



**GROCERY  
OUTLET**  
*bargain market®*



**NON-DEAL ROADSHOW PRESENTATION**

December 2019

# Disclaimer



## Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the U.S. securities laws about our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business, all of which are subject to risks and uncertainties. All statements other than statements of historical fact or relating to present facts or current conditions included in this presentation are forward-looking statements. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “seek,” “plan,” “intend,” “believe,” “will,” “may,” “could,” “continue,” “likely,” “should,” and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events but not all forward-looking statements contain these identifying words.

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## Industry Information

Market data and industry information used throughout this presentation are based on management’s knowledge of the industry and the good faith estimates of management. We also relied, to the extent available, upon management’s review of independent industry surveys and publications and other publicly available information prepared by a number of third-party sources. All of the market data and industry information used in this presentation involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. Although we believe that these sources are reliable, we cannot guarantee the accuracy or completeness of this information, and we have not independently verified this information. While we believe the estimated market position, market opportunity and market size information included in this presentation are generally reliable, such information, which is derived in part from management’s estimates and beliefs, is inherently uncertain and imprecise. Projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described above. These and other factors could cause results to differ materially from those expressed in our estimates and beliefs and in the estimates prepared by independent parties.

## Non-GAAP Financial Measures

We present Adjusted EBITDA and Adjusted EBITDA margin to help us describe our operating performance. Our presentation of Adjusted EBITDA and Adjusted EBITDA margin is intended as a supplemental measure of our performance that is not required by, or presented in accordance with, U.S. generally accepted accounting principles (“GAAP”). Adjusted EBITDA and Adjusted EBITDA margin should not be considered as an alternative to operating income (loss), net income (loss), earnings per share or any other performance measures derived in accordance with U.S. GAAP as measures of operating performance or operating cashflows or as measures of liquidity. Our presentation of Adjusted EBITDA and Adjusted EBITDA margin should not be construed to imply that our future results will be unaffected by these items. See the supplemental materials to this presentation for a reconciliation of Adjusted EBITDA and Adjusted EBITDA margin to net income (loss).



# GROCERYOUTLET

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## COMPANY OVERVIEW

# Grocery Outlet Is a Differentiated, High-Growth, Off-Price Retailer



## Differentiated Model

**40% - 70%**

Prices Below Conventional  
Retailers On Our Best Deals

**~50%**

Opportunistically  
Sourced Products

**5,000**

Ever-Changing SKUs Per Store  
Promote Treasure Hunt Experience

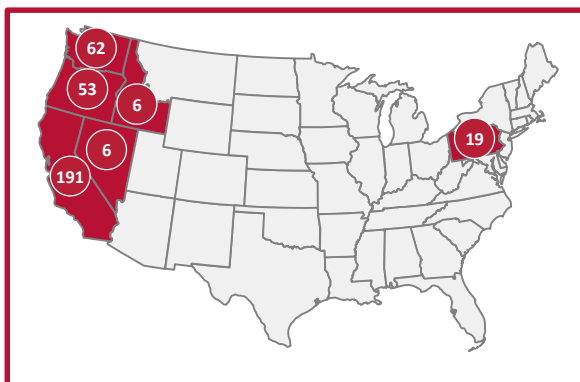
**300+**

Independent Operators  
Create Local Shopping Experience

**~14,000**

Square Foot  
Average Store Size

## Attractive Store Base



337 Stores Across 6 States <sup>(1)</sup>

**10%**

Store Count CAGR  
Since 2015

**1,900**

In-Market and Neighboring  
States Potential Stores

**40%+**

Year 4 Cash-on-Cash Returns  
Historically

## Strong Financial Performance

**\$2.5bn**

LTM Q3 2019 Sales

**\$168mm**

LTM Q3 2019 Adjusted EBITDA

**15**

Consecutive Years of Positive  
Comparable Store Sales Growth <sup>(2)</sup>

**5.1%**

Average Comparable Store Sales  
Growth Over Past 15 Years <sup>(2)</sup>

**13.5%**

Average Comparable Store Sales  
Growth in 2008 and 2009

# We Have Continued to Make Significant Progress Since Our IPO

## Q3 Actuals

### Delivered Solid Business Performance

- ✓ Comparable stores sales growth of 5.8%
- ✓ Net Sales growth of 13%
- ✓ Adjusted EBITDA of \$44.2mm, increased 13% <sup>(1)</sup>
- ✓ Adjusted Net Income of \$20.6mm, increased 59%

### Continued Solid Product, IO Performance, and Marketing Execution

- ✓ Compelling value and treasure hunt experience from strong opportunistic purchasing
- ✓ Broad-based growth with Natural, Organic, Specialty, Healthy (NOSH), fresh categories, and beer and wine as standouts
- ✓ Continued growth of newly introduced fresh seafood and grass-fed meat
- ✓ Improvements in ordering and distribution systems that enhance IO localized assortment decisions
- ✓ GO brand refresh supported by new Bargain Bliss marketing campaign
- ✓ Growth in email subscribers (~20% increase in Q3 2019 vs. prior year)

### Expanded Footprint and Growth Initiatives

- ✓ Opened 8 new stores (1 closure) in Q3 2019 with a balanced mix between mature and developing markets
- ✓ Stores opened in 2019 are performing well and in-line with expectations
- ✓ Started delivering from Southern California refrigerated warehouse
- ✓ Developing the East infrastructure with hiring of new EVP of East Region

### Improved Balance Sheet

- ✓ Successfully upsized IPO
- ✓ Used IPO proceeds to reduce net leverage<sup>(2)</sup> from 5.5x pre-IPO to 2.6x in Q3 2019
- ✓ Re-priced first lien term loan
- ✓ Run-rate interest expense of \$30 million when annualizing Q3 2019 estimated interest expense <sup>(3)</sup>

<sup>(1)</sup> Excludes estimated public company costs of \$1.8mm for comparability to Q3 2018. We expect these public company costs to recur in future periods.

<sup>(2)</sup> Defined as (Total Debt – Cash) / LTM Adj. EBITDA.

<sup>(3)</sup> Reflects LIBOR of 2.3%.



# The WOW! Shopping Experience



## PRICE

- Extreme value
  - ~40% average basket savings <sup>(1)</sup>
  - ~40% - 70% savings on best deals <sup>(1)</sup>
- Distinct and proven buying model



## QUALITY

- Name-brand products
- Fresh
- Natural Organic Specialty Healthy (NOSH)
- Quality guarantee
- Clean, well-merchandised stores



## SERVICE

- Locally owned and operated
- Friendly, high-touch service
- Active in community
- Family-run stores
- Easy-to-shop stores









## TREASURE HUNT DISCOVERY = FUN!

- *Unexpected deals*
- *Ever-changing assortment*
- *Curated and localized merchandise*



# Grocery Outlet's Model Is Well-Positioned Against Other Off-Price / Discount Retailers



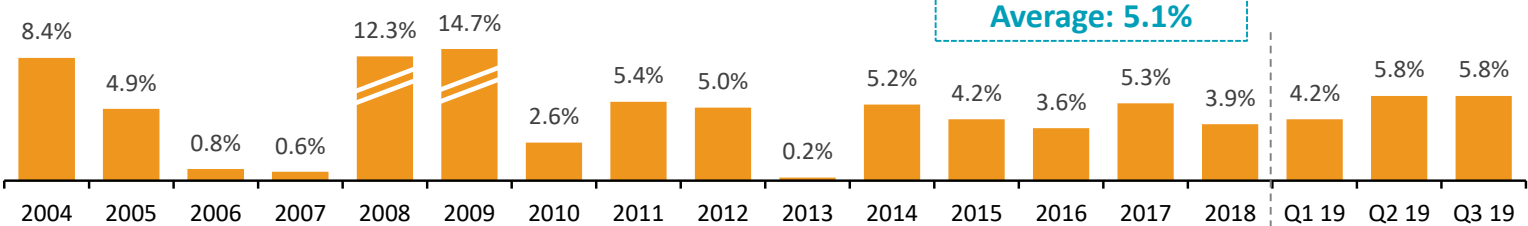
	Opportunistic Sourcing	Treasure Hunt Experience	E-Commerce as a % of Sales
	✓	✓	0%
	✓	✓	0%
	✓	✓	<5%
	✓	✓	<2%
	✓	✓	0%
	✓	✓	<1%

Source: Company filings.

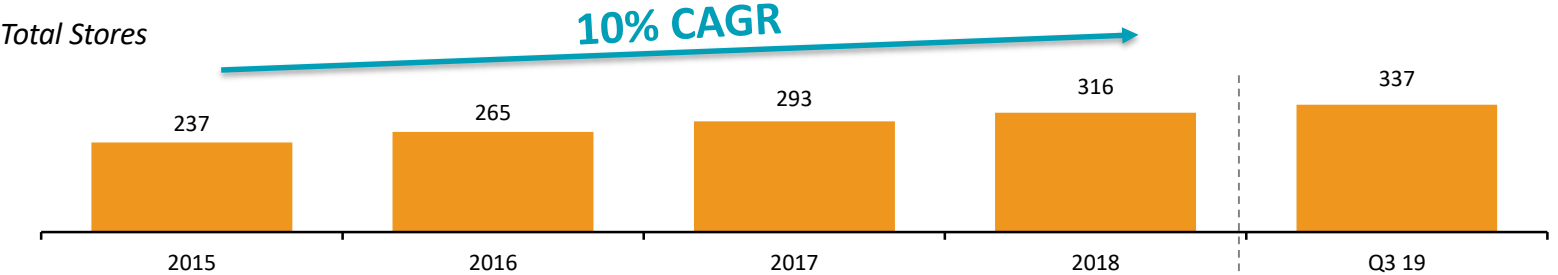
# Consistent Track Record of Earnings Growth

**Strong Comp  
Performance**

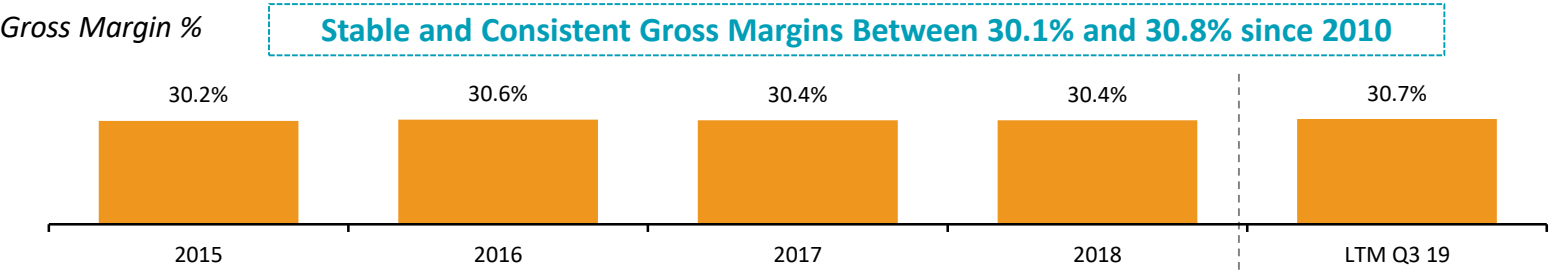
**15 Years** of Positive Comparable Store Sales Growth



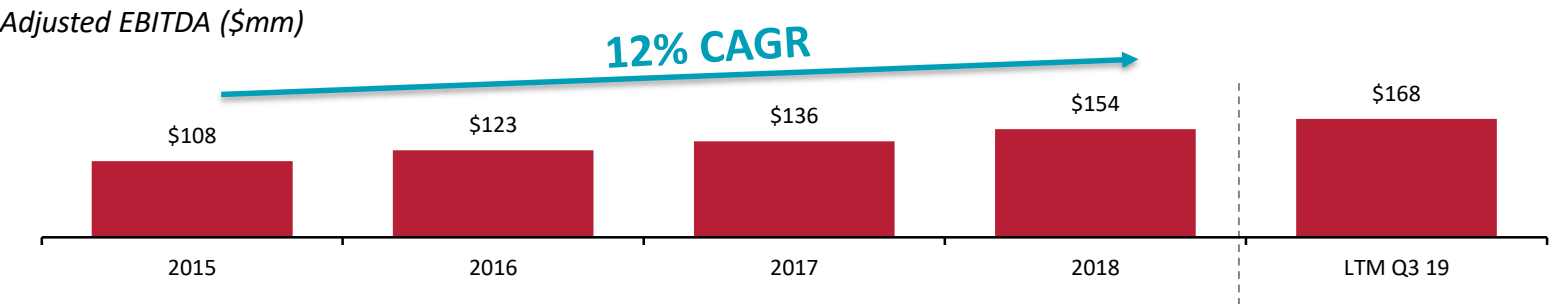
**Disciplined  
Store Growth**



**Consistent  
Margins**



**Track Record  
of Earnings  
Growth**



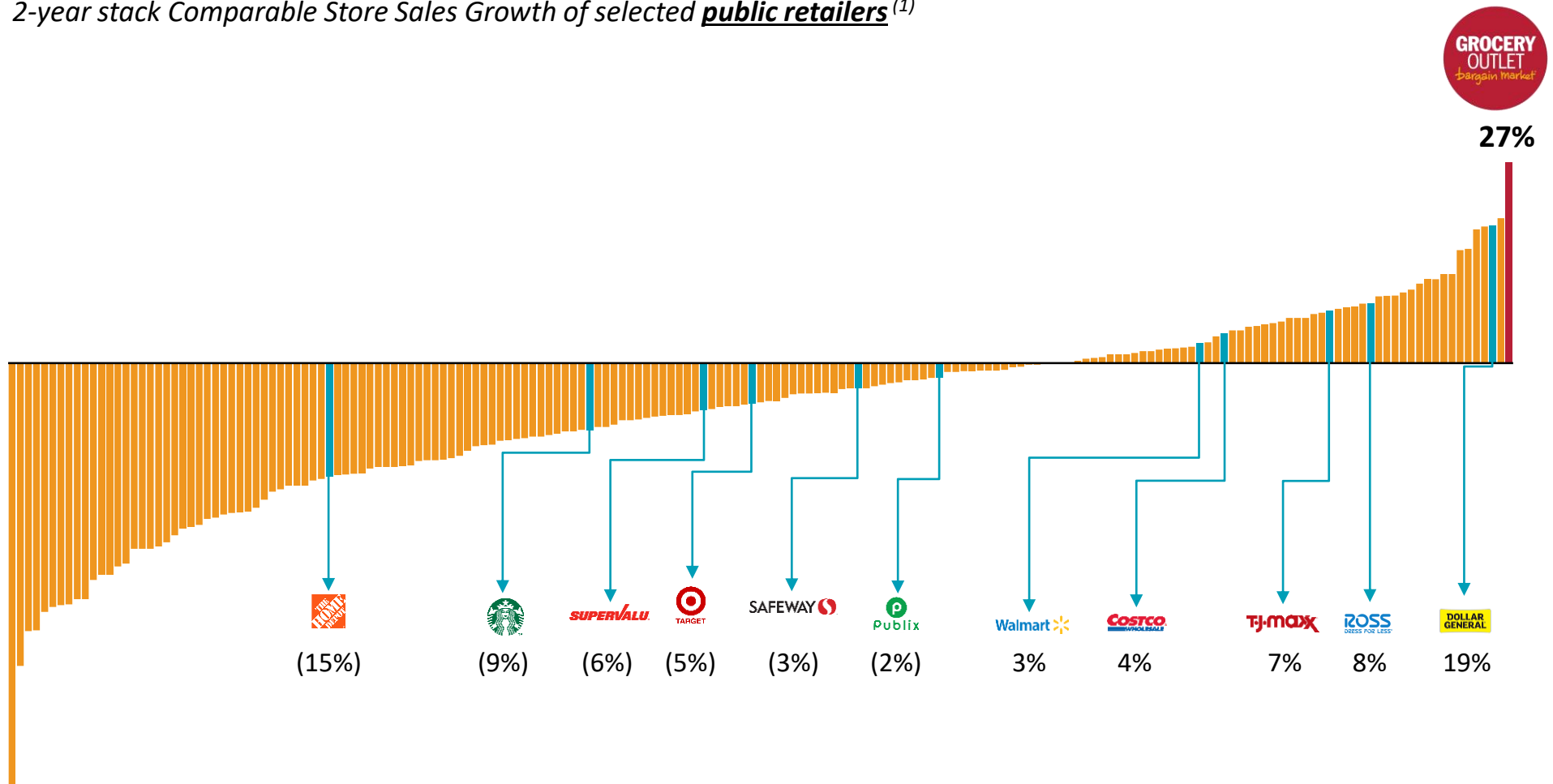


# Grocery Outlet Had Strong Comparable Store Sales Growth Performance During The Last Recession



## Recessionary Conditions (2008 – 2009)

2-year stack Comparable Store Sales Growth of selected **public retailers**<sup>(1)</sup>



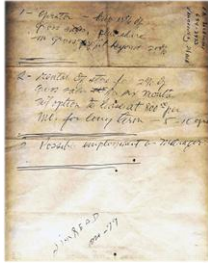
Source: Company filings, company projections, publicly available information and FactSet. n = 184

(1) Reflects 2008 and 2009 comparable store sales growth stack for all U.S. retailers that were public during 2008 and 2009 and have reported comparable store sales growth figures for these years on FactSet.

# Grocery Outlet Evolution: Over 70 Years of Delivering The WOW!

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**Signs first IO  
Agreement in  
Redmond, OR**



**Berkshire  
Partners invests**

Berkshire Partners

**Expands to  
Southern  
California market**



**Reaches \$2  
billion in sales**

**\$2bn  
Wow!**

**Publicly-listed  
Company**



**Jim Read opens  
"Cannery Sales"**



**Eric Lindberg  
and MacGregor  
Read become  
Co-CEOs**



**Acquires  
Amelia's and  
expands to East  
Coast**



**Hellman &  
Friedman  
invests**

**H&F**

**Opens 300<sup>th</sup>  
store in  
Inglewood**



1946

1973

2006

2009

2011

2012

2014

2017

2018

2019

# Strong Commitment To Corporate Culture



Grocery Outlet is driven by family values that are reflected throughout the organization

Integrity



Collaboration



Entrepreneurship



Performance



Our Mission:  
**Touching Lives For The Better**



A photograph of a Grocery Outlet Bargain Market store interior, showing high ceilings with exposed beams, fluorescent lighting, and long aisles filled with shelves of various grocery items. The image is overlaid with a semi-transparent red filter. The text "GROCERYOUTLET" is in white, bold, uppercase letters, and "bargain market" is in a yellow, lowercase, script font. Below this, the title "INVESTMENT HIGHLIGHTS AND GROWTH STRATEGIES" is written in large, white, bold, uppercase letters.

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# INVESTMENT HIGHLIGHTS AND GROWTH STRATEGIES

# Investment Highlights & Growth Strategies



## Investment Highlights

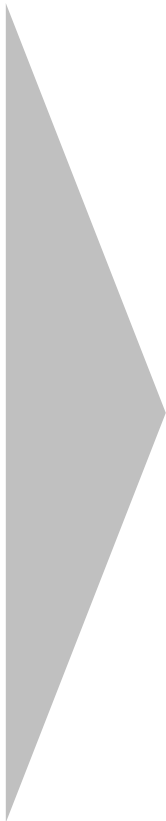
I>POWERFUL CUSTOMER VALUE PROPOSITION SUPPORTED BY A “WOW!” EXPERIENCE

II>FLEXIBLE SOURCING AND DISTRIBUTION MODEL THAT IS DIFFICULT TO REPLICATE

III>INDEPENDENT OPERATORS: OUR “SMALL BUSINESS AT SCALE” MODEL

IV>STRONG CONSUMER ENGAGEMENT AND ALIGNMENT WITH MACRO TRENDS

V>ATTRACTIVE AND CONSISTENT NEW STORE ECONOMICS SUPPORT WHITESPACE





## Growth Strategies

Be the First Choice for Bargain-Minded Customers Across the Country

DRIVE COMPARABLE STORE SALES GROWTH

EXECUTE ON STORE EXPANSION PLANS

IMPROVE PRODUCTIVITY AND REINVEST IN THE VALUE PROPOSITION







# Our Fundamentally Different Approach To Buying and Selling

## Small Business at Scale

### How We Buy

-  Opportunistic sourcing of quality, name-brand, fresh products
-  Large, centralized purchasing team
-  Long-standing, actively managed supplier relationships
-  ~1,500 suppliers
-  Proactive sourcing of on-trend products and brands
-  Everyday core staples to complement our WOW! offerings

### How We Sell

-  Independently operated, local, small-box stores
-  Personalized customer service
-  High community involvement
-  IOs control store operations and oversee:
  -  Product selection
  -  Hiring, training and managing their store workers
  -  Local marketing

***"Out Chain the Locals, Out Local the Chains"***





# Flexible Sourcing and Distribution Model Anchored by Purchasing Team and Relationships



## Long-Standing Suppliers...



## ...And New Emerging Suppliers



## ...Who Make Us One of Their First Calls

RELATIONSHIP

BRAND PROTECTION

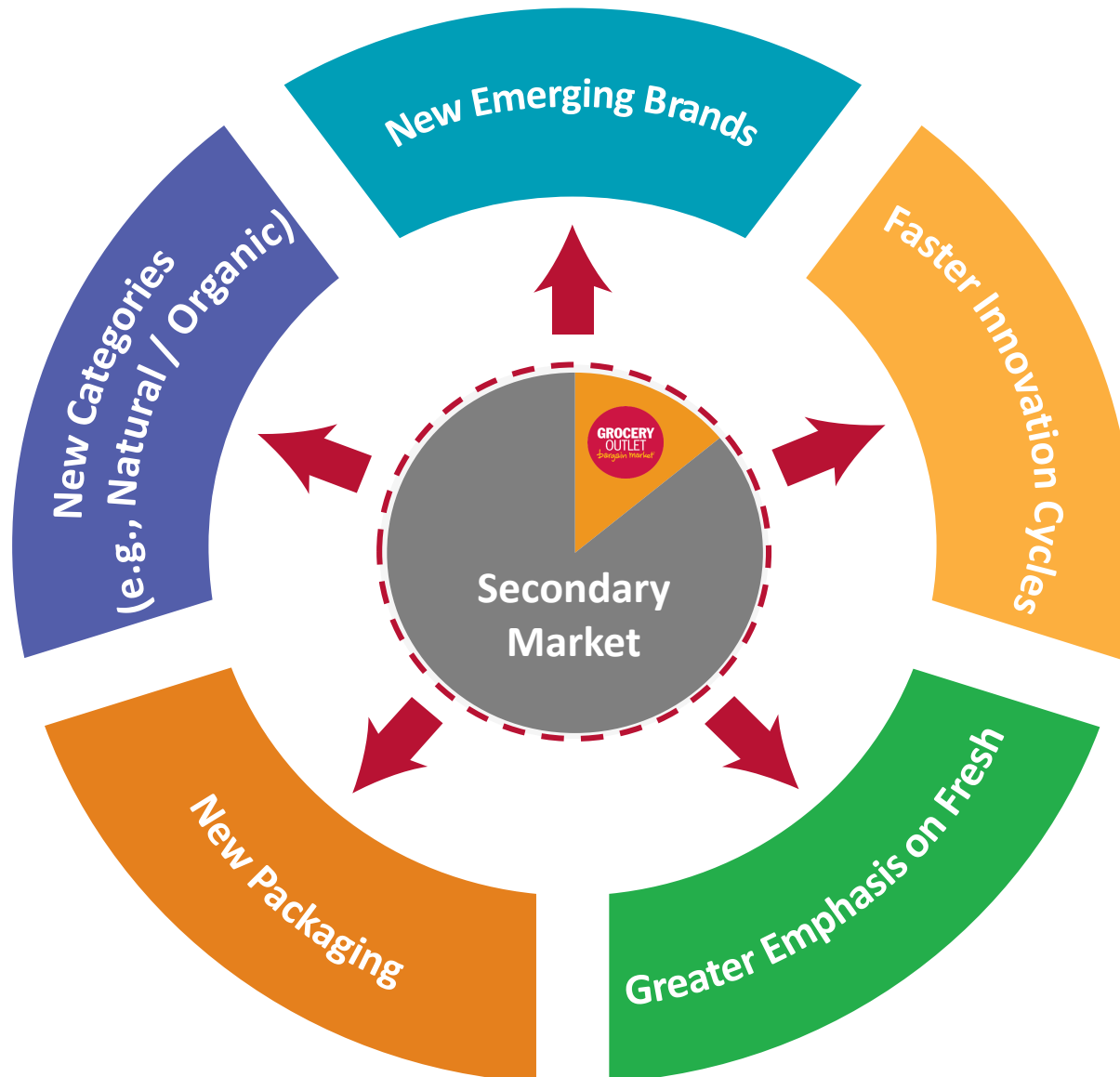
EXECUTION

SCALE

# Substantial Opportunity to Further Grow Opportunistic Supply

*Significant Share Gain Opportunity*

*Ongoing Secondary Market Growth*



# Grocery Outlet's Differentiated Sourcing Model Delivers Great Value To Customers



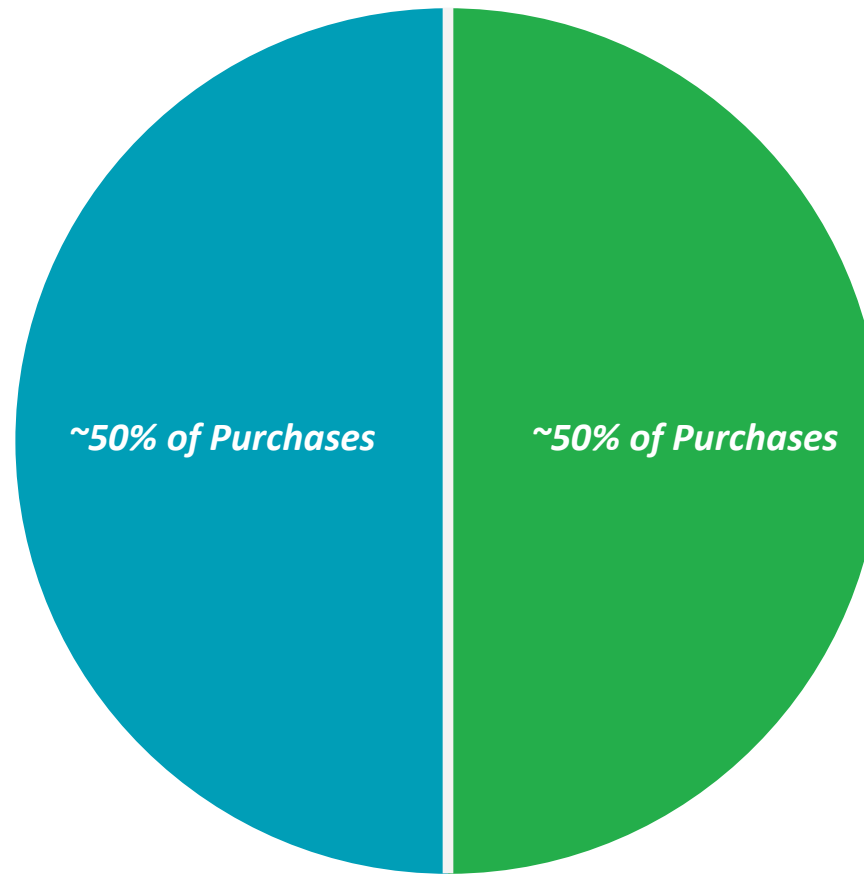
## Two Primary Methods

### Opportunistic

- Opportunistic purchases represent **CPG excess inventory**
- GO is a **preferred CPG partner** for a non-disruptive, brand-protected sales channel
- Allows GO to **pass along significant savings to customers** while making a healthy margin

### Everyday Core Staples

- When **staples, such as milk or sugar**, cannot be sourced opportunistically, GO buys from suppliers
- Provides customer convenience via a **more complete product assortment**
- Products **priced at or below conventional supermarkets'** and discount competitors' everyday prices





# Favorable Value Proposition vs. Other Retailers

## Basket Savings

% Savings Across Store Relative to Competitors<sup>(1)</sup>

~40%

Conventional  
Grocery

~20%

Discount  
Grocery

AND WE PROVIDE  
EXTREME VALUE!

AND IN AN EASY-  
TO-SHOP STORE!

## Further Differentiation

CLUB STORES

BUT WITH NO  
MEMBERSHIP FEE  
OR BULK SIZES!

DEEP  
DISCOUNTERS

BUT OFFERS LEADING  
NATIONAL BRANDS!

DOLLAR  
STORES

ACROSS A  
FULL GROCERY  
ASSORTMENT!

ONLINE

BUT WITH FRIENDLY,  
HIGH-TOUCH SERVICE!

(1) Savings vs. Conventional/Discount derived from Grocery Outlet's ongoing pricing research based on a blended basket of items from Safeway and Walmart for 5,000+ SKUs from multiple regions.

# Unique Independent Operator Model Fuels Success



*"Out Chain the Locals, Out Local the Chains"*

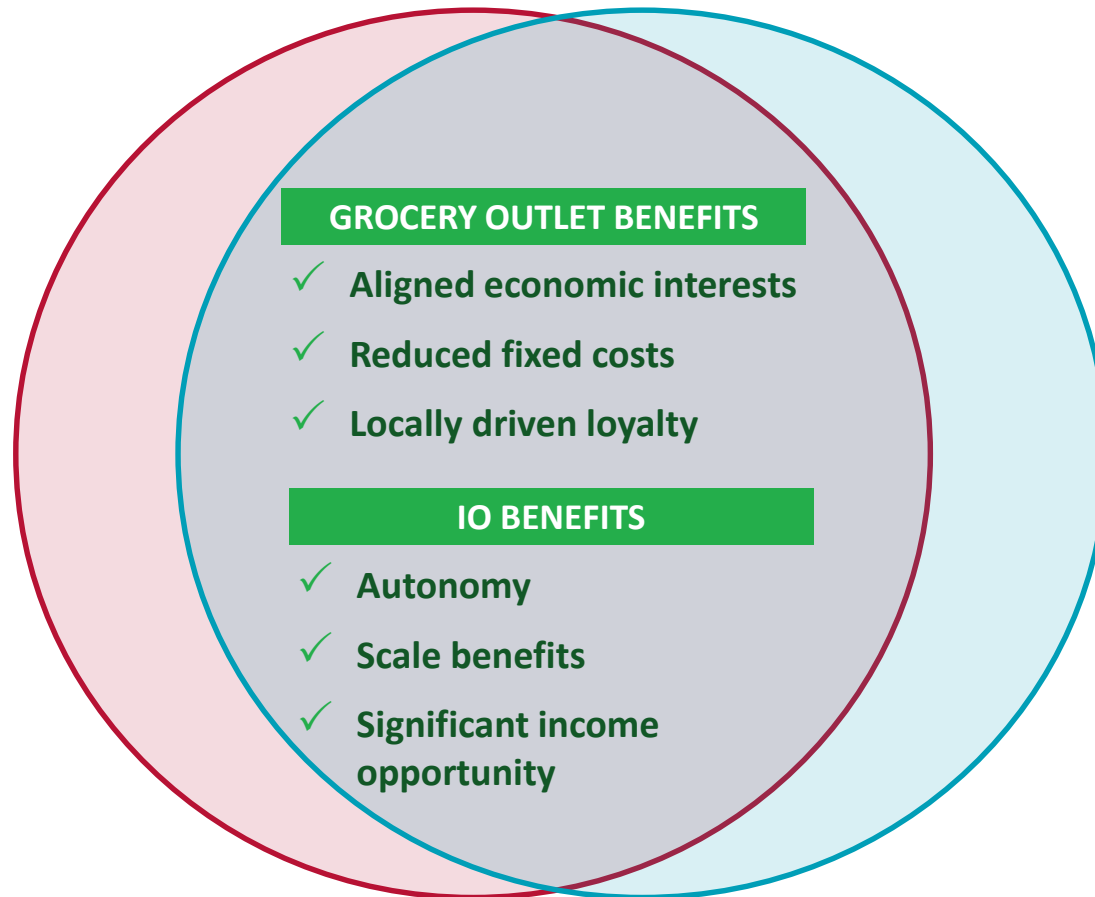


## **Operational**

- Sourcing
- Initial Pricing
- Recruiting and training IOs
- Real estate
- Distribution and logistics

## **Financial**

- Own inventory (consigned to IOs)
- Regional marketing
- Rent
- Capex
- Corporate SG&A



**Independent Operators**

## **Operational**

- Merchandising
- Managing inventory
- Modify pricing
- Hiring and training store employees
- Community and customer service

## **Financial**

- Wages
- Local marketing
- Store operating expenses
- Operating working capital
- Operating assets

*Collaboration with and amongst IOs enables real-time feedback and best-practice sharing for continual improvement*

# Compelling Store Economics For Both Grocery Outlet and Our Independent Operators



	GO	IO
--	----	----

## Upfront Investment

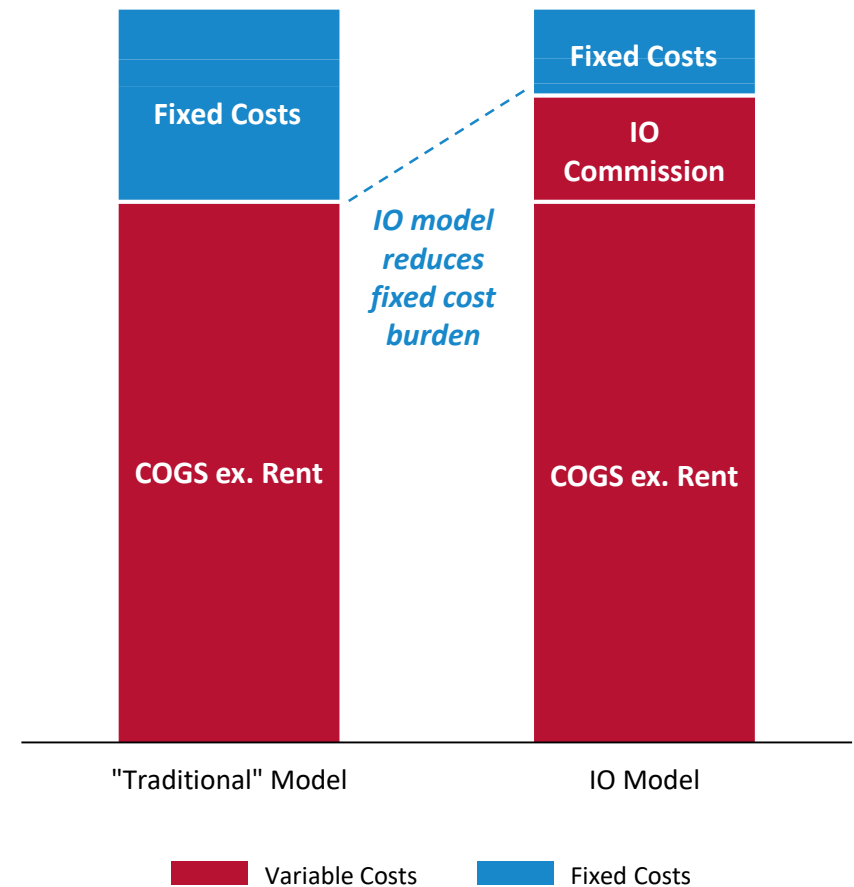
CapEx Buildout	✓	✗
Inventory / Pre-Opening	✓	✗
IO Assets / Working Capital	✗	✓

## Illustrative Year-4 P&L

Sales	\$6.9	
Gross Profit	\$2.1	
Share of Gross Profit	50%	50%
Wages, Taxes, Benefits	✗	✓
Occupancy	✓	✗

## IO Model Reduces GO's Fixed Cost Burden

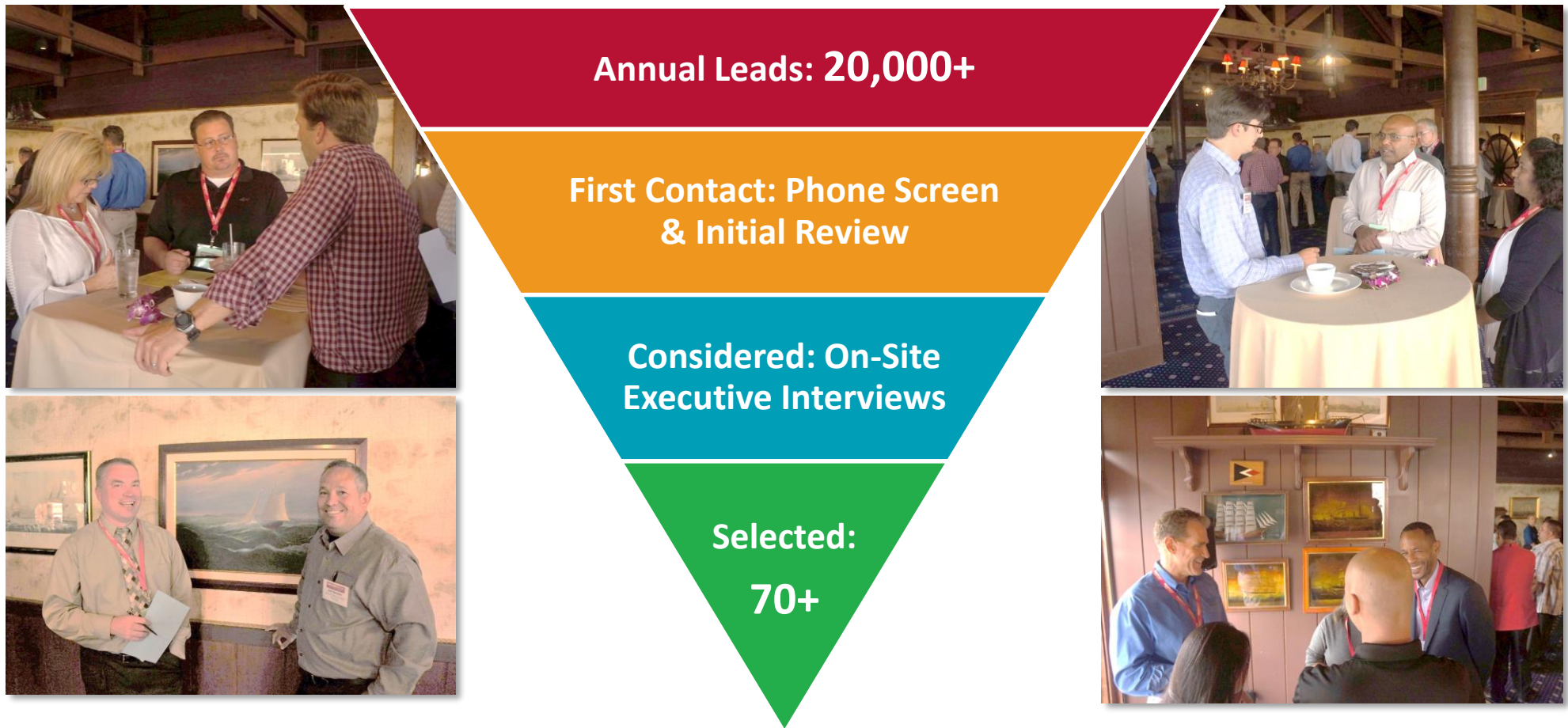
Illustrative Expense Split



Note: Dollars in millions.



# Selective Independent Operator Recruiting And Rigorous Training



Enter 6 – 9 Month Aspiring Operator In Training Program

# Centralized Marketing Coupled With Local IO Marketing Efforts

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## Enterprise Marketing Driven By Grocery Outlet

### Digital

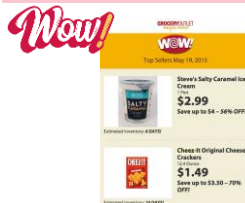
#### Social Media



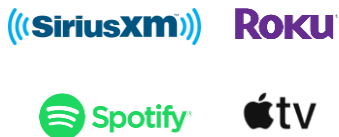
#### Digital Ads



#### WOW! Alerts



#### Radio / Connected TV



#### Influencer



### Traditional

#### Print



#### Radio

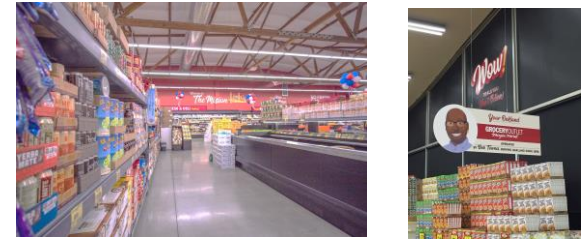


#### Television



## Local Marketing Driven By IOs

### In-Store Localization



### Targeted Promotions



### Active Social Media Presence

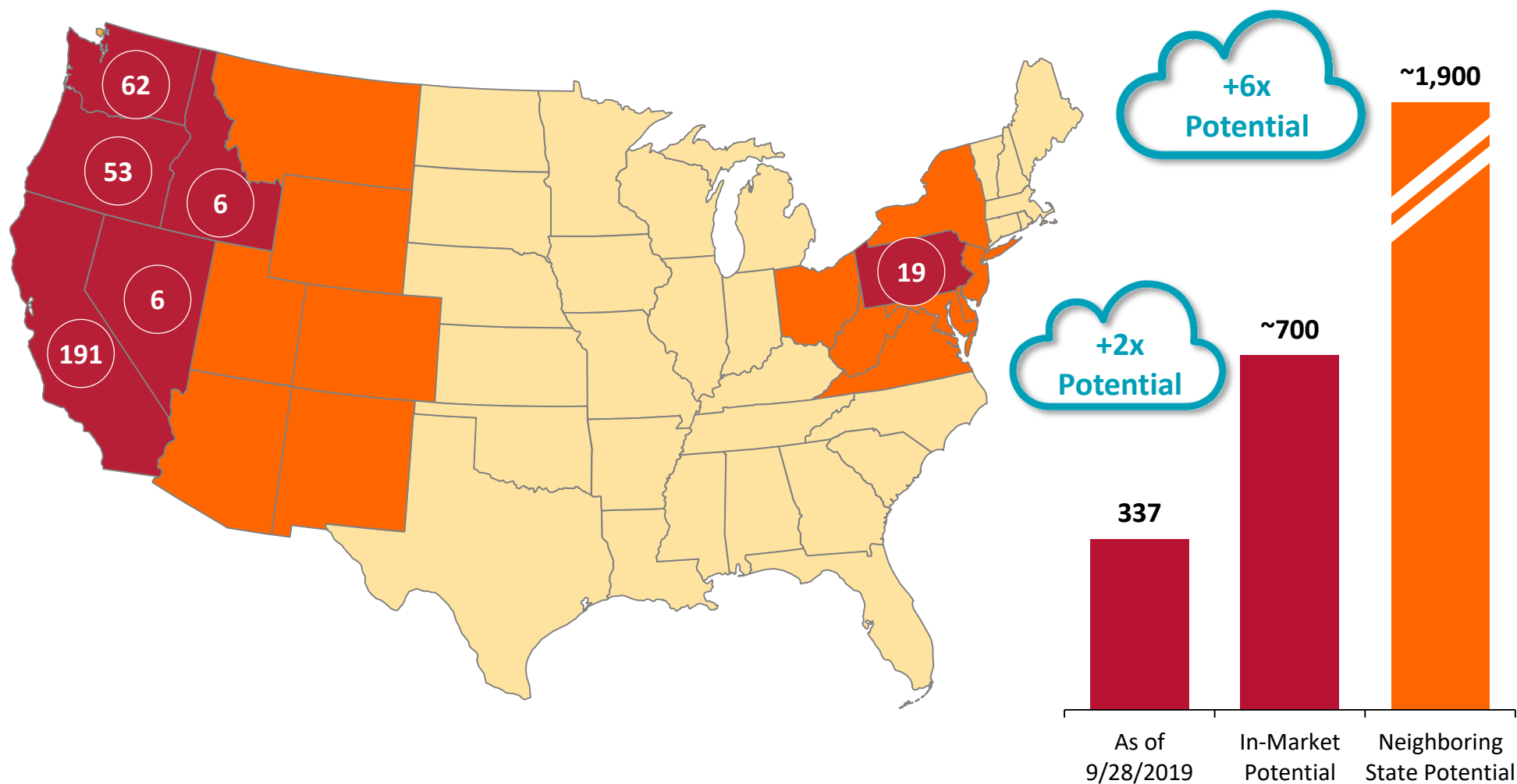


### Community Involvement



# Significant Whitespace Opportunity

**Opportunity to establish additional ~400 “In-Market” locations and  
~1,600 new locations including neighboring states  
Long term market potential to establish ~4,800 stores nationally**

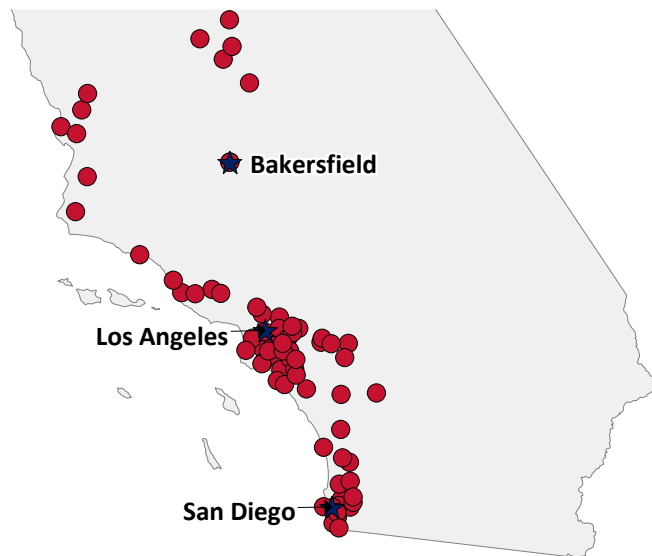




# Market Expansion Strategy and Success

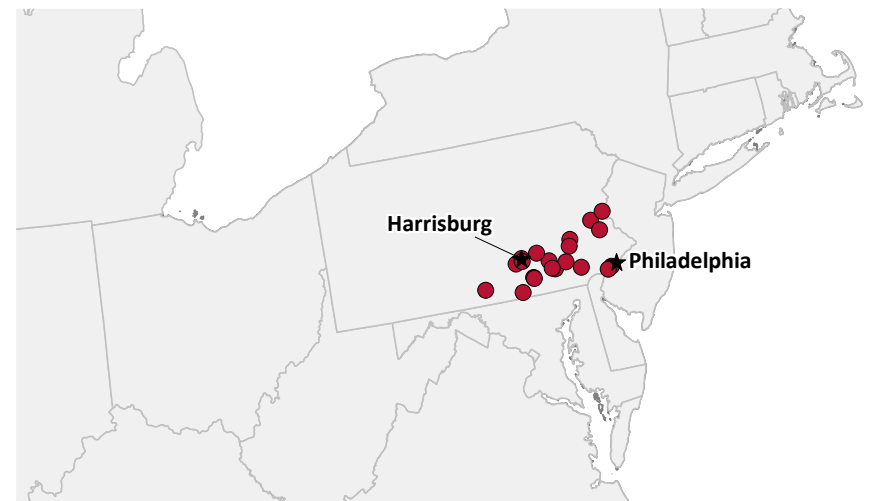
## Strong Presence in Southern CA

- Market entry in 2012
- 71 stores in Southern CA <sup>(1)</sup>



## Foundation For Growth in The Mid-Atlantic

- Acquired Amelia's Grocery Outlet in 2011
- Goal: to accommodate supplier partners more effectively





# Attractive and Historically Consistent New Store Economics

## Overview

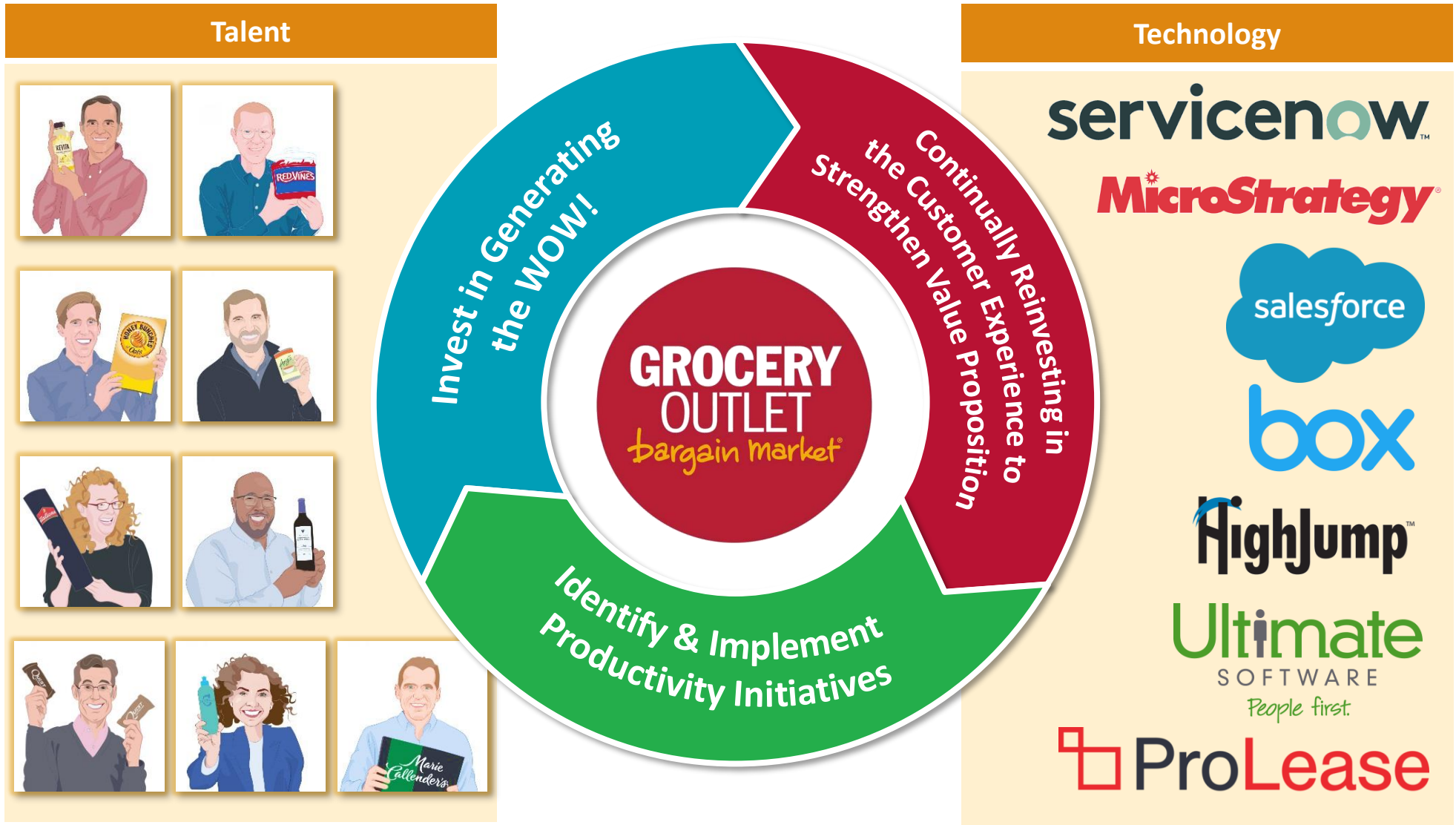
- We employ a **blended underwriting model** reflecting average economics across all urbanities, geographies and store types
- New stores require average net cash investment of ~\$2mm
- **4 – 5 year store ramp** until maturity
- Payback period of **less than 4 years**



Model Assumptions	Year 4	
	Sales	~\$6,875
	GO Four Wall EBITDA Contribution	~\$680
	% Four Wall EBITDA Margin	~10%
	Cash-on-Cash Return	~35%

Note: Dollars in thousands. Cash-on-cash return defined as four-wall EBITDA divided by total initial net cash investment.

# We Are Winning Through Constant Investments To Continually Strengthen Our Value Proposition



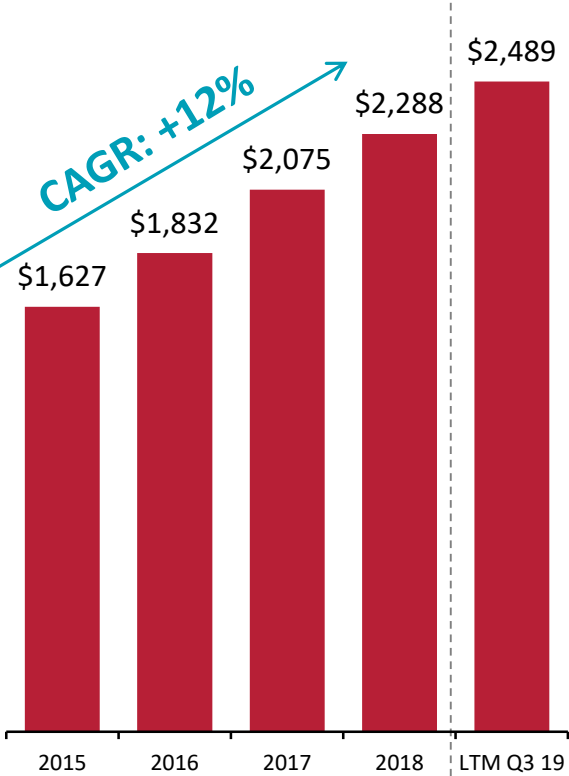


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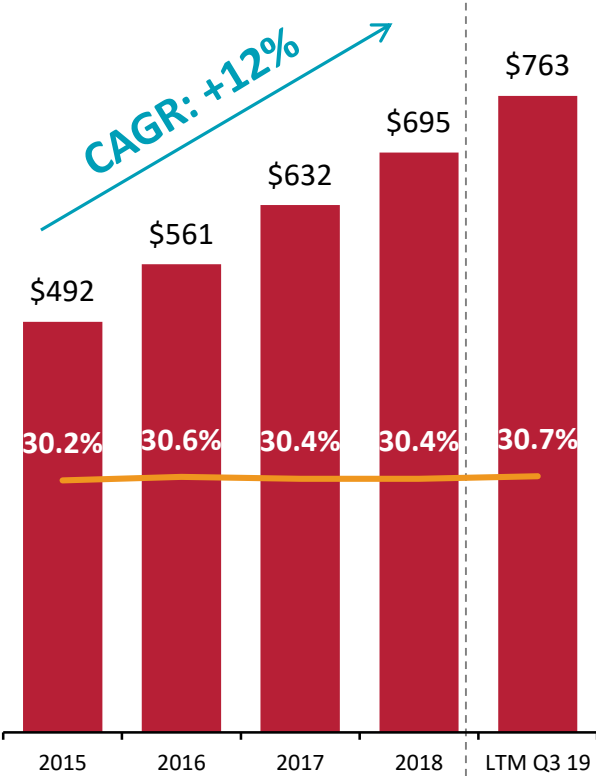
# FINANCIAL PERFORMANCE AND OUTLOOK

# Historical Financial Performance

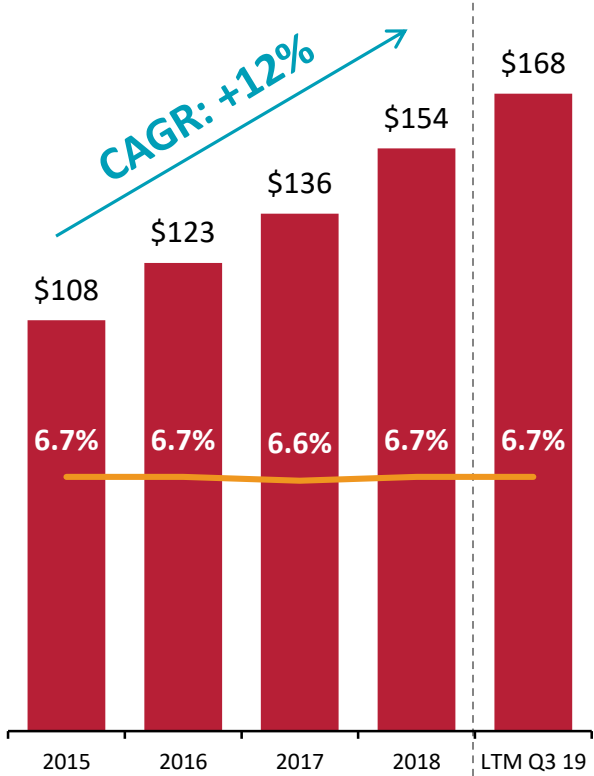
## Strong and Disciplined Net Sales Growth



## Consistent and Predictable Gross Profit Margins



## Track Record of Adjusted EBITDA Growth

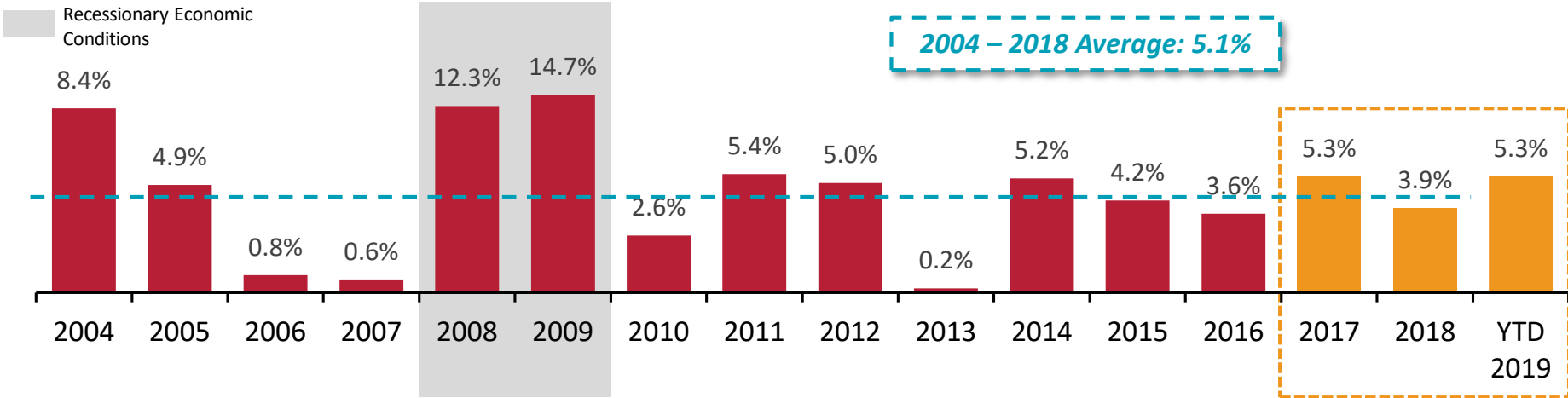


Stores	237	265	293	316	337
Unit Growth	9%	12%	11%	8%	10%
Comp	4.2%	3.6%	5.3%	3.9%	5.3% <sup>(1)</sup>

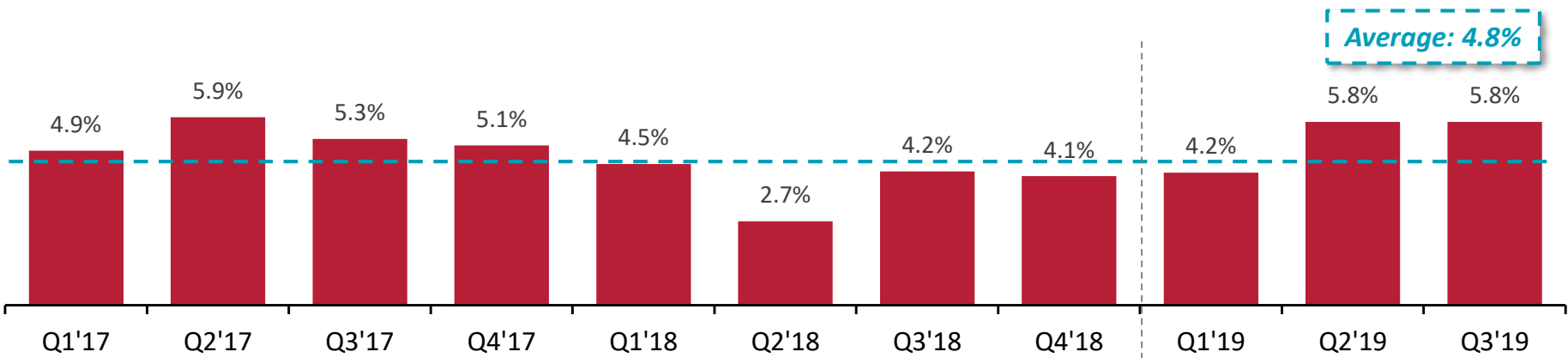
Note: Dollars in millions.  
(1) Represents YTD 2019 comparable store sales growth.



# 15 Consecutive Years of Positive Comparable Store Sales Growth



## FY 2017 – Q3'19 Quarterly Comparable Store Sales Growth



# Q3 2019 Earnings Summary



## Key Commentary

- Net sales increased by 13.1% to \$652.5 million from \$576.8 million in the third quarter of fiscal 2018
- Comparable store sales increased by 5.8% over a 4.2% increase in the third quarter of fiscal 2018
- The Company opened 8 new stores and closed 1, ending the quarter with 337 stores in 6 states
- Adjusted EBITDA increased 13.2% to \$44.2 million compared to \$39.0 million in the third quarter of fiscal 2018
  - Excluding public company costs of \$1.8mm Adj. EBITDA increased 17.8%
- Adjusted net income increased 58.8% to \$20.6 million compared to \$13.0 million in the third quarter of fiscal 2018

	Q3'19	Q3'18	% Δ
<b>Stores</b>	<b>337</b>	<b>307</b>	<b>9.8%</b>
<b>Comparable Store Sales Growth</b>	<b>5.8%</b>	<b>4.2%</b>	<b>—</b>
<b>Sales</b>	<b>\$653</b>	<b>\$577</b>	<b>13.1%</b>
<b>Net Income</b>	<b>\$12</b>	<b>\$8</b>	<b>62.3%</b>
<b>Adjusted EBITDA</b>	<b>\$44</b>	<b>\$39</b>	<b>13.2%</b>
<i>% Margin</i>	<i>6.8%</i>	<i>6.8%</i>	<i>—</i>
<b>Adjusted Net Income</b>	<b>\$21</b>	<b>\$13</b>	<b>58.8%</b>

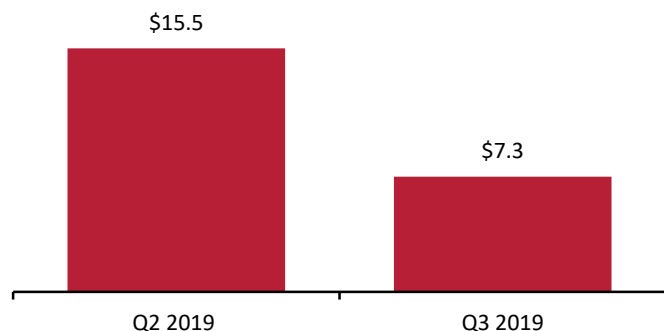
# Capital Structure

- Used IPO proceeds to repay in full its second lien term loan (~\$150mm)
- In addition, using the remainder of proceeds, the Company prepaid ~\$250mm of its outstanding first lien term loan
- On July 23, 2019, the Company completed the repricing of its remaining \$475mm first lien term loan
  - First lien term loan now priced at L+350 down from L+375 previously
  - Potential for further interest rate reduction if credit ratings are upgraded one notch

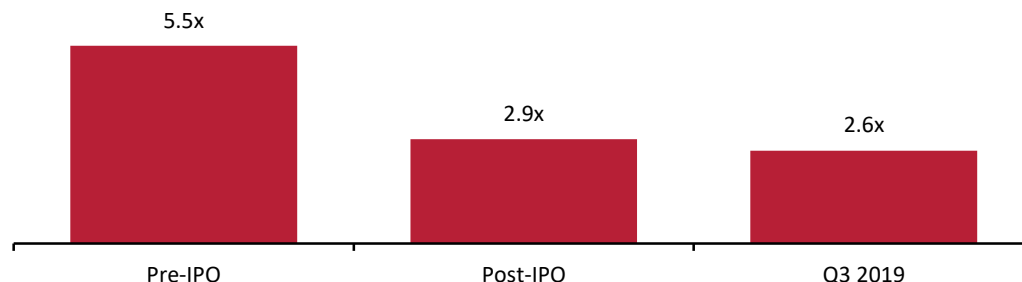
## Capitalization

	Q3 2019
Cash & Cash Equivalents	\$44
Revolver (\$100mm)	—
First Lien	475
<b>Total Debt</b>	<b>\$478</b>
<b>Net Debt</b>	<b>\$434</b>
<b>LTM Adj. EBITDA</b>	<b>\$168</b>
<b>Net Debt / Adj. EBITDA</b>	<b>2.6x</b>

## Interest Expense



## Net Leverage <sup>(1)</sup>



Note: Dollars in millions.  
 (1) Defined as (Total Debt – Cash) / LTM Adj. EBITDA.

## Long-Term Targets

**Annual Unit Growth**

~10%

**Comparable Store Sales Growth**

1 – 3% annually

**Adjusted EBITDA**

Stable as a % of Sales

**Adjusted Net Income Growth**

Mid-teens %

A photograph of a Grocery Outlet Bargain Market interior, featuring a long row of refrigerated display cases filled with dairy products like milk and juice. The store has a high ceiling with exposed ductwork and a sign above the cases that reads "fresh DAIRY & JUICE market". The entire image is overlaid with a semi-transparent red filter.

# GROCERY OUTLET bargain market

## APPENDIX



# LTM Q3 2019 Adjusted EBITDA Reconciliation

	2015A	2016A	2017A	2018A	H1'18	H1'19	LTM Q3'19	<u>Location on P&amp;L</u>
<b>Net Income</b>	<b>\$5</b>	<b>\$10</b>	<b>\$21</b>	<b>\$16</b>	<b>\$13</b>	<b>(\$7)</b>	<b>\$1</b>	
Interest expense, net	46	47	50	55	27	32	54	Interest Expense
Taxes	3	7	5	6	5	(3)	(1)	Income Tax
Depreciation and amortization	31	37	43	47	23	26	52	COGS/D&A
<b>EBITDA</b>	<b>\$85</b>	<b>\$101</b>	<b>\$119</b>	<b>\$124</b>	<b>\$68</b>	<b>\$48</b>	<b>\$106</b>	
Stock-based compensation <sup>(1)</sup>	0	3	2	10	0	23	36	SBC
Debt extinguishment and modification costs <sup>(2)</sup>	5	—	1	5	—	5	11	Debt Extinguishment & Modification Expense
Non-cash rent <sup>(3)</sup>	10	8	8	8	4	4	7	SG&A
Asset impairment and gain or loss on disposition <sup>(4)</sup>	1	1	1	1	(0)	0	2	SG&A
New store pre-opening expenses <sup>(5)</sup>	2	3	2	2	1	1	2	SG&A
Rent for acquired leases <sup>(6)</sup>	2	2	0	—	—	—	—	SG&A
Provision for accounts receivable reserves <sup>(7)</sup>	1	4	3	1	2	2	1	SG&A
Other <sup>(8)</sup>	1	1	1	2	1	1	3	SG&A
<b>Adjusted EBITDA</b>	<b>\$108</b>	<b>\$123</b>	<b>\$136</b>	<b>\$154</b>	<b>\$75</b>	<b>\$84</b>	<b>\$168</b>	

Note: Dollars in millions.

- (1) Represents non-cash stock compensation expense of \$0.2 million in 2015, \$0.3 million in 2016 and \$0.4 million in each of 2017 and 2018, with the remainder representing dividend cash payments made in respect of vested options as a result of dividends declared in connection with our 2016 Recapitalization and our 2018 Recapitalization. We expect to pay an additional \$4.4 million in the aggregate on options as they vest in respect of such dividends, of which \$3.6 million is expected to be paid in fiscal year 2019.
- (2) Represents debt extinguishment and modification costs related to the write-off of debt issuance costs and non-capitalizable expenses related the June 2017 repricing of our first and second lien credit facilities and the modification of our first and second lien credit facilities in connection with our 2018 Recapitalization.
- (3) Consists of the non-cash portion of rent expense, which reflects the extent to which our straightline rent expense recognized under GAAP exceeds or is less than our cash rent payments. The adjustment can vary depending on the average age of our lease portfolio, which has been impacted by our significant growth in recent years.
- (4) Represents impairment charges with respect to planned store closures and gains or losses on dispositions of assets in connection with store transitions to new IOs.
- (5) 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.
- (6) Represents cash occupancy expenses on leases acquired from Fresh & Easy Inc. in 2015 for the periods prior to opening new stores on such sites (commonly referred to as "dead rent").
- (7) Represents non-cash changes in reserves related to our IO notes and accounts receivable.
- (8) Transaction expenses relating to non-recurring, non-cash or discrete items as determined by management, including personnel-related costs, strategic project costs, legal expenses and miscellaneous costs.

## Q3 2019 Adjusted EBITDA Reconciliation

	Q3 2019	Q3 2018
<b>Net Income</b>	<b>\$12.4</b>	<b>\$7.7</b>
Interest expense, net	7.3	13.5
Income tax expense	3.7	2.9
Depreciation and amortization expenses	13.8	11.9
<b>EBITDA</b>	<b>\$37.3</b>	<b>\$36.0</b>
Stock-based compensation expenses <sup>(1)</sup>	2.9	0.1
Debt extinguishment and modification costs <sup>(2)</sup>	0.5	0.0
Non-cash rent <sup>(3)</sup>	1.6	2.2
Asset impairment and gain or loss on disposition <sup>(4)</sup>	0.1	0.1
New store pre-opening expenses <sup>(5)</sup>	0.3	0.3
Provision for accounts receivable reserves <sup>(6)</sup>	0.3	(0.1)
Other <sup>(7)</sup>	1.2	0.4
<b>Adjusted EBITDA</b>	<b>\$44.2</b>	<b>\$39.0</b>

Note: Dollars in millions.

- (1) Consists primarily of estimated non-cash stock compensation expense for the 13 weeks ended September 28, 2019, with the remainder representing dividend cash payments made in respect of vested options as a result of dividends declared in connection with our 2016 Recapitalization (as defined elsewhere in this prospectus) and our 2018 Recapitalization (as defined elsewhere in this prospectus). We expect to pay an additional \$4.2 million in the aggregate on options as they vest in respect of such dividends, of which \$3.4 million is expected to be paid in the remainder of fiscal year 2019.
- (2) Represents debt modification costs related to the write-off of debt issuance costs and non-capitalizable expenses related to the refinancing of our first lien credit facility.
- (3) Consists of the non-cash portion of rent expense, which reflects the extent to which our straight-line rent expense recognized under GAAP exceeds or is less than our cash rent payments. The adjustment can vary depending on the average age of our lease portfolio, which has been impacted by our significant growth in recent years.
- (4) Represents impairment charges with respect to planned store closures and gains or losses on dispositions of assets in connection with store transitions to new IOs.
- (5) 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.
- (6) Represents non-cash changes in reserves related to our IO notes and accounts receivable.
- (7) Other non-recurring, non-cash or discrete items as determined by management, including offering and transaction-related costs, personnel-related costs, strategic project costs, legal expenses and miscellaneous costs.

## Q3 2019 Adjusted Net Income Reconciliation

	Q3 2019	Q3 2018
<b>Net Income</b>	<b>\$12.4</b>	<b>\$7.7</b>
Stock-based compensation expenses	2.9	0.1
Debt extinguishment and modification costs	0.5	0.0
Non-cash rent	1.6	2.2
Asset impairment and gain or loss on disposition	0.1	0.1
New store pre-opening expenses	0.3	0.3
Provision for accounts receivable reserves	0.3	(0.1)
Other	1.2	0.4
Amortization of purchase accounting assets and deferred financing costs	3.7	4.3
Tax effect of total adjustments	(2.4)	(2.0)
<b>Adjusted Net Income</b>	<b>\$20.6</b>	<b>\$13.0</b>

Note: Dollars in millions.