Conference Call Scripted Comments

November 15, 2012 – Fiscal 2012 Fourth Quarter and Full Year Results and 2013 Outlook

Participants:
Kemper Isely, Co-President
Sandra Buffa, CFO
Jon Bourne, General Counsel

Operator introduces Jon Bourne, Natural Grocer by Vitamin Cottage General Counsel.

Jon Bourne:

Good afternoon everyone and thank you for joining us for the Natural Grocers by Vitamin Cottage fourth quarter and fiscal 2012 year-end earnings conference call.

On the call today are Kemper Isely our Co-President and Sandra Buffa our Chief Financial Officer.

Before we start let me remind you that all statements made in this conference call other than statements of historical fact are forward-looking statements. All forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially from those described in the forward-looking statements because of factors such as industry, business strategy, goals and expectations concerning our market position, the economy, future operations, margins, profitability, capital expenditures, liquidity and capital resources, other financial and operating information and other risks detailed in the company's Prospectus dated July 24, 2012. The information we present is accurate as of the date of this call. The company undertakes no obligation to update forward-looking statements.

The Company's earnings release was issued and made available this afternoon. The discussion that follows assumes you've had the opportunity to read this release. The release, along with a transcript of a recording of this call and a reconciliation of non-GAAP measures used by us, will be available on our website at Investors.NaturalGrocers.com for a minimum of 30 days. We recommend that you read our release in conjunction with or after this call.

Now I will turn the call over to our Co-President, Kemper Isely.

Kemper Isely:

Thank you, Jon. Good afternoon everyone.

We are pleased with the year we have had. In addition to our solid financial results we are happy with the success of our IPO. Our financial performance reflects strength in both new store openings and comparable store sales growth.

Here are the highlights for the quarter and fiscal year:

- Comparable store sales increased 13.0% for the fourth quarter and 11.6% for the fiscal year
- Net sales increased 28.2% for the fourth quarter and 27.2% for the fiscal year
- We have experienced strong net income and EBITDA growth which Sandra will discuss in more detail later
- In addition, we opened 10 stores in fiscal 2012 with four of those stores opening during the fourth quarter
- We have experienced over 20% unit growth in fiscal 2011 and 2012
- Demonstrating the portability of our new store model we entered five new states during fiscal 2012

We believe the strength of our financial results and positive industry trends have positioned us well for new store growth heading into fiscal 2013.

In connection with our successful IPO, we received $58.1 million in proceeds, allowing us to repay the outstanding balance on the term loan and revolving credit facility, purchase the remaining noncontrolling interest in five Colorado stores and increase the cash position on our balance sheet.

This October we elected Richard Hallé as our second independent Board and audit committee member. We expect to add one more independent board member in fiscal 2013.

Now I will turn the call over to Sandra to discuss our financial results in more detail.

Sandra Buffa:

Thank you, Kemper. And thank you all for joining us this afternoon and for your interest in our company.

Before moving forward I would like to remind you that in addition to discussing our financial results in conformity with U.S. generally accepted accounting principles, we are providing non-GAAP financial information to allow for what we believe is enhanced comparability. These non-GAAP financial measures remove the impact of compensation charges related to the IPO and on a pro forma basis illustrate our results as if we had owned 100% of Boulder Vitamin Cottage Group, LLC for the periods we are discussing.

You can find our reconciliation schedules at the end of our press release and posted on our website at Investors.NaturalGrocers.com which Jon referred to at the beginning of this call.

Turning to our financial results, we are pleased to report a 13.0% comparable store sales growth for the fourth quarter and an 11.6% growth for the fiscal year. These increases are driven for the most part by increases in the number of transactions; with a 7.9% increase for the quarter and a 7.0% increase for the year. Our comparable store sales increase was also supported by a 4.7% increase in average ticket for the quarter and a 4.3% increase for the year.

Although we do not anticipate providing non quarterly comparable store sales numbers going forward, given the amount of time since our IPO was filed we are sharing that fiscal 2013 year to date we continue to experience comparable store sales increases at a rate similar to what we are reporting for the fiscal year 2012.

Net sales in the quarter increased 28.2% to $89.9 million with new store sales increasing $10.8 million. For the year, net sales increased 27.2% to $336.4 million with new store sales increasing $41.3 million.

For the year, mature store sales increased 7.6% highlighting the continued strength in our store base. For fiscal 2012, mature stores are stores open during or before fiscal 2007.

Looking beyond sales, gross margin for the quarter and year improved 10 basis points. Our product margin remained consistent in both periods with the improvement in gross margin resulting from a decrease in occupancy costs as a percentage of sales at comparable stores.

Store expenses decreased 60 basis points to 21.3% of sales during the quarter and decreased 40 basis points to 21.4% of sales during the year. This decrease was driven by a decrease in salary related expenses as a percentage of sales at comparable stores, partially offset by an increase at new stores. During the fiscal year we also benefited from bringing our advertising production in house, partially offset by an increase in depreciation expense as a percentage of sales.

Administrative expenses increased 62.9% to $4.4 million during the quarter and increased 22.5% to $12.7 million during the year. Both increases are in part due to the $1.1 million stock based and the $286,000 incentive compensation expenses associated with the IPO. Excluding these IPO expenses, administrative expense was 3.4%, down from 3.9% of sales in both comparable periods. During the fiscal year the dollar increase in expense was attributable to an increase in general and administrative positions to support store growth.

Net income attributable to NGVC increased 6.0% to $973,000 during the quarter and increased 89.8% to $6.6 million for the year.

EBITDA increased 7.7% to $4.3 million for the quarter and increased 45.0% to $21.9 million for the year.

Adjusted pro forma net income which reflects net income as if we had owned 100% of the five Boulder stores for the periods presented and excludes the after tax impact of compensation expenses associated with the IPO, increased 64.0% to $1.8 million for the quarter and increased 92.0% to $8.0 million for the year.

Adjusted EBITDA (excluding the compensation expenses associated with the IPO) increased 42.7% to $5.7 million for the quarter and increased 54.2% to $23.3 million for the year.

Now let’s turn to the balance sheet.

As Kemper mentioned, we are very pleased with the success of our IPO. Moving forward, our balance sheet and cash position will help support our future new store growth.

We ended the year with $17.3 million in cash and cash equivalents and $1.8 million in available for sale securities, as well as $21.0 million available under our revolving credit facility. We recently amended the revolving credit facility reducing the amount available from $21.0 million to $15.0 million and reducing the unused commitment fee from 0.375% to 0.20%.

We entered into four capital leases during fiscal year 2012. Two of these stores opened during the fourth quarter and two are scheduled to open in the first quarter of fiscal 2013.

Now I will turn the call back to Kemper to discuss our new store growth and fiscal 2013 outlook.

Kemper Isely:

Thank you, Sandra.

During the quarter we opened four new stores in the following locations: in Arizona we opened in Flagstaff, Prescott and Sedona and in Colorado we opened in Steamboat Springs. With these four stores we opened a total of ten new stores in fiscal 2012.

On October 30, 2012, we opened our first new store of Fiscal 2013 in Missoula, MT. Additionally, we have leases signed for six additional locations for stores slated to open in fiscal 2013; the locations for these stores will be Helena and Kalispell, Montana; Denton and Lubbock, Texas; Omaha, Nebraska; and Medford, Oregon. We expect to open five more locations for 2013 bringing our new store growth to 12 for fiscal year 2013.

We believe we are well positioned to fund our accelerated growth and support it with solid execution. We continue to be very pleased with how well our new stores are performing.

Historically, new stores have had an upfront capital investment of $1.9 million, however we anticipate our fiscal 2013 new stores will require an upfront capital investment of $2.3 million with most of the increased cost coming from capital expense. We are projecting that these stores will experience higher than average historical first year sales. We continue to target approximately four years to recoup the initial cash investment and approximately 35% cash on cash returns by the end of the fifth year.
Our new stores include full demo kitchens, and lecture and community rooms which support our commitment to nutrition education and community outreach.

Turning to our fiscal 2013 outlook, we expect to:

- Open 12 new stores, a 20% unit increase over fiscal 2012
- Remodel three existing stores
- Achieve comparable store sales growth of 7.5% to 8.5%
- Experience costs associated with being a public company of approximately $1.2 million
- Deliver EBITDA margins of 7.0% to 7.2%
- Deliver net income margins of 2.5% to 2.7%
- Achieve diluted earnings per share between $0.46 and $0.49
- Incur capital expenditures between $25 to $30 million, and
- We anticipate the cash on our balance sheet and cash generated from operations will be sufficient to support our capital requirements

We believe we will deliver this outlook by continued focus on the following opportunities.

First, we intend to drive comparable store sales by increasing the basket size through nutrition education and affordable pricing; continuing to attract new customers with our health hotline and by word of mouth from positive customer experiences.

Second, we will continue to improve our operating margin by maintaining a disciplined focus on cost controls. During the past few years we have successfully expanded our infrastructure to enable us to support our continued growth and reduce our overhead costs as a percent of sales. As we continue to experience purchasing efficiencies some improvements will be shared with our customers.

Third, we will continue to grow by expanding our store base at a 20% compound annual growth rate. We have already proven that we can successfully open new stores at a significant and disciplined pace.

We remain focused on our five founding principles which are to provide nutrition education, high quality standards, everyday affordable pricing, supporting our community and our associates.
We will allocate the next 30 minutes to questions. Please limit your questions appropriately so that everyone has an opportunity to participate.

Thank you.

[Q&A followed]