOLDING CORP.**

__________________________________

By: Pamela Burke
Title: General Counsel

**THE UNDERSIGNED PARTICIPANT ACKNOWLEDGES RECEIPT OF THIS PERFORMANCE STOCK UNIT GRANT NOTICE, THE PERFORMANCE STOCK UNIT AGREEMENT AND THE PLAN, AND, AS AN EXPRESS CONDITION TO THE GRANT OF PERFORMANCE STOCK UNITS HEREUNDER, AGREES TO BE BOUND BY THE TERMS OF THIS PERFORMANCE STOCK UNIT GRANT NOTICE, THE PERFORMANCE STOCK UNIT AGREEMENT AND THE PLAN.**[3]

Participant

________________________________

[3] To the extent that the Company has established, either itself or through a third-party plan administrator, the ability to accept this award electronically, such acceptance shall constitute the Participant's signature hereto

[*Signature Page to Performance Stock Unit Award*]

**PERFORMANCE STOCK UNIT AGREEMENT**
**UNDER THE**
**GROCERY OUTLET HOLDING CORP.**
**2019 INCENTIVE PLAN**

Pursuant to the Performance Stock Unit Grant Notice (the "Grant Notice") delivered to the Participant (as defined in the Grant Notice), and subject to the terms of this Performance Stock Unit Agreement (this "Performance Stock Unit Agreement") and the Grocery Outlet Holding Corp. 2019 Incentive Plan, as it may be amended and restated from time to time (the "Plan"), Grocery Outlet Holding Corp. (the "Company") and the Participant agree as follows. Capitalized terms not otherwise defined herein shall have the same meaning as set forth in the Plan.

1. **Grant of Performance Stock Units**. Subject to the terms and conditions set forth herein and in the Plan, the Company hereby grants to the Participant the number of Performance Stock Units provided in the Grant Notice (with the number of Performance Stock Units that become Earned PSUs representing an unfunded, unsecured right to receive one share of Common Stock upon the vesting of such Earned PSUs). The Company may make one or more additional grants of Performance Stock Units to the Participant under this Performance Stock Unit Agreement by providing the Participant with a new grant notice, which may also include any terms and conditions differing from this Performance Stock Unit Agreement to the extent provided therein. The Company reserves all rights with respect to the granting of additional Performance Stock Units hereunder and makes no implied promise to grant additional Performance Stock Units.

2. **Vesting**. Subject to the conditions contained herein and in the Plan, the Performance Stock Units shall vest as provided in the Grant Notice. With respect to any Performance Stock Unit, the period of time that such Performance Stock Unit remains subject to vesting shall be its Restricted Period.

3. **Settlement of Performance Stock Units**. The Company will deliver to the Participant, without charge, as soon as reasonably practicable (and, in any event, within two and one-half months) following the applicable vesting date, one share of Common Stock for each Earned PSU (as adjusted under the Plan, as applicable) which becomes vested hereunder and such vested Earned PSU shall be cancelled upon such delivery. The Company shall either (a) deliver, or cause to be delivered, to the Participant a certificate or certificates therefor, registered in the Participant's name or (b) cause such shares of Common Stock to be credited to the Participant's account at the third party plan administrator. Notwithstanding anything in this Performance Stock Unit Agreement to the contrary, the Company shall have no obligation to issue or transfer any shares of Common Stock as contemplated by this Performance Stock Unit Agreement unless and until such issuance or transfer complies with all relevant provisions of law and the requirements of any stock exchange on which the Company's shares of Common Stock are listed for trading.

4. **Company; Participant**.

(a) The term "Company" as used in this Performance Stock Unit Agreement with reference to employment shall include the Company and its Subsidiaries.

(b) Whenever the word "Participant" is used in any provision of this Performance Stock Unit Agreement under circumstances where the provision should logically be construed to apply to the executors, the administrators, or the person or persons to whom the Performance Stock Units may be transferred in accordance with Section 13(b) of the Plan, the word "Participant" shall be deemed to include such person or persons.

5. **<u>Non-Transferability</u>**. The Performance Stock Units are not transferable by the Participant except to Permitted Transferees in accordance with Section 13(b) of the Plan. Except as otherwise provided herein, no assignment or transfer of the Performance Stock Units, or of the rights represented thereby, whether voluntary or involuntary, by operation of law or otherwise, shall vest in the assignee or transferee any interest or right herein whatsoever, but immediately upon such assignment or transfer the Performance Stock Units shall terminate and become of no further effect.

6. **<u>Rights as Shareholder</u>**. The Participant or a Permitted Transferee of the Performance Stock Units shall have no rights as a shareholder with respect to any share of Common Stock underlying a Performance Stock Unit unless and until the Participant shall have become the holder of record or the beneficial owner of such share of Common Stock, and no adjustment shall be made for dividends or distributions or other rights in respect of such share of Common Stock for which the record date is prior to the date upon which the Participant shall become the holder of record or the beneficial owner thereof.

7. **<u>Tax Withholding</u>**. The provisions of Section 13(d) of the Plan are incorporated herein by reference and made a part hereof. The Participant shall satisfy such Participant's withholding liability, if any, referred to in Section 13(d) of the Plan by having the Company withhold from the number of shares of Common Stock otherwise deliverable pursuant to the settlement of the Performance Stock Units a number of shares of Common Stock with a fair market value, on the date that the Performance Stock Units are settled, equal to such withholding liability; *provided* that the number of such shares may not have a fair market value greater than the minimum required statutory withholding liability unless determined by the Committee not to result in adverse accounting consequences.

8. **<u>Notice</u>**. Every notice or other communication relating to this Performance Stock Unit Agreement between the Company and the Participant shall be in writing, which may include by electronic mail, and shall be mailed to or delivered to the party for whom it is intended at such address as may from time to time be designated by such party in a notice mailed or delivered to the other party as herein provided; *provided* that, unless and until some other address be so designated, all notices or communications by the Participant to the Company shall be mailed or delivered to the Company at its principal executive office, to the attention of the Company's General Counsel or its designee, and all notices or communications by the Company to the Participant may be given to the Participant personally or may be mailed to the Participant at the Participant's last known address, as reflected in the Company's records. Notwithstanding the above, all notices and communications between the Participant and any third-party plan administrator shall be mailed, delivered, transmitted or sent in accordance with the procedures established by such third-party plan administrator and communicated to the Participant from time to time.

9. **<u>No Right to Continued Service</u>**. This Performance Stock Unit Agreement does not confer upon the Participant any right to continue as an employee or other service provider to the Company.

10. **<u>Binding Effect</u>**. This Performance Stock Unit Agreement shall be binding upon the heirs, executors, administrators and successors of the parties hereto.

11. **<u>Waiver and Amendments</u>**. Except as otherwise set forth in Section 12 of the Plan, any waiver, alteration, amendment or modification of any of the terms of this Performance Stock Unit Agreement shall be valid only if made in writing and signed by the parties hereto; *provided*, *however*, that any such waiver, alteration, amendment or modification is consented to on the Company's behalf by the Committee. No waiver by either of the parties hereto of their rights hereunder shall be deemed to constitute a waiver with respect to any subsequent occurrences or transactions hereunder unless such waiver specifically states that it is to be construed as a continuing waiver.

12. **Clawback/Forfeiture**. Notwithstanding anything to the contrary contained herein or in the Plan, if the Participant has engaged in or engages in any Detrimental Activity, then the Committee may, in its sole discretion, take actions permitted under the Plan, including: (a) canceling the Performance Stock Units or (b) requiring that the Participant forfeit any gain realized on the disposition of any shares of Common Stock received in settlement of any Performance Stock Units, and repay such gain to the Company. In addition, if the Participant receives any amount in excess of what the Participant should have received under the terms of this Performance Stock Unit Agreement for any reason (including without limitation by reason of a financial restatement, mistake in calculations or other administrative error), then the Participant shall be required to repay any such excess amount to the Company. Without limiting the foregoing, all Performance Stock Units shall be subject to reduction, cancellation, forfeiture or recoupment to the extent necessary to comply with applicable law

13. **Governing Law**. This Performance Stock Unit Agreement shall be construed and interpreted in accordance with the laws of the State of Delaware, without regard to the principles of conflicts of law thereof. Notwithstanding anything contained in this Performance Stock Unit Agreement, the Grant Notice or the Plan to the contrary, if any suit or claim is instituted by the Participant or the Company relating to this Performance Stock Unit Agreement, the Grant Notice or the Plan, the Participant hereby submits to the exclusive jurisdiction of and venue in the courts of Delaware.

14. **Plan**. The terms and provisions of the Plan are incorporated herein by reference. In the event of a conflict or inconsistency between the terms and provisions of the Plan and the provisions of this Performance Stock Unit Agreement (including the Grant Notice), the Plan shall govern and control.

15. **Section 409A**. It is intended that the Performance Stock Units granted hereunder shall be exempt from Section 409A of the Code pursuant to the “short-term deferral” rule applicable to such section, as set forth in the regulations or other guidance published by the Internal Revenue Service thereunder.

16. **Imposition of Other Requirements**. The Company reserves the right to impose other requirements on the Participant’s participation in the Plan, on the Performance Stock Units and on any shares of Common Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

17. **Electronic Delivery and Acceptance**. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

18. **Entire Agreement**. This Performance Stock Unit Agreement, the Grant Notice and the Plan constitute the entire agreement of the parties hereto in respect of the subject matter contained herein and supersede all prior agreements and understandings of the parties, oral and written, with respect to such subject matter.

**Exhibit 10.4**

**RESTRICTED STOCK UNIT GRANT NOTICE**
**UNDER THE**
**GROCERY OUTLET HOLDING CORP.**
**2019 INCENTIVE PLAN**

Grocery Outlet Holding Corp. (the "Company"), pursuant to its 2019 Incentive Plan, as it may be amended and restated from time to time (the "Plan"), hereby grants to the Participant set forth below the number of Restricted Stock Units set forth below. The Restricted Stock Units are subject to all of the terms and conditions as set forth herein, in the Restricted Stock Unit Agreement (attached hereto or previously provided to the Participant in connection with a prior grant), and in the Plan, all of which are incorporated herein in their entirety. Capitalized terms not otherwise defined herein shall have the meaning set forth in the Plan.

**Participant**: [*First Name*] [*Last Name*]

**Date of Grant**: [*Insert Date*]

**Vesting Commencement Date**: March 1, 2020

**Number of Restricted Stock Units**: [*Insert Number of Restricted Stock Units Granted*]

**Vesting Schedule**: Provided the Participant has not undergone a Termination prior to the vesting date (or event), one-third (1/3) of the Restricted Stock Units (rounded down to the nearest whole share) will vest on each of the first, second and third anniversaries of the Vesting Commencement Date; provided, that on the third anniversary of the Vesting Commencement Date, any Restricted Stock Units that have not otherwise vested due to rounding will also vest in full; provided, further, however, that the Restricted Stock Units will, to the extent not vested, become fully vested if the Participant undergoes a Termination by the Service Recipient without Cause following a Change in Control.

**Dividend Equivalents**: The Restricted Stock Units shall be credited with dividend equivalent payments, as provided in Section 13(c)(iii) of the Plan.

* * *

GROCERY OUTLET HOLDING CORP.

____________________________________

By:

Title:

**THE UNDERSIGNED PARTICIPANT ACKNOWLEDGES RECEIPT OF THIS RESTRICTED STOCK UNIT GRANT NOTICE, THE RESTRICTED STOCK UNIT AGREEMENT AND THE PLAN, AND, AS AN EXPRESS CONDITION TO THE GRANT OF RESTRICTED STOCK UNITS HEREUNDER, AGREES TO BE BOUND BY THE TERMS OF THIS RESTRICTED STOCK UNIT GRANT NOTICE, THE RESTRICTED STOCK UNIT AGREEMENT AND THE PLAN.**

Participant[1]

______________________________

[1] To the extent that the Company has established, either itself or through a third-party plan administrator, the ability to accept this award electronically, such acceptance shall constitute the Participant's signature hereto

**RESTRICTED STOCK UNIT AGREEMENT**
**UNDER THE**
**GROCERY OUTLET HOLDING CORP.**
**2019 INCENTIVE PLAN**

Pursuant to the Restricted Stock Unit Grant Notice (the "Grant Notice") delivered to the Participant (as defined in the Grant Notice), and subject to the terms of this Restricted Stock Unit Agreement (this "Restricted Stock Unit Agreement") and the Grocery Outlet Holding Corp. 2019 Incentive Plan, as it may be amended and restated from time to time (the "Plan"), Grocery Outlet Holding Corp. (the "Company") and the Participant agree as follows. Capitalized terms not otherwise defined herein shall have the same meaning as set forth in the Plan.

1. **Grant of Restricted Stock Units**. Subject to the terms and conditions set forth herein and in the Plan, the Company hereby grants to the Participant the number of Restricted Stock Units provided in the Grant Notice (with each Restricted Stock Unit representing an unfunded, unsecured right to receive one share of Common Stock). The Company may make one or more additional grants of Restricted Stock Units to the Participant under this Restricted Stock Unit Agreement by providing the Participant with a new Grant Notice, which may also include any terms and conditions differing from this Restricted Stock Unit Agreement to the extent provided therein. The Company reserves all rights with respect to the granting of additional Restricted Stock Units hereunder and makes no implied promise to grant additional Restricted Stock Units.

2. **Vesting**. Subject to the conditions contained herein and in the Plan, the Restricted Stock Units shall vest as provided in the Grant Notice.

3. **Settlement of Restricted Stock Units**. Subject to any election by the Committee pursuant to Section 8(d)(ii) of the Plan, the Company will deliver to the Participant, without charge, as soon as reasonably practicable (and, in any event, within two and one-half months) following the applicable vesting date, one share of Common Stock for each Restricted Stock Unit (as adjusted under the Plan, as applicable) which becomes vested hereunder and such vested Restricted Stock Unit shall be cancelled upon such delivery. The Company shall either (a) deliver, or cause to be delivered, to the Participant a certificate or certificates therefor, registered in the Participant's name or (b) cause such shares of Common Stock to be credited to the Participant's account at the third party plan administrator. Notwithstanding anything in this Restricted Stock Unit Agreement to the contrary, the Company shall have no obligation to issue or transfer any shares of Common Stock as contemplated by this Restricted Stock Unit Agreement unless and until such issuance or transfer complies with all relevant provisions of law and the requirements of any stock exchange on which the Company's shares of Common Stock are listed for trading.

4. **Treatment of Restricted Stock Units Upon Termination**. The provisions of Section 8(c)(ii) of the Plan are incorporated herein by reference and made a part hereof.

5. **Company; Participant**.

(a) The term "Company" as used in this Restricted Stock Unit Agreement with reference to employment shall include the Company and its Subsidiaries.

(b) Whenever the word "Participant" is used in any provision of this Restricted Stock Unit Agreement under circumstances where the provision should logically be construed to apply to the executors, the administrators, or the person or persons to whom the Restricted Stock Units may be transferred in accordance with Section 13(b) of the Plan, the word "Participant" shall be deemed to include such person or persons.

6. **Non-Transferability**. The Restricted Stock Units are not transferable by the Participant except to Permitted Transferees in accordance with Section 13(b) of the Plan. Except as otherwise provided herein, no assignment or transfer of the Restricted Stock Units, or of the rights represented thereby, whether voluntary or involuntary, by operation of law or otherwise, shall vest in the assignee or transferee any interest or right herein whatsoever, but immediately upon such assignment or transfer the Restricted Stock Units shall terminate and become of no further effect.

7. **Rights as Shareholder**. The Participant or a Permitted Transferee of the Restricted Stock Units shall have no rights as a shareholder with respect to any share of Common Stock underlying a Restricted Stock Unit unless and until the Participant shall have become the holder of record or the beneficial owner of such share of Common Stock, and no adjustment shall be made for dividends or distributions or other rights in respect of such share of Common Stock for which the record date is prior to the date upon which the Participant shall become the holder of record or the beneficial owner thereof.

8. **Tax Withholding**. The provisions of Section 13(d) of the Plan are incorporated herein by reference and made a part hereof. The Participant shall satisfy such Participant's withholding liability, if any, referred to in Section 13(d) of the Plan by having the Company withhold from the number of shares of Common Stock otherwise deliverable pursuant to the settlement of the Restricted Stock Units a number of shares of Common Stock with a fair market value, on the date that the Restricted Stock Units are settled, equal to such withholding liability; provided that the number of such shares may not have a fair market value greater than the minimum required statutory withholding liability unless determined by the Committee not to result in adverse accounting consequences.

9. **Notice**. Every notice or other communication relating to this Restricted Stock Unit Agreement between the Company and the Participant shall be in writing, which may include by electronic mail, and shall be mailed to or delivered to the party for whom it is intended at such address as may from time to time be designated by such party in a notice mailed or delivered to the other party as herein provided; provided that, unless and until some other address be so designated, all notices or communications by the Participant to the Company shall be mailed or delivered to the Company at its principal executive office, to the attention of the Company's General Counsel or its designee, and all notices or communications by the Company to the Participant may be given to the Participant personally or may be mailed to the Participant at the Participant's last known address, as reflected in the Company's records. Notwithstanding the above, all notices and communications between the Participant and any third-party plan administrator shall be mailed, delivered, transmitted or sent in accordance with the procedures established by such third-party plan administrator and communicated to the Participant from time to time.

10. **No Right to Continued Service**. This Restricted Stock Unit Agreement does not confer upon the Participant any right to continue as an employee or other service provider to the Company.

11. **Binding Effect**. This Restricted Stock Unit Agreement shall be binding upon the heirs, executors, administrators and successors of the parties hereto.

12. **Waiver and Amendments**. Except as otherwise set forth in Section 12 of the Plan, any waiver, alteration, amendment or modification of any of the terms of this Restricted Stock Unit Agreement shall be valid only if made in writing and signed by the parties hereto; provided, however, that any such waiver, alteration, amendment or modification is consented to on the Company's behalf by the Committee. No waiver by either of the parties hereto of their rights hereunder shall be deemed to constitute a waiver with respect to any subsequent occurrences or transactions hereunder unless such waiver specifically states that it is to be construed as a continuing waiver.

13. **Clawback/Forfeiture**. Notwithstanding anything to the contrary contained herein or in the Plan, if the Participant has engaged in or engages in any Detrimental Activity, then the Committee may, in its sole discretion, take actions permitted under the Plan, including: (a) canceling the Restricted Stock Units, or (b) requiring that the Participant forfeit any gain realized on the disposition of any shares of Common Stock received in settlement of any Restricted Stock Units, and repay such gain to the Company. In addition, if the Participant receives any amount in excess of what the Participant should have received under the terms of this Restricted Stock Unit Agreement for any reason (including without limitation by reason of a financial restatement, mistake in calculations or other administrative error), then the Participant shall be required to repay any such excess amount to the Company. Without limiting the foregoing, all Restricted Stock Units shall be subject to reduction, cancellation, forfeiture or recoupment to the extent necessary to comply with applicable law.

14. **Governing Law**. This Restricted Stock Unit Agreement shall be construed and interpreted in accordance with the laws of the State of Delaware, without regard to the principles of conflicts of law thereof. Notwithstanding anything contained in this Restricted Stock Unit Agreement, the Grant Notice or the Plan to the contrary, if any suit or claim is instituted by the Participant or the Company relating to this Restricted Stock Unit Agreement, the Grant Notice or the Plan, the Participant hereby submits to the exclusive jurisdiction of and venue in the courts of Delaware.

15. **Plan**. The terms and provisions of the Plan are incorporated herein by reference. In the event of a conflict or inconsistency between the terms and provisions of the Plan and the provisions of this Restricted Stock Unit Agreement (including the Grant Notice), the Plan shall govern and control.

16. **Section 409A**. It is intended that the Restricted Stock Units granted hereunder shall be exempt from Section 409A of the Code pursuant to the "short-term deferral" rule applicable to such section, as set forth in the regulations or other guidance published by the Internal Revenue Service thereunder.

17. **Imposition of Other Requirements**. The Company reserves the right to impose other requirements on the Participant's participation in the Plan, on the Restricted Stock Units and on any shares of Common Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

18. **Electronic Delivery and Acceptance**. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

19. **Entire Agreement**. This Restricted Stock Unit Agreement, the Grant Notice and the Plan constitute the entire agreement of the parties hereto in respect of the subject matter contained herein and supersede all prior agreements and understandings of the parties, oral and written, with respect to such subject matter.

**Exhibit 31.1**

**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, 2020 | By: /s/ Eric J. Lindberg, Jr. |
| | Eric J. Lindberg, Jr. |
| | Chief Executive Officer |
| | (Principal Executive Officer) |

**Exhibit 31.2**

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

**PURSUANT TO SECTION 302 OF**
**THE SARBANES-OXLEY ACT OF 2002**

I, Charles 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, 2020

By: /s/ Charles Bracher
Charles Bracher
Chief Financial Officer
(Principal Financial Officer)

**Exhibit 32.1**

**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 March 28, 2020 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, 2020

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

**Exhibit 32.2**

**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 March 28, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles 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, 2020

By: /s/ Charles Bracher
Charles Bracher
Chief Financial Officer
(Principal Financial Officer)