



**Investor Presentation – February 2023**

# Disclosures

## Forward-Looking Statements

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

The forward-looking statements contained in this presentation are based on management’s current expectations and are subject to uncertainty and changes in circumstances. We cannot assure you that future developments affecting us will be those that we have anticipated. Actual results may differ materially from these expectations due to changes in global, national, regional or local political, economic, inflationary, deflationary, recessionary, business, interest rate, labor market, competitive, market, regulatory and other factors, many of which are beyond our control.

In addition to the foregoing, we believe the factors that could cause our actual results to differ materially from the forward-looking statements in this presentation include those referenced in Item 1A - “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2022 (the Form 10-K) and in our most recently filed Form 10-Q. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, our actual results may vary in material respects from those projected in these forward-looking statements.

Any forward-looking statement made by us in this presentation speaks only as of the date of this report. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by applicable securities laws. You are advised, however, to consult any disclosures we may make in our future reports filed with the Securities and Exchange Commission (the SEC). Our reports and other filings with the SEC are available at the SEC’s website at [www.sec.gov](http://www.sec.gov). Our reports and other filings with the SEC are also available, free of charge, through our website at <http://Investors.NaturalGrocers.com>.

## Non-GAAP Financial Measures

In addition to reporting financial results in accordance with U.S. generally accepted accounting principles (GAAP), this presentation provides information regarding EBITDA and Adjusted EBITDA, which are not in accordance with, or an alternative to, GAAP (i.e., non-GAAP measures). We define EBITDA as net income before interest expense, provision for income taxes, depreciation and amortization. We define Adjusted EBITDA as EBITDA as adjusted to exclude the effects of certain income and expense items that management believes make it more difficult to assess the Company’s actual operating performance, including certain items such as impairment charges, store closing costs, share-based compensation and non-recurring items. EBITDA and Adjusted EBITDA are supplemental measures of operating performance that do not represent, and should not be considered in isolation or as an alternative to, or substitute for, net income or other financial statement data presented in the consolidated financial statements as indicators of financial performance. The reconciliation from GAAP to these non-GAAP financial measures is provided in the appendix to this presentation.

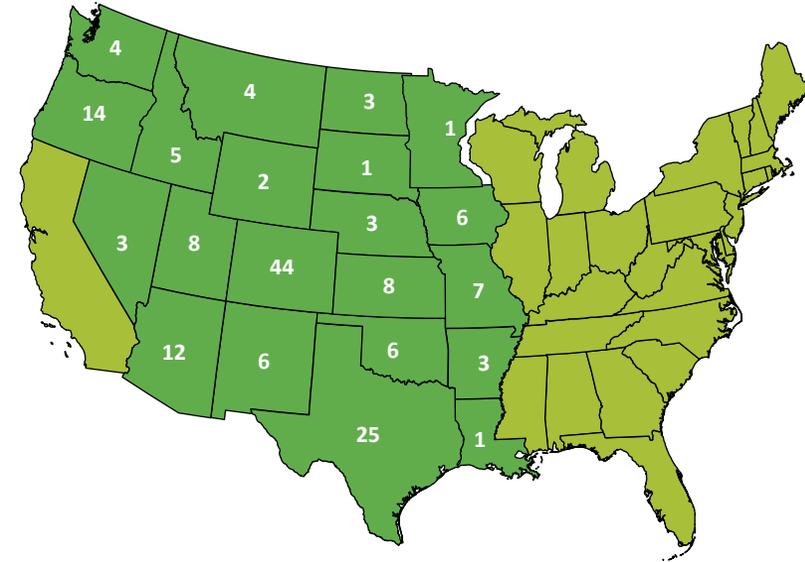




# Who We Are

# Natural Grocers® Overview

- Expanding specialty retailer of natural and organic groceries, dietary supplements and body care products
- We focus on providing high-quality products at always affordable prices, exceptional customer service, nutrition education and community outreach
- We strive to generate long-term relationships with our customers based on transparency and trust
- Operate 166 stores in 21 states west of the Mississippi River, as of 2/2/23



# Our Five Founding Principles Drive our Core Competencies and Customer Loyalty



## Nutrition Education

- Full-time Nutritional Health Coach (NHC) in every store
- Free nutrition coaching and classes for customers
- Provides ongoing training for store associates
- Training and education programs are supplemented by outside experts and materials
- Leverage our Health Hotline magazine to educate customers
- Our investment to provide free nutrition education was more than \$4 million in FY 2022

## Highest Quality Natural & Organic Standards

- We only sell 100% USDA certified organic produce
- Meats naturally raised without hormones, antibiotics, or growth promoters
- We only sell free-range eggs and have the highest quality standards for our dairy products: pasture-raised, non-confinement dairy products
- Carefully approved products that do not contain artificial flavors, colors, preservatives, sweeteners, or partially hydrogenated or hydrogenated oils



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

- Focus on cost efficiencies to deliver value
- Competitively priced with a value advantage against our larger format competitors
- Monthly Health Hotline magazine promotes discounts on items available for all customers
- {N}power<sup>®</sup> loyalty program members receive digital coupons, discounted pricing on certain staple items (such as free-range eggs), personalized offers and other rewards

## good4u<sup>SM</sup> Crew Members

- A well-trained, engaged Crew delivers excellent customer service
- Focused on the engagement, development, retention, and health and wellbeing of Crew
- Crew safety and well-being is a priority
- Promote from within mindset
- Accelerated store manager training program provides high-potential store Crew members with management training

## Community

- Supporting our communities and environment
- Bag-free checkouts since 2009
- Local sourcing when available
- Shared charitable gifts of more than \$1 million from company donations and customer fundraising in FY 2022
- Product and in-kind donations to local food banks totaled more than \$4 million in FY 2022





# Competitive Strengths

# Our Competitive Strengths



Strict focus on high-quality natural and organic grocery products, dietary supplements and body care products



Engaging customer service experience based on education and empowerment



Scalable operations and replicable, cost-effective store model



Commitment to sustainable products and practices

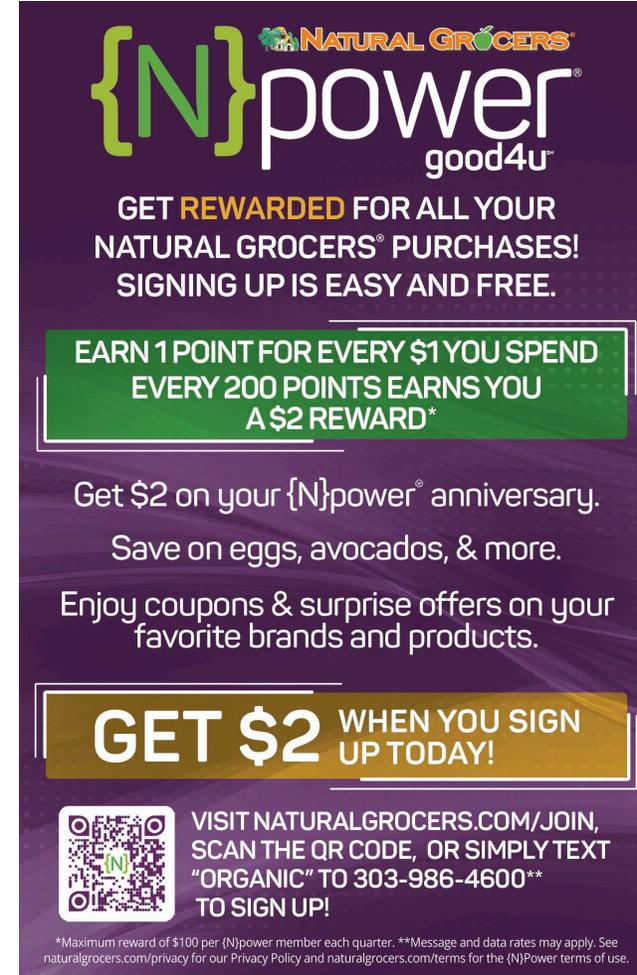


Experienced and committed management team with proven track record



# {N}power® Customer Loyalty Program

- More than 1.8 million members as of December 31, 2022
  - Up 18% from 12/31/21
- {N}power penetration represented approximately 76% of total sales in Q1 2023
- Designed to drive higher average transaction size
- Efficient and effective marketing outreach to {N}power members



**{N}power**  
good4u

GET **REWARDED** FOR ALL YOUR NATURAL GROCERS® PURCHASES!  
SIGNING UP IS EASY AND FREE.

**EARN 1 POINT FOR EVERY \$1 YOU SPEND**  
EVERY 200 POINTS EARNS YOU  
A \$2 REWARD\*

Get \$2 on your {N}power® anniversary.  
Save on eggs, avocados, & more.  
Enjoy coupons & surprise offers on your favorite brands and products.

**GET \$2** WHEN YOU SIGN UP TODAY!

VISIT [NATURALGROCERS.COM/JOIN](https://www.naturalgrocers.com/join),  
SCAN THE QR CODE, OR SIMPLY TEXT  
"ORGANIC" TO 303-986-4600\*\*  
TO SIGN UP!

\*Maximum reward of \$100 per {N}power member each quarter. \*\*Message and data rates may apply. See [naturalgrocers.com/privacy](https://www.naturalgrocers.com/privacy) for our Privacy Policy and [naturalgrocers.com/terms](https://www.naturalgrocers.com/terms) for the {N}Power terms of use.



# Expansion of Natural Grocers® Brand Products



- Positioned as premium quality offerings at compelling prices
- Includes diverse assortment of products found throughout the store
- Represented 7.9% of total sales in Q1 2023 vs. 7.5% in Q1 2022
- Introduced 8 new products in Q1 2023 after introducing 41 new products during FY 2022; total SKU count is approximately 1,000



# Supporting the Environment and our Communities

- Publish annual [Environmental, Social, and Governance report](#)
- Prioritize products that have regenerative and sustainable agricultural practices
- Bag-free checkouts since 2009, eliminating the use of more than **470 million** single-use bags. Converted to compostable produce bags in 2020.
- Installed CO2 refrigeration systems at two new stores in 2022, which are designed to save energy and provide enhanced environmental protection compared to conventional refrigeration technologies
- During FY 2022 our bulk packaging facility and distribution center reduced plastic stretch wrap use by approximately 50% through process changes and automation.
- Our bulk packaging closed production loop was converted to engineered wood pallets that have operational and environmental benefits.
- Improving the health and wellbeing of our communities through Nutrition Education. Impact over the last five years alone:
  - Educated and empowered more than **115,000** lives
  - Helped more than **35,000** people optimize their health with free health coaching sessions
  - Hosted more than **7,000** free in-store nutrition classes
  - Attended more than **12,000** community outreach events

## Product attributes that support sustainability (FY 2022):

**100% Organic produce**

**More than 50% organic across all products**

**100% Non-GMO bulk products**

**More than 65% Non-GMO across all products**

**100% Pasture-raised dairy**

**100% Free-range eggs**

**100% Humanely raised and sustainably sourced meats**

**More than 55% certified to environmental or social sustainability sourcing standards**



RAL FOOD STORE  
1955

RAL  
ERS



100% ORGANIC  
PRODUCE



100% ORGANIC  
PRODUCE

WE PROUDLY SELL ONLY  
USDA  
ORGANIC  
100% ORGANICALLY  
GROWN PRODUCE

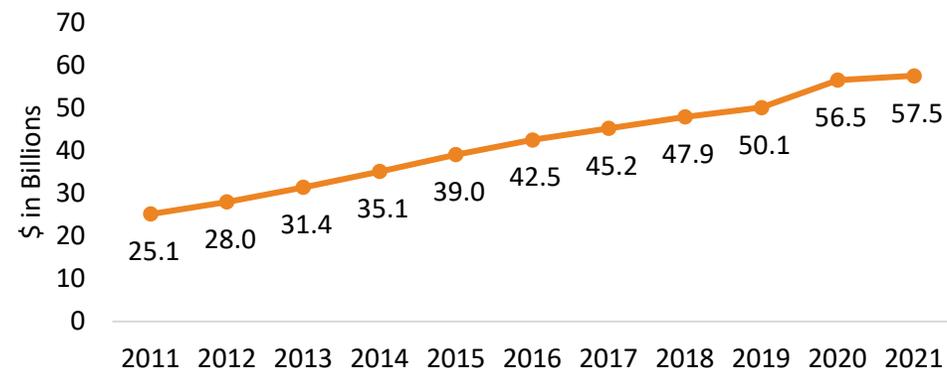
WE PROUDLY SELL ONLY  
USDA  
ORGANIC  
100% ORGANICALLY  
GROWN PRODUCE  
FRESH AND  
ORGANICALLY NUTRITIOUS

Supporting Growth

# The Market Opportunity

- Natural and organic products constitute a large and growing segment of the U.S. food industry
- The U.S. natural and organic products industry sales grew 7.7% to \$274B in 2021<sup>1</sup>
- Organic fresh produce sales increased 5.5% in 2021, compared to conventional at 1.9%<sup>2</sup>
- Organic food sales grew nearly 2% in 2021 following 12.8% growth in 2020<sup>3</sup>
- Dietary supplement sales grew 7.5% in 2021<sup>1</sup>

**Organic Food Sales in the U.S.<sup>3</sup>**  
\$ Billions



Sources:

<sup>1</sup> New Hope Network / SPINS

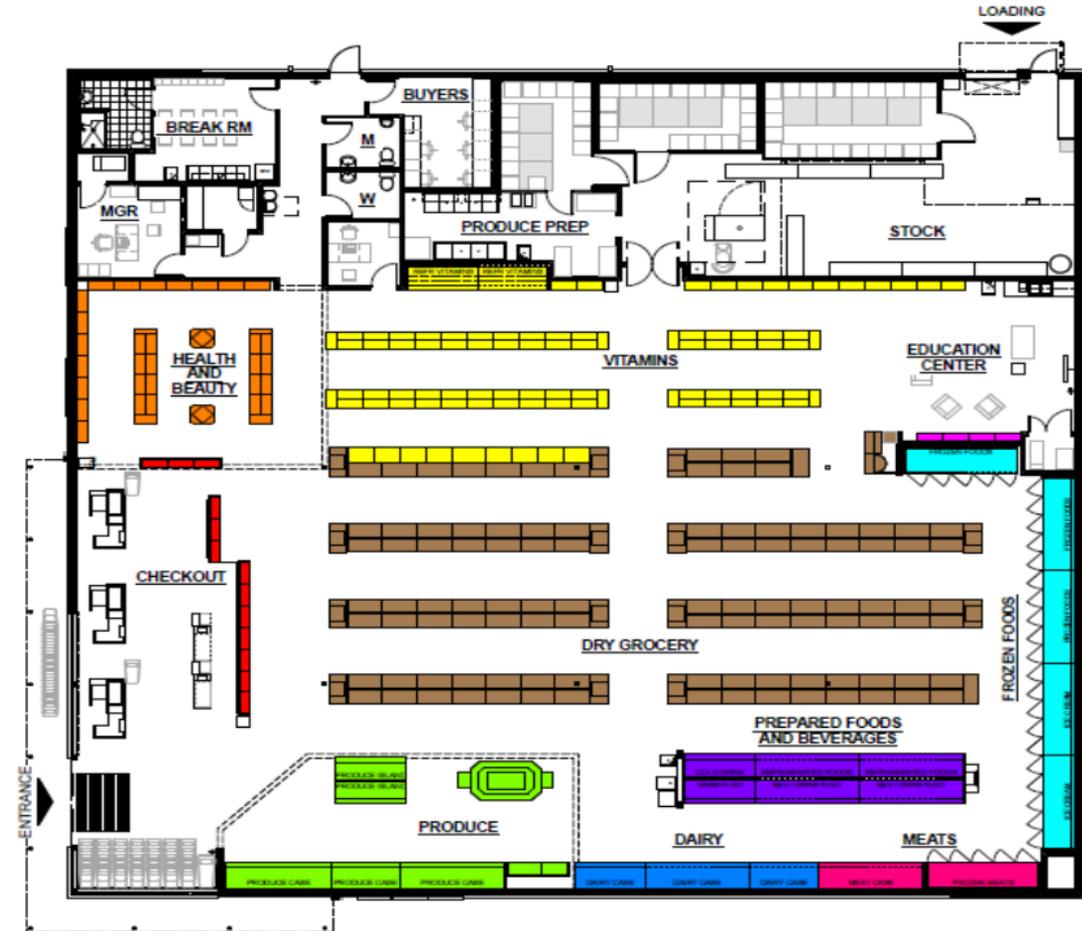
<sup>2</sup> Organic Produce Network

<sup>3</sup> Organic Trade Association



# Focus on Core Natural and Organic Categories

- Sales mix is aligned with the key natural product industry categories
  - ~11,000 selling square feet average store size
  - ~21,000 average store SKUs
- Dietary supplement sales and free nutrition education services are a key differentiator relative to mainstream competition
  - ~6,900 SKUs in supplements category



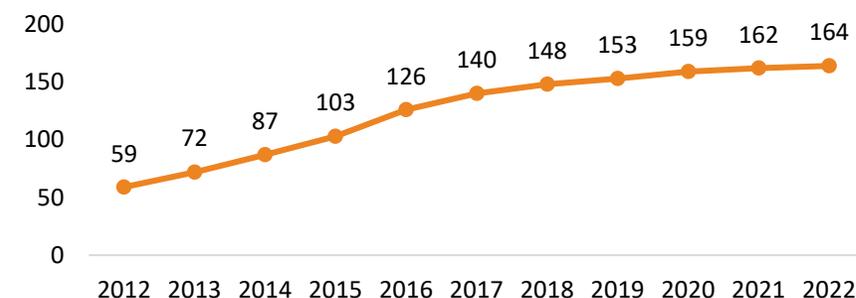
# Attractive Store Model for Multiple Market Types

- Smaller format store
  - Highly portable to multiple types of markets
  - Average ~10,000 selling square feet for new stores
- Modest initial capital investment that supports high unit growth
  - Average capex of \$1.9 million
  - Initial inventory of \$300,000
  - Pre-opening costs of \$200,000
- Attractive unit-level economics with targeted 5-year average payback and favorable cash-on-cash returns

## New Store Model Economics

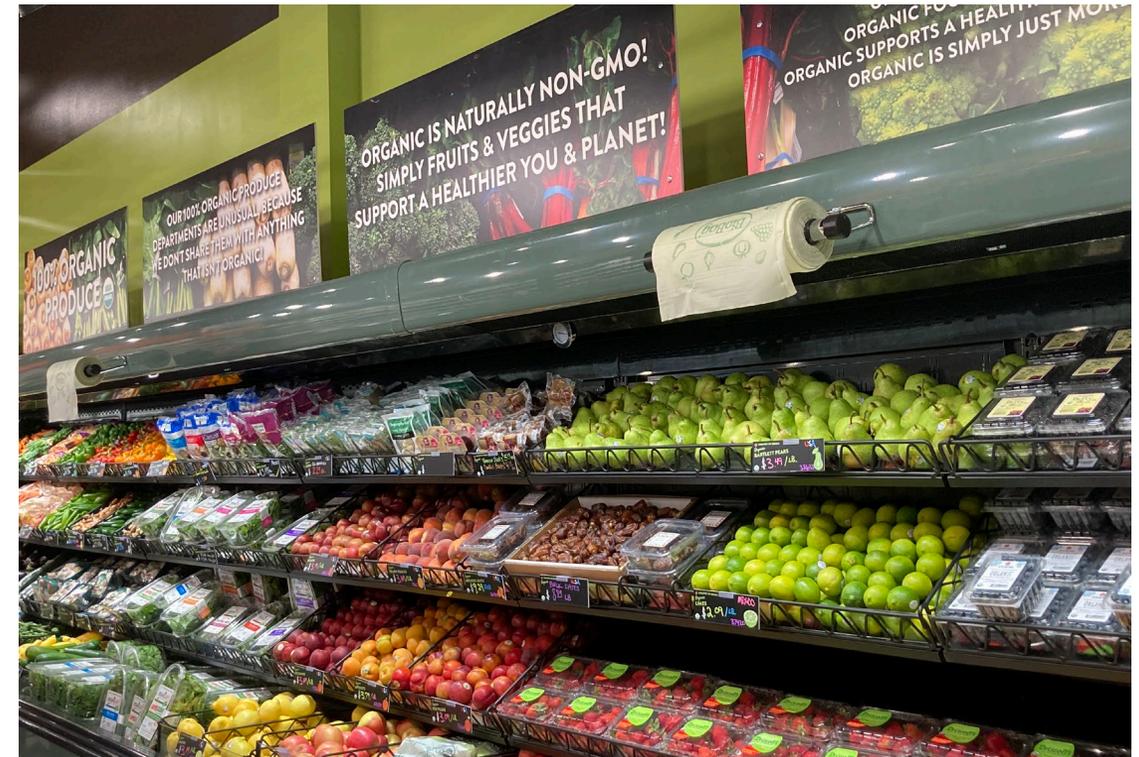
<b>Upfront capital investment</b>	<b>\$2.4MM</b>
<b>Target Payback period</b>	<b>5 Years</b>
<b>Target all-in cash-on-cash return (6 yr)</b>	<b>30%</b>

## Store Count (FYE)



# Improve Operating Margins

- Moderated new store unit growth (starting in 2018) to focus on productivity of existing store base
- Optimize store labor hours appropriately for volume
- Reduce inventory shrink
- Effectively manage product selection and pricing
- Infrastructure investments to support growth and improve productivity



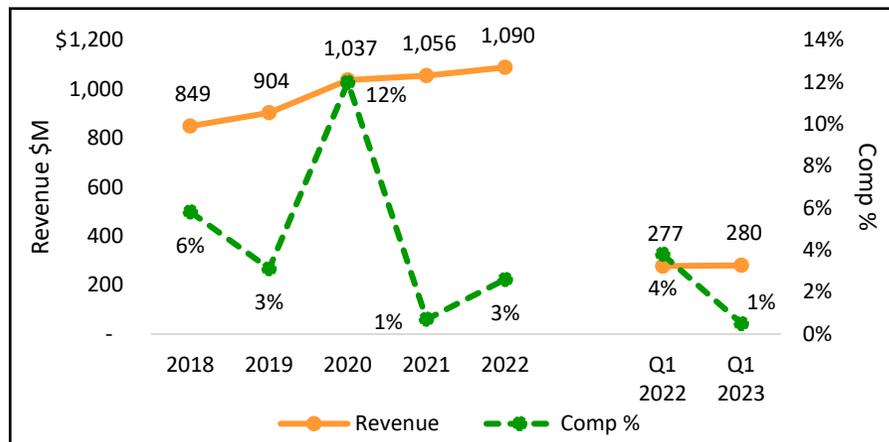


# Financial Highlights

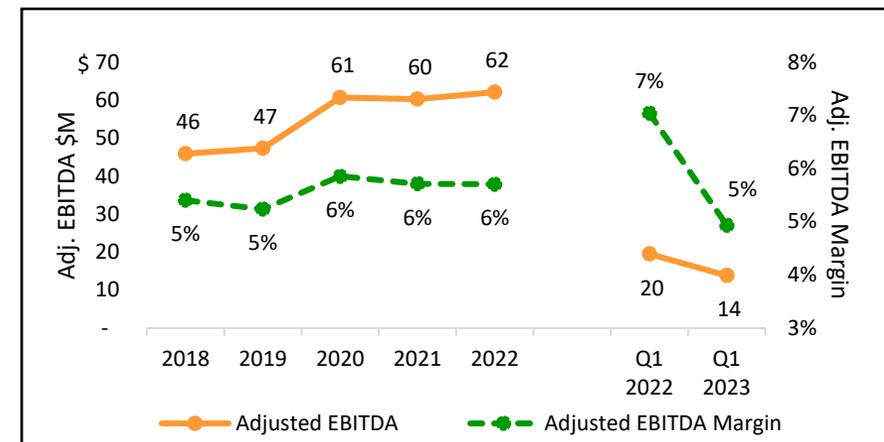
# Historical Financial Metrics



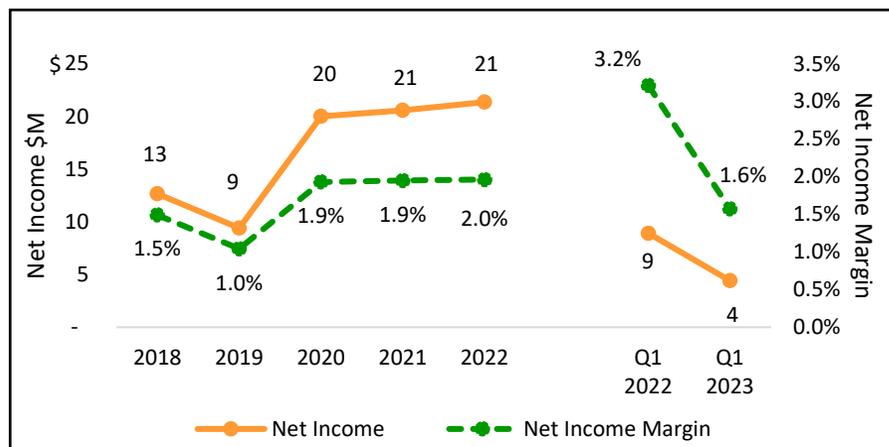
**Revenue (\$ millions) and Daily Average Comparable Store Sales Growth**



**Adjusted EBITDA (\$ millions)\***



**Net Income (\$ millions)\*\***



**Diluted Earnings per Share\*\***



\* See appendix for reconciliation of Adjusted EBITDA (a non-GAAP measure) to Net Income (a GAAP measure). Fiscal years 2018-2020 data have been recast to exclude share-based compensation.

\*\* FY 2018 Includes \$4.3M Net Income or \$0.19 per diluted share from the non-cash impact of a remeasurement of deferred tax assets and liabilities due to income tax reform



# Recent Financial Highlights—Q1 2023

- Daily average comparable store sales rose 0.5% as we cycled strong pandemic trends experienced in the prior year period
- On a three-year basis, daily average comparable store sales were up 17.6%, our third consecutive quarterly increase
- Average daily transaction size increased 1.7% and daily average transaction count decreased 1.2%
- Net income was \$4.4M with \$0.19 diluted EPS
- Declared quarterly dividend of \$0.10 per common share, payable in March 2023
- Opened one new store in the quarter



# Strong Financial Position to Support Growth Investment

- Strong operating performance with \$16.9 million in cash & cash equivalents and \$0 outstanding on the revolving credit facility as of December 31, 2022
- \$48.9 million available on the \$50.0 million revolving credit facility, as of December 31, 2022
- Term loan balance was \$13.7 million as of 12/31/22. Strong cash flow allowed accelerated principal repayment of \$1.6 million in Q1 2023 on the \$35.0 million term loan.
- \$10.0 million share repurchase program in place through May 2024, with \$8.3 million remaining to be repurchased

## Balance Sheet Metrics (12/31/2022)

Cash	\$16.9M
Debt <sup>#</sup>	\$62.6M
Debt/Adjusted EBITDA <sup>*</sup>	1.1x

## Capital Expenditures (\$ in millions)



<sup>#</sup> Debt includes finance lease obligations consistent with ASC 842 lease method

<sup>\*</sup> Debt/Adj. EBITDA calculation utilizes trailing 12-month Adj. EBITDA. See appendix for reconciliation of Adj. EBITDA (a non-GAAP measure) to Net Income (a GAAP measure).



# Fiscal 2023 Guidance

- |  | <u>FY 2023</u>   |
|--|------------------|
| • New stores                           | 4 to 6           |
| • Relocations/Remodels                 | 1 to 2           |
| • Daily average comparable store sales | -2.0% to 1.0%    |
| • Diluted EPS                          | \$0.70 to \$0.90 |
| • Capital expenditures                 | \$28M to \$35M   |

The Company reaffirmed its fiscal 2023 outlook on 2/2/23





# Appendix

# Non-GAAP Financial Measures



EBITDA and Adjusted EBITDA are not measures of financial performance under GAAP. We define EBITDA as net income before interest expense, provision for income taxes, depreciation and amortization. We define Adjusted as EBITDA as adjusted to exclude the effects of certain income and expense items that management believes make it more difficult to assess the Company's actual operating performance, including certain items such as impairment charges, store closing costs, share-based compensation and non-recurring items.

Management believes some investors' understanding of our performance is enhanced by including EBITDA and Adjusted EBITDA, which are non-GAAP financial measures. We believe EBITDA and Adjusted EBITDA provide additional information about: (i) our operating performance, because they assist us in comparing the operating performance of our stores on a consistent basis, as they remove the impact of non-cash depreciation and amortization expense as well as items not directly resulting from our core operations, such as interest expense and income taxes and (ii) our performance and the effectiveness of our operational strategies. Additionally, EBITDA is a component of a measure in our financial covenants under our credit facility.

Furthermore, management believes some investors use EBITDA and Adjusted EBITDA as supplemental measures to evaluate the overall operating performance of companies in our industry. Management believes that some investors' understanding of our performance is enhanced by including these non-GAAP financial measures as a reasonable basis for comparing our ongoing results of operations. By providing these non-GAAP financial measures, together with a reconciliation from net income, we believe we are enhancing investors' understanding of our business and our results of operations, as well as assisting investors in evaluating how well we are executing our strategic initiatives. Commencing with its financial reporting for fiscal year 2021, the Company has revised its definition of Adjusted EBITDA to exclude share-based compensation. The Company's historical presentation of Adjusted EBITDA, including for fiscal years 2018-2020, did not exclude share-based compensation. However, Adjusted EBITDA for fiscal years 2018-2020, as presented in this presentation, has been recast to exclude share-based compensation to enhance the comparability of this measure between fiscal periods. Management believes that excluding share-based compensation from Adjusted EBITDA will enhance investors' ability to assess period-to-period comparisons of the Company's operating performance and make more meaningful comparisons between our operating performance and the operating performance of our competitors.

Our competitors may define EBITDA and Adjusted EBITDA differently, and as a result, our measures of EBITDA and Adjusted EBITDA may not be directly comparable to EBITDA and Adjusted EBITDA of other companies. Items excluded from EBITDA and Adjusted EBITDA are significant components in understanding and assessing financial performance. EBITDA and Adjusted EBITDA are supplemental measures of operating performance that do not represent, and should not be considered in isolation or as an alternative to, or substitute for, net income or other financial statement data presented in the consolidated financial statements as indicators of financial performance. EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of the limitations are:

- EBITDA and Adjusted EBITDA do not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA and Adjusted EBITDA do not reflect any depreciation or interest expense for leases classified as finance leases;
- EBITDA and Adjusted EBITDA do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not reflect share-based compensation, impairment charges and store closing costs;
- EBITDA and Adjusted EBITDA do not reflect our tax expense or the cash requirements to pay our taxes; and
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements.

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



# EBITDA and Adjusted EBITDA Reconciliation

	Fiscal Year ended September 30,				
	2022	2021	2020	2019	2018
Net income	\$ 21,365	\$ 20,581	\$ 20,009	\$ 9,416	\$ 12,661
Interest expense, net	2,371	2,271	2,048	4,952	4,560
Provision for income taxes	6,419	5,475	5,692	2,398	(2,168)
Depreciation and amortization	27,906	29,633	31,193	28,977	29,430
EBITDA	58,061	57,960	58,942	45,743	44,483
Impairment of long-lived assets & store closing costs	2,920	1,455	612	380	585
Share-based compensation	1,186	877	1,129	1,185	810
Adjusted EBITDA <sup>(1)</sup>	\$ 62,167	\$ 60,292	\$ 60,683	\$ 47,308	\$ 45,878

	Three months ended December 31,	
	2023	2022
Net income	\$ 4,407	\$ 8,915
Interest expense, net	796	544
Provision for income taxes	1,214	2,565
Depreciation and amortization	7,062	7,113
EBITDA	13,479	19,137
Impairment of long-lived assets	-	95
Share-based compensation	357	294
Adjusted EBITDA	\$ 13,836	\$ 19,526

<sup>(1)</sup> Adjusted EBITDA for fiscal years 2018-2020, as presented, has been recast to exclude share-based compensation to enhance the comparability of this measure between fiscal periods

