Natural Grocers by Vitamin Cottage, Inc.

Investor Presentation – May 2021

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, business, competitive, market, regulatory and other factors, many of which are beyond our control. In addition, our actual results could differ materially from the forward-looking statements in this presentation due to risks and challenges related to the COVID-19 pandemic and the resulting government mandates, including: the length of time the COVID-19 pandemic continues; the inability of customers to shop due to illness or quarantine, isolation or stay-at-home orders; shifts in demand to more online shopping or to lower-priced or other perceived value offerings; the temporary inability of our employees to work due to illness; temporary store closures due to infections at our stores or government mandates; stay-at-home measures, safety directives and operating requirements imposed by local, state or federal governmental authorities; the extent and duration of adverse economic conditions resulting from the COVID-19 pandemic and government mandates, including its impact on consumer spending, the unemployment rate, interest rates and inflationary and deflationary trends; disruptions in the production of the products we sell; disruptions in the delivery of products to our stores; increased operating costs; and the extent and effectiveness of any COVID-19-related stimulus packages implemented by the federal and state governments.

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, 2020 (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. 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

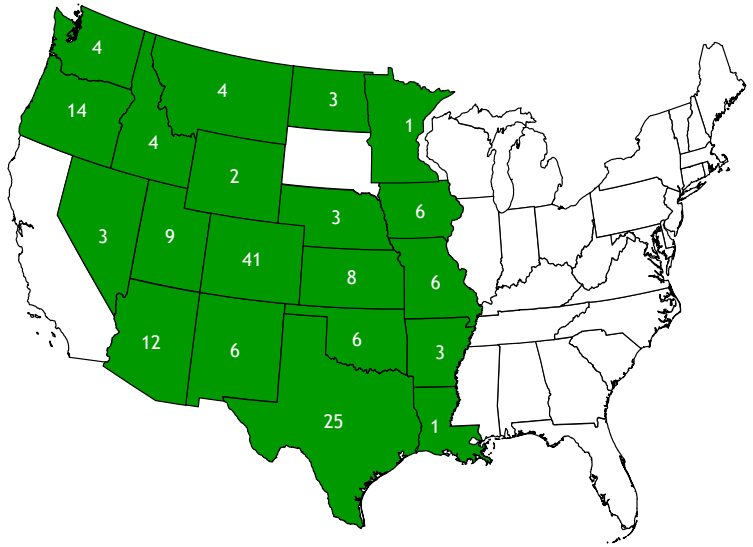
In addition to reporting financial results in accordance with U.S. generally accepted accounting principles (GAAP), this presentation provides information regarding EBITDA and Adjusted EBITDA, which are not in accordance with, or an alternative to, GAAP (i.e., non-GAAP measures). We define EBITDA as 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 and lease exit costs 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.

100%
USDA
ORGANIC
ORGANIC
PRODUCE
HEADQUARTERS
100% ORGANIC PRODUCE
As USDA certified organic handlers, we can ensure the integrity of your organic produce stays true, from the farm all the way to you
Organic is naturally non-GMO! Simply fruits and veggies that support a healthier you and planet!
Sprouting Seeds & Microgreens
THESE CARTS HAVE BEEN CLEANED FOR YOU

Who We Are

Natural Grocers™ Overview

- Expanding specialty retailer of natural and organic groceries, body care and dietary supplement 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 161 stores in 20 states west of the Mississippi River, as of 5/6/21



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

Always Affordable℠ 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® loyalty program members receive digital coupons, discounted pricing on certain staple items (such as free-range eggs), personalized offers and other rewards

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

good4u℠ 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
- Local sourcing when available
- Shared charitable gifts of over $1 million in cash and gift cards from company donations and customer fundraising in FY 2020
- Food donations totaled more than $4 million in FY 2020

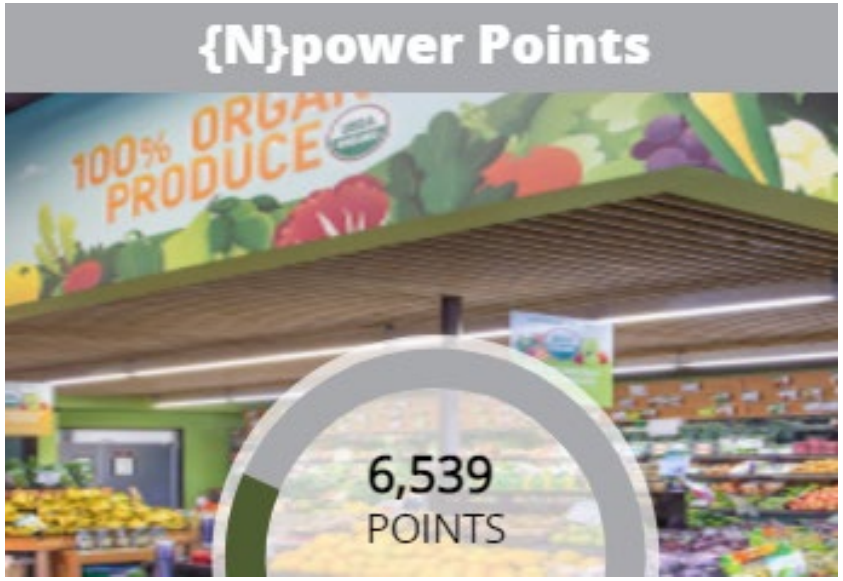
Competitive Strengths

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

- 1.4 million members as of March 31, 2021
  - Up 17% from 3/31/20
- {N}power penetration represented approximately 70% of sales in Q2 2021
- Designed to drive higher average transaction size
- Efficient and effective marketing outreach to {N}power members



Expansion of Natural Grocers™ Brand Products

- Includes grocery, dairy, frozen, bulk prepackaged products, dietary supplements and household products
- Represented 7.3% of total sales for Q2 2021
- Introduced 6 new products during Q2 2021; total SKU count is approximately 1,000
- Began the supplements category relaunch in Q2 2021 with 50 newly formulated products under the Natural Grocers brand

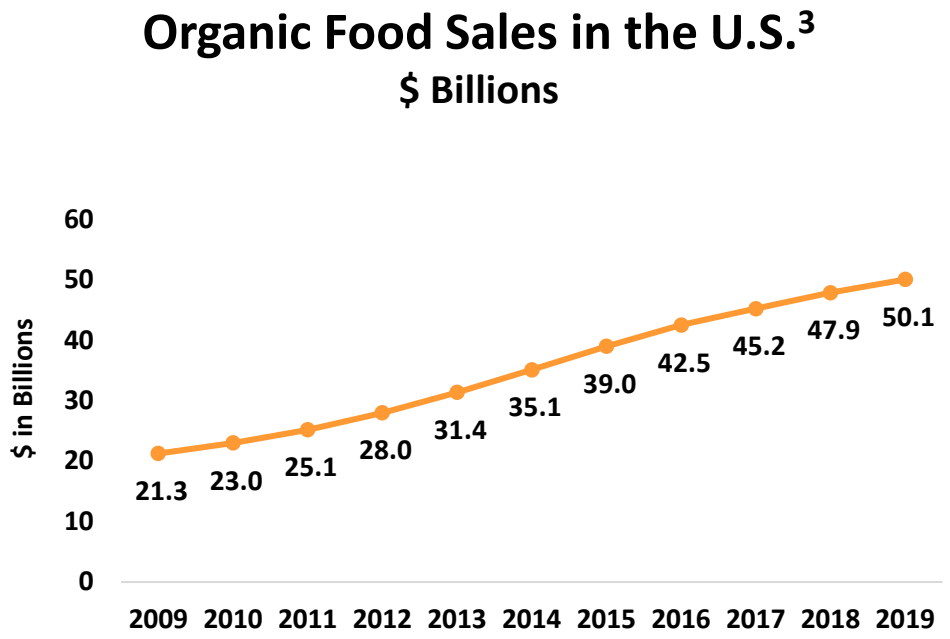
Sustainability Highlights

- Prioritize sustainable and regenerative agricultural practices. We sell only 100% organic produce, 100% non-GMO bulk, 100% pasture-based dairy, 100% free-range eggs, 100% humanely and conscientiously raised meats, and all our meats are raised without antibiotics, hormones and other growth promoters
- Disposable bag-free checkouts since 2009, saving more than **300 million** plastic bags from circulation. Added compostable produce bags in 2020.
- BPA and phthalate-free bulk packaging
- Improving the health and wellbeing of our communities through Nutrition Education. In the last five years alone, we've helped over **26,000** people optimize their health with free health coaching sessions. Hosted over **11,000** free in-store nutrition classes, educating and empowering over **116,000** lives.
- Focus on reducing our carbon footprint by implementing greener practices

Supporting Growth

The Market Opportunity

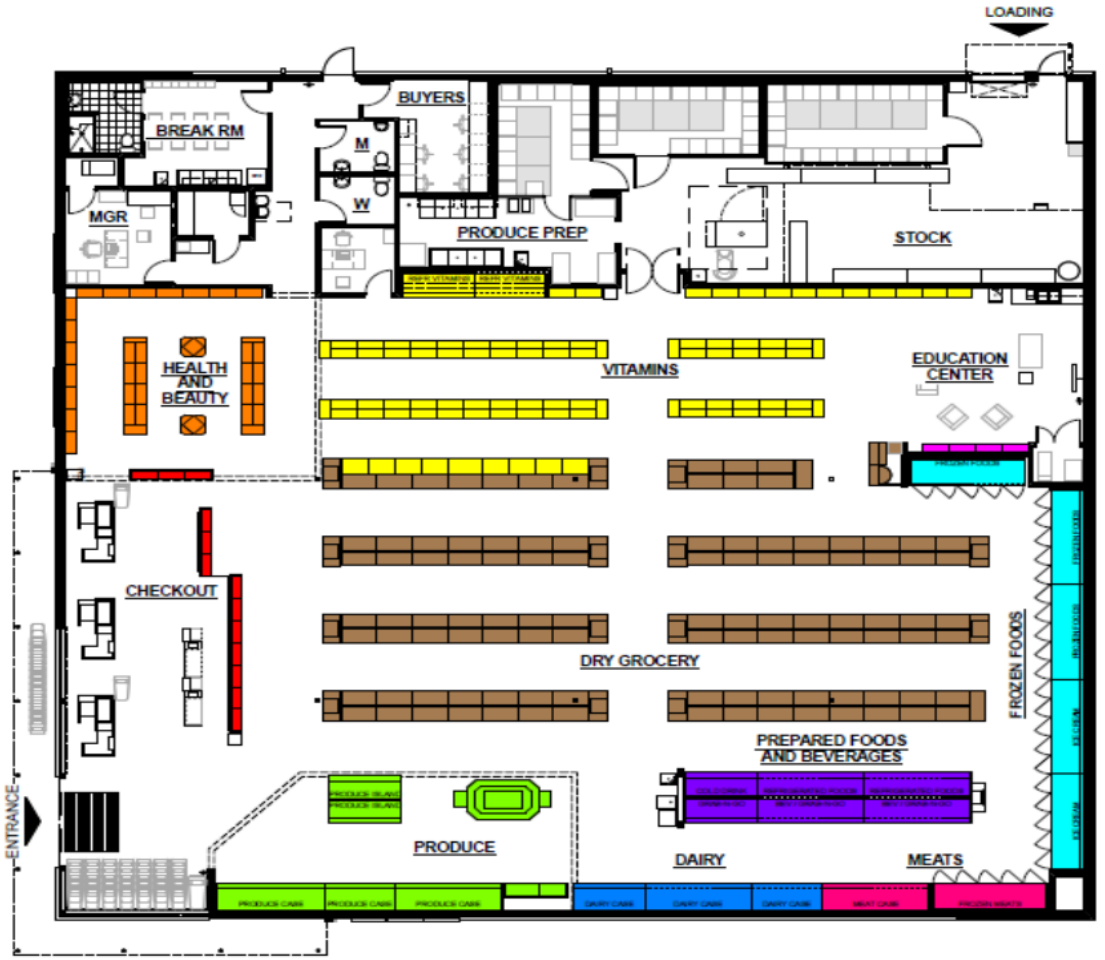
- Natural and organic products constitute a large and growing segment of the US food industry, more than doubling in the last decade
- The U.S. natural and organic products industry sales grew an estimated 12.7% to $259B in 2020[1]
  - Natural, organic and functional food and beverage sales grew an estimated 13% in 2020, compared to conventional at 8.6%[1]
  - Organic Produce sales increased 14.2% in 2020, compared to conventional at 10.7%[2]
- Dietary supplement sales grew an estimated 14% in 2020[1]
- Organic food sales grew 4.6% in 2019 to account for 5.8% of total food sales[3]
  - Organic fruits and vegetables are the largest organic food category and accounted for approximately 36% of all organic food sales in 2019
  - Organic dietary supplement sales were up over 10% to a record $1.7 billion in 2019



Sources:
[1] New Hope Network / SPINS
[2] Organic Produce Network / Category Partners
[3] Organic Trade Association

Focus on Core Natural and Organic Categories

- Sales mix is aligned with the key natural product industry categories
  - ~11,000 selling sq. ft average store size
  - ~21,000 average store SKUs
- Dietary supplement sales and free nutrition education services are a key differentiator relative to mainstream competition
  - ~6,700 SKUs in supplements category



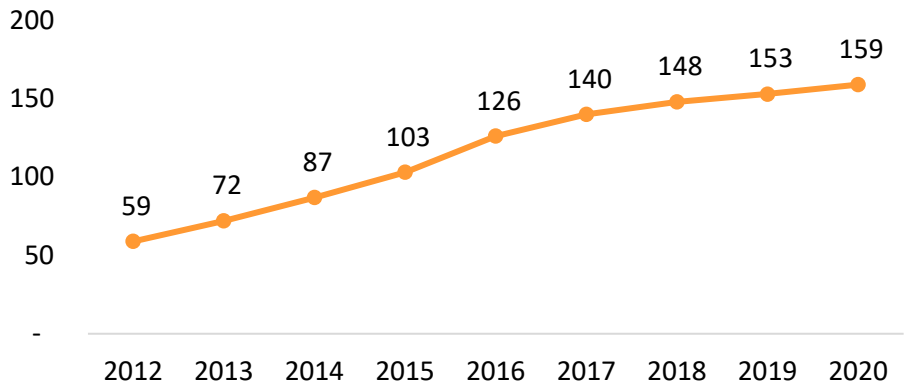
Attractive Store Model for Multiple Market Types

- Smaller format store
  - Highly portable to multiple types of markets
  - Average ~10,000 square feet for new stores
- Modest initial capital investment that supports high unit growth
  - Average capex of $1.7 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

Upfront capital investment	**$2.2MM**
Target Payback period	**5 Years**
Target all-in cash-on-cash return (6 yr)	**30%**

Store Count (FYE)



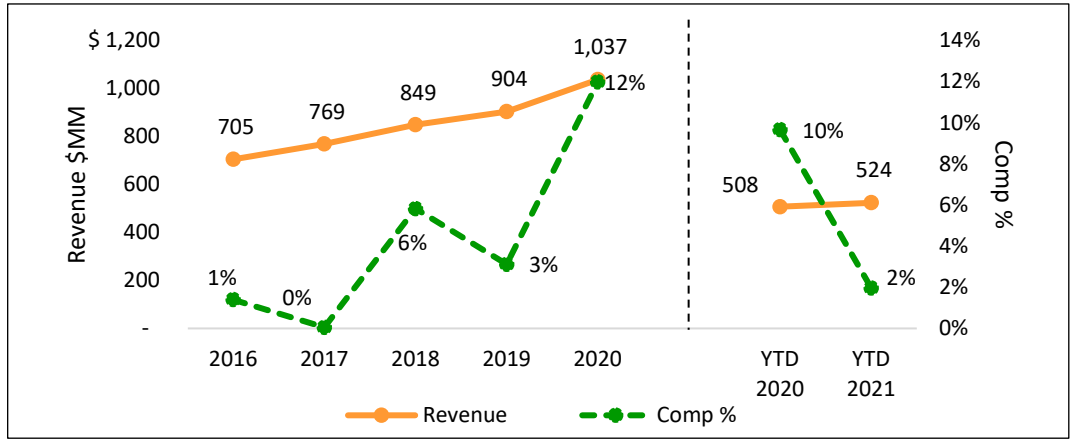
Improve Operating Margins

- 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

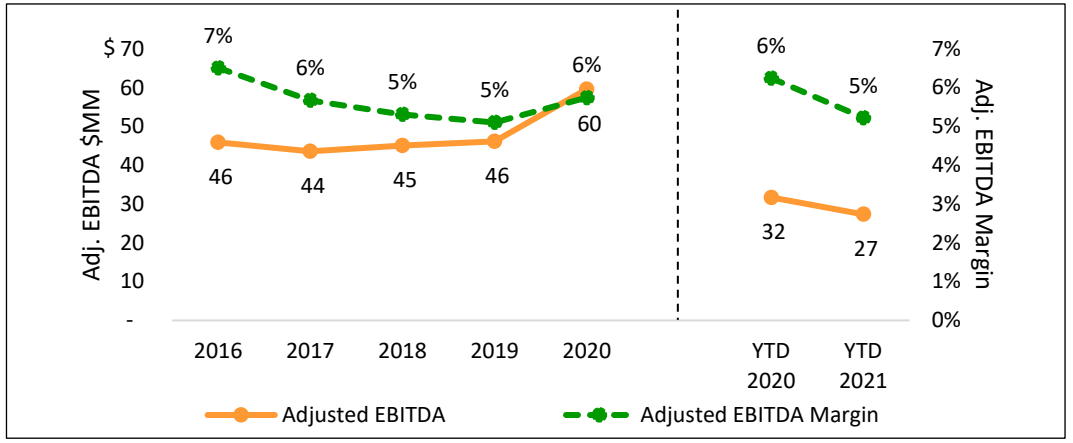
Financial Highlights

Historical Financial Metrics

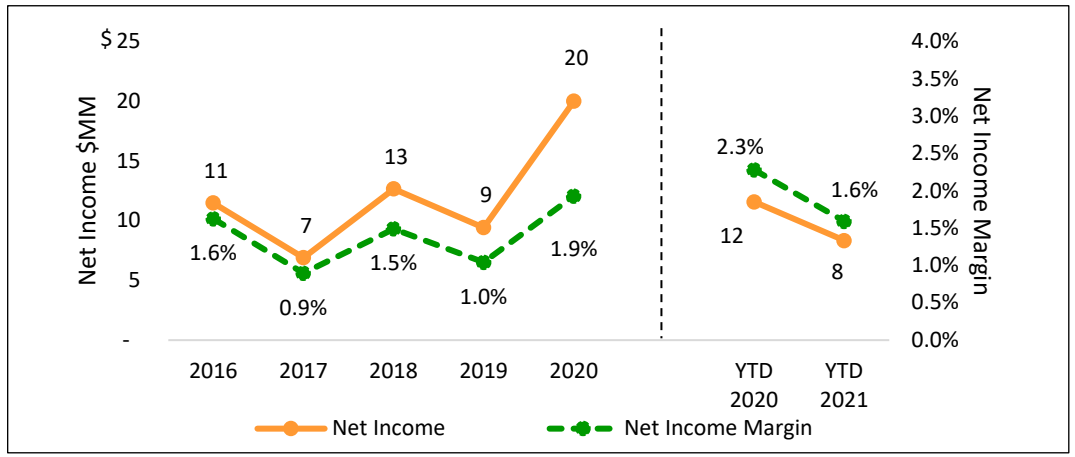
Revenue ($ millions) and Daily Average Comparable Store Sales Growth



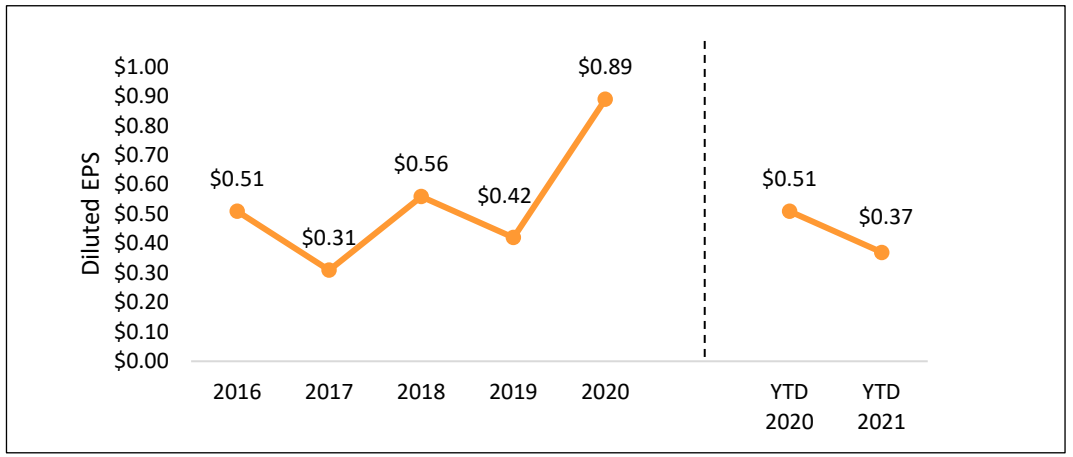
Adjusted EBITDA ($ millions)*



Net Income ($ millions)**



Diluted Earnings per Share**



* See appendix for reconciliation of Adjusted EBITDA (a non-GAAP measure) to net income (a GAAP measure)

** 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—Q2 2021

- Daily average comparable store sales on a two-year stacked basis increased 10.0%: Q2 2021 comparable sales were down 7.0% as we lapped a 17.0% increase in Q2 2020.
- Transaction size increase of 8.0% was offset by a decline in the transaction count of 13.9%. Customers continued to reduce their frequency of shopping trips to our stores while increasing their average basket size as a result of social distancing practices.
- Net income was $4.7M with $0.21 diluted EPS in Q2 2021, vs. $9.7M with $0.43 diluted EPS in Q2 2020
- Severe cold and ice storms during February disrupted our operations in many of our South Central and Pacific Northwest markets, adversely impacting the Q2 2021 EPS by approximately $0.03-0.04 due to lost sales, incremental shrink and weather-driven store labor costs.
- Opened one new store, and, remodeled and expanded one store in Q2 2021

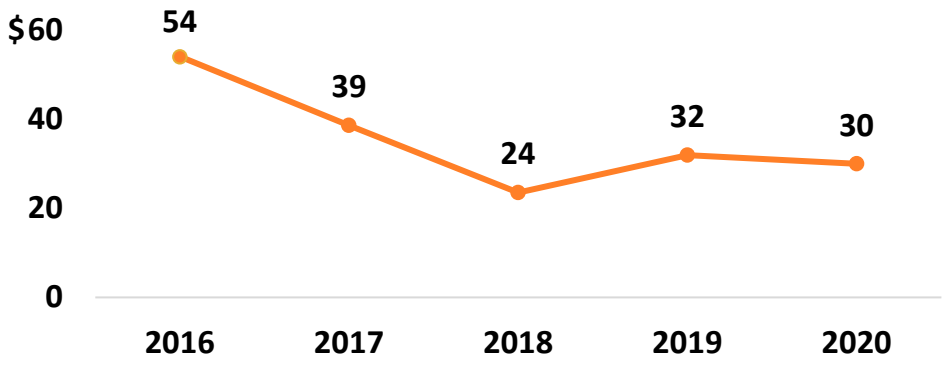
Strong Financial Position to Support Growth Investment

- Strong operating performance with $21.0M in cash and $0 outstanding on the revolving credit facility as of March 31, 2021
- $48.7 million available on the $50 million revolving credit facility, as of March 31, 2021
- New $35.0 million term loan drawn in December 2020 to preserve liquidity and partially fund the Company's special cash dividend paid in December with current balance of $34.6 million as of 3/31/21
- $10 million share repurchase program in place through May 2022, with $8.3 million remaining to be repurchased

Balance Sheet Metrics (3/31/2021)

Cash	**$21.0MM**
Debt#	**$75.5MM**
Debt/Adjusted EBITDA*	**1.4x**

Capital Expenditures ($ in millions)



Note: FY 2017 capital expenditures are net of $2.6 million of sale-leaseback proceeds

Debt includes finance lease obligations consistent with ASC 842 lease method
* 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 2021 Guidance

	FY 2021
• New stores	3-4
• Relocations/Remodels	4-5
• Daily average comps	-2.0% to 2.0%
• Diluted EPS	$0.60 to $0.70
• Capital expenditures	$28M to $35M

Guidance previously announced on November 19, 2020 was confirmed as of May 6, 2021, with the exception of lowering the expectations for new store openings and store relocations/remodels during fiscal 2021. The adjustment in new store and relocation/remodel expectations is driven by delays the Company is experiencing in the construction process and equipment deliveries.

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 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 and lease exit costs and non-recurring items.

Management believes some investors' understanding of our performance is enhanced by including EBITDA and Adjusted EBITDA, non-GAAP financial measures. We believe EBITDA and Adjusted EBITDA provide additional information about: (i) our operating performance, because it assists us in comparing the operating performance of our stores on a consistent basis, as it removes 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 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 analysts' and investors' understanding of our business and our results of operations, as well as assisting analysts and investors in evaluating how well we are executing our strategic initiatives.

Our competitors may define EBITDA and Adjusted EBITDA differently, and as a result, our measure of EBITDA and Adjusted EBITDA may not be directly comparable to those of other companies. Items excluded from 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 an analytical tool, and should not be considered in isolation, or as an alternative to, 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 impact for single lease 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;
- 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 a measure 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,				
	2020	2019	2018	2017	2016
Net income	$ 20,009	$ 9,416	$ 12,661	$ 6,891	$ 11,471
Interest expense, net	2,048	4,952	4,560	3,793	3,044
Provision for (benefit from) income taxes	5,692	2,398	(2,168)	3,414	5,864
Depreciation and amortization	31,193	28,977	29,430	29,511	25,533
EBITDA	$ 58,942	$ 45,743	$ 44,483	$ 43,609	$ 45,912
Impairment of long-lived assets & store closing costs	612	380	585	-	-
Adjusted EBITDA	$ 59,554	$ 46,123	$ 45,068	$ 43,609	$ 45,912

	Three months ended March 31,		Six months ended March 31,	
	2021	2020	2021	2020
Net income	$ 4,704	$ 9,718	$ 8,336	$ 11,586
Interest expense, net	603	516	1,113	1,052
Provision for income taxes	1,399	3,023	2,459	3,467
Depreciation and amortization	7,420	7,888	15,057	15,595
EBITDA	$ 14,126	$ 21,145	$ 26,965	$ 31,700
Lease exit costs	-	-	405	-
Adjusted EBITDA	$ 14,126	$ 21,145	$ 27,370	$ 31,700