

Natural Grocers by Vitamin Cottage, Inc.



Investor Presentation – November 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.

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). EBITDA is defined as earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA is defined 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 share-based compensation, impairment charges, store closing 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% ORGANIC PRODUCE HEADQUARTERS®



100%
ORGANIC
PRODUCE
HEADQUARTERS

Who We Are

Natural Grocers is your
source for Organic
Produce Headquarters

Our 100% organic produce
department is essential because
we don't share them with anything
that isn't organic.

Unlike the other guys, at Natural
Grocers there's never a fear of
cross-contamination with
conventional produce.

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!

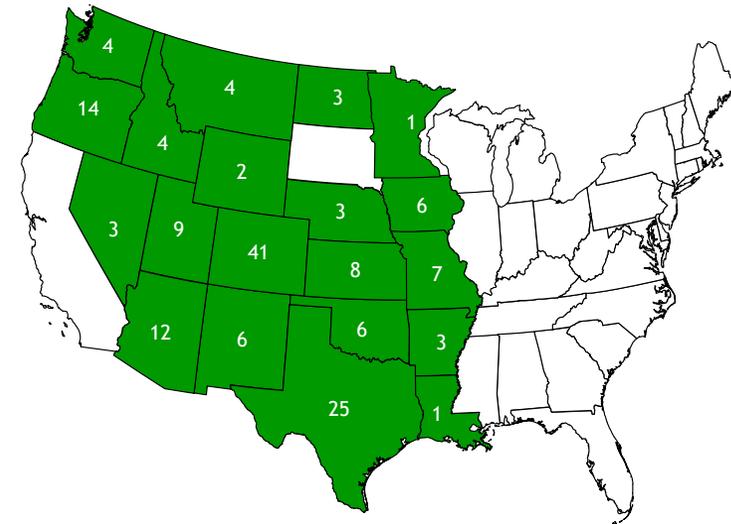
Organic is naturally non-GMO!
Organic keeps toxic pesticides out of our food.
Organic farming maintains healthier soil.
Organic farming supports pollinators.
Organic foods are often more nutrient rich.
Organic supports a healthier farm lifestyle and our
planet. Organic is simply just more delicious tasting!

THESE CARTS
HAVE BEEN
CLEANED
FOR YOU

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 162 stores in 20 states west of the Mississippi River, as of 11/18/21



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 AffordableSM 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

good4uSM 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

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

Community

- Supporting our communities and environment
- Bag-free checkouts
- Local sourcing when available
- Shared charitable gifts of \$1 million from company donations and customer fundraising in FY 2021
- Product and in-kind donations to local food banks totaled more than \$3 million in FY 2021





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



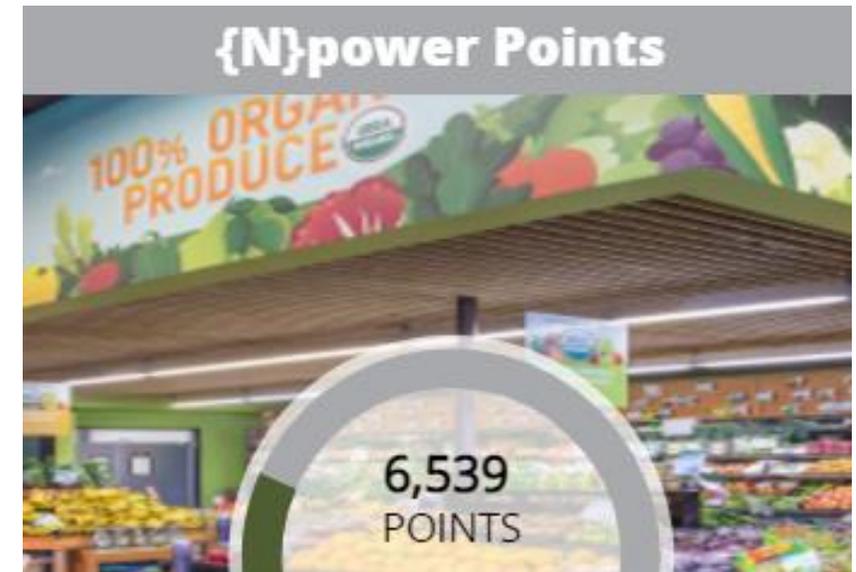
Experienced and committed management team with proven track record



{N}power® Customer Loyalty Program



- More than 1.5 million members as of September 30, 2021
 - Up 19% from 9/30/20
- {N}power penetration represented approximately 70% of sales in FY 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 7.2% of total sales for FY 2021
- Introduced 185 new products during FY 2021; total SKU count is approximately 1,000
- Relunched supplements category in FY 2021 with 140 total newly formulated products under the Natural Grocers brand as of 9/30/21



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 **360 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 more than **30,000** people optimize their health with free health coaching sessions. Hosted about **8,000** free in-store nutrition classes, educating and empowering more than **115,000** lives.
- Focus on reducing our carbon footprint by implementing greener practices



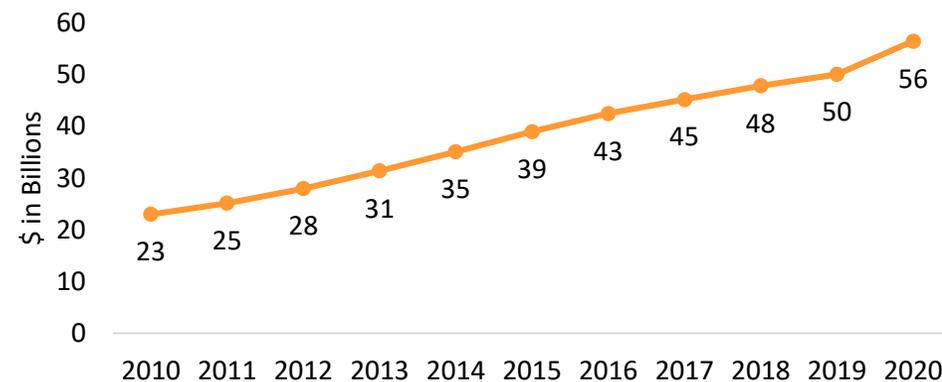


Supporting Growth

The Market Opportunity

- Natural and organic products constitute a large and growing segment of the U.S. food industry
- The U.S. natural and organic products industry sales grew 12.7% to \$259B in 2020¹
- Organic Produce sales increased 14.2% in 2020, compared to conventional at 10.7%²
- Organic food sales grew 12.8% in 2020 to account for nearly 6% of total food sales³
 - Organic fruits and vegetables are the largest organic food category with \$20.4 billion in sales, approximately 36% of all organic food sales in 2020, and more than 15% of total produce sales (incl. conventional)¹
- Dietary supplement sales grew 14% to \$56B in 2020¹

Organic Food Sales in the U.S.³ \$ Billions



Sources:

¹ New Hope Network / SPINS

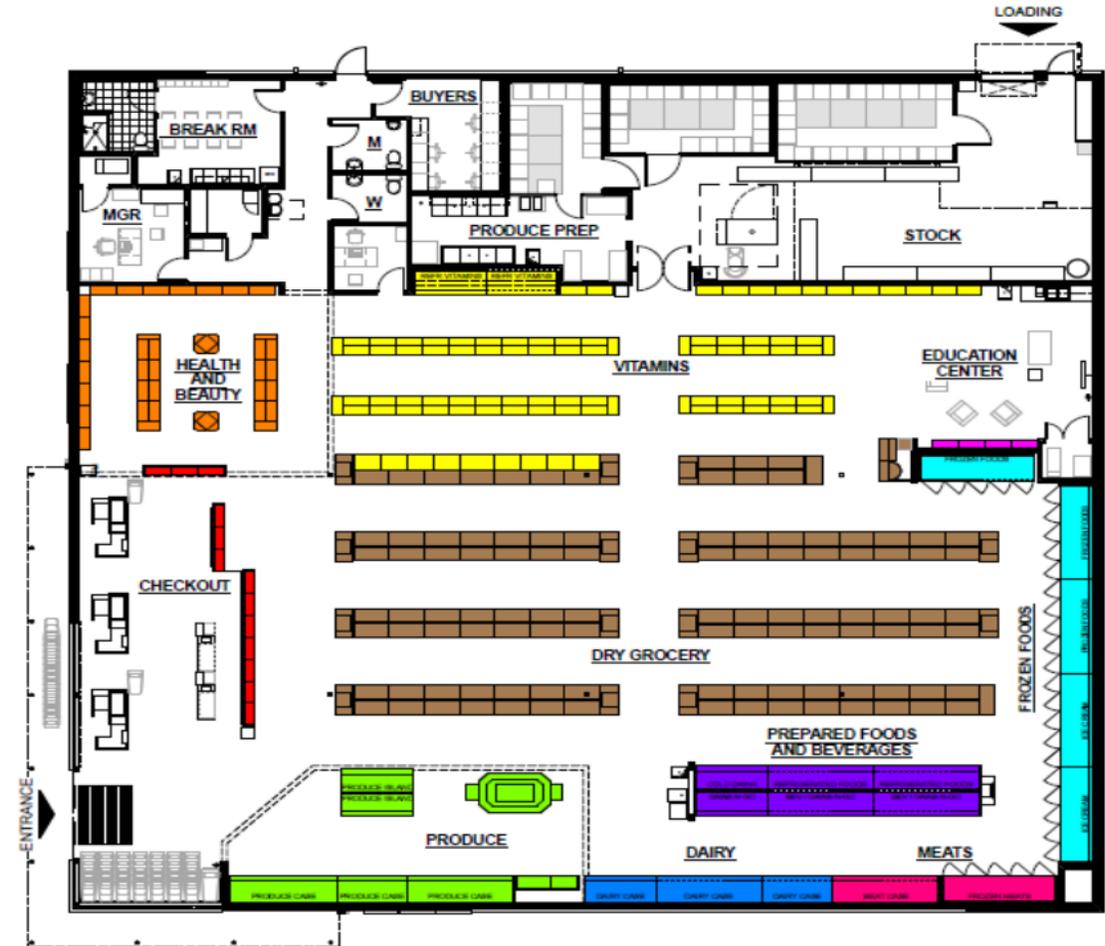
² Organic Produce Network / Category Partners

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
 - ~6,900 SKUs in supplements category



Attractive Store Model for Multiple Market Types

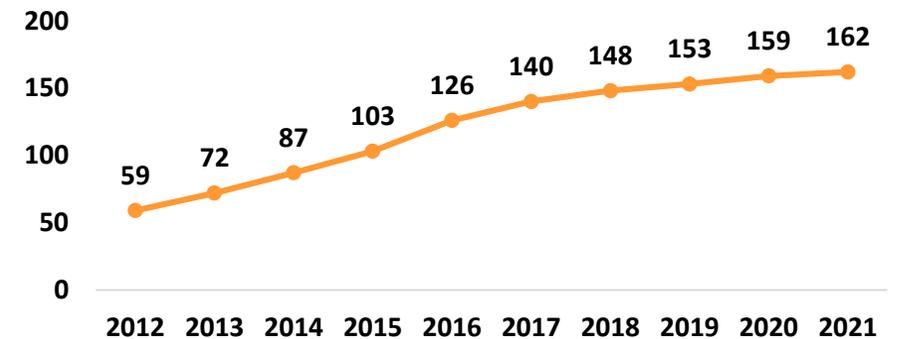


- Smaller format store
 - Highly portable to multiple types of markets
 - Average ~10,000 square feet for new stores
- Modest initial capital investment that supports high unit growth
 - Average capex of \$1.7 million
 - Initial inventory of \$300,000
 - Pre-opening costs of \$200,000
- Attractive unit-level 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



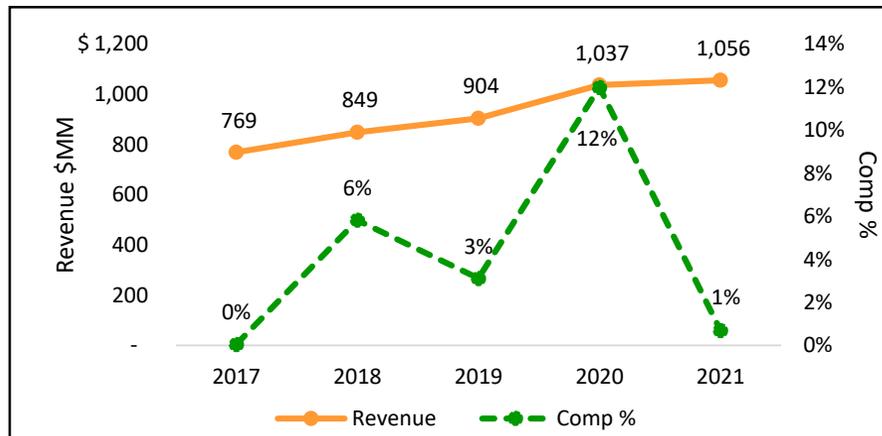


Financial Highlights

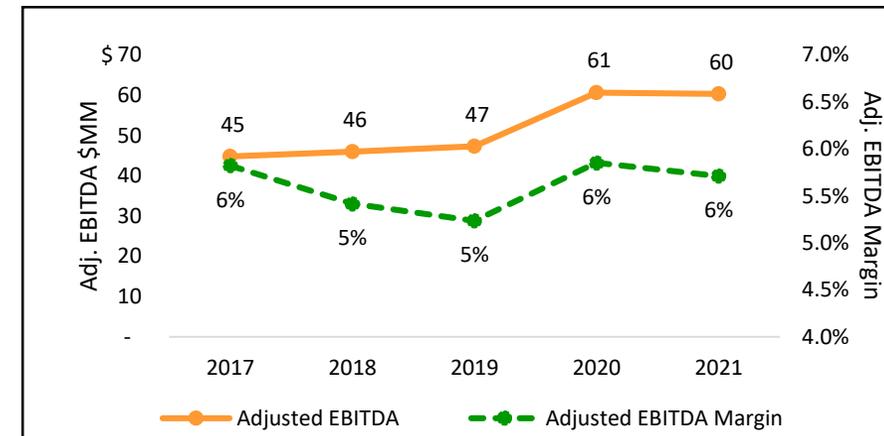
Historical Financial Metrics



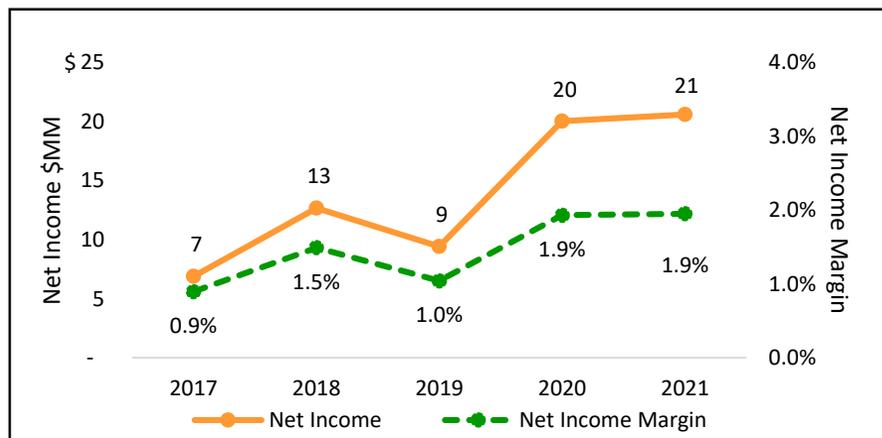
Revenue (\$ millions) and Daily Average Comparable Store Sales Growth



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). Fiscal years 2017-2020 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—Q4 2021



- Increased quarterly dividend 43% from \$0.07 to \$0.10 per common share, payable in December 2021
- Daily average comparable store sales increased 2.5% on top of a 13.2% increase in Q4 2020, resulting in a two-year stacked comp of 15.7%
- Average daily transaction count increased 3.4%, partially offset by a 0.8% decrease in average daily transaction size. However, the basket size remained elevated as compared to the pre-pandemic level, up over 20% compared to Q4 2019.
- Gross margin rate improved 40 bps vs. last year
- Net income was \$7.2M with \$0.32 diluted EPS in Q4 2021, versus \$3.7M with \$0.16 diluted EPS in Q4 2020
- Opened one new store and relocated/remodeled two stores



Strong Financial Position to Support Growth Investment

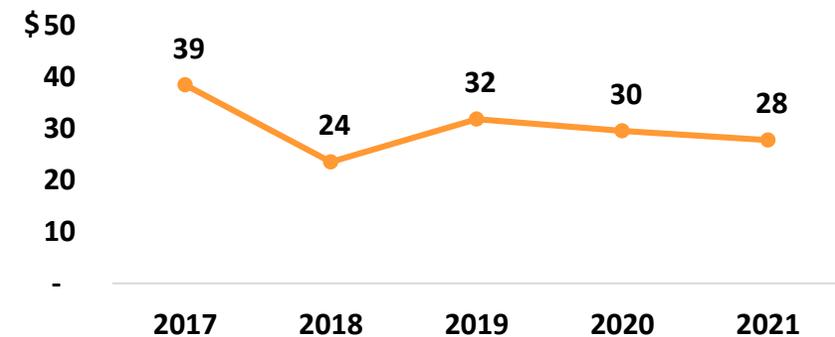


- Strong operating performance with \$23.7M in cash and \$0 outstanding on the revolving credit facility as of September 30, 2021
- \$49.0 million available on the \$50 million revolving credit facility, as of September 30, 2021
- Term loan balance was \$23.7 million as of 9/30/21. Strong cash flow allowed accelerated repayment in Q3 2021 of \$10 million of principal on the \$35 million term loan.
- \$10 million share repurchase program in place through May 2022, with \$8.3 million remaining to be repurchased

Balance Sheet Metrics (9/30/2021)

Cash	\$23.7MM
Debt [#]	\$66.3MM
Debt/Adjusted EBITDA [*]	1.1x

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 2022 Guidance

- New stores
 - Relocations/Remodels
 - Daily average comps
 - Diluted EPS
 - Capital expenditures
- | | <u>FY 2022</u> |
|------------------------|------------------|
| • New stores | 4-6 |
| • Relocations/Remodels | 3-4 |
| • Daily average comps | 0.0% to 2.0% |
| • Diluted EPS | \$0.75 to \$0.87 |
| • Capital expenditures | \$28M to \$35M |



The Company introduced its fiscal 2022 outlook on 11/18/21





Appendix

Non-GAAP Financial Measures



EBITDA and Adjusted EBITDA are not measures of financial performance under GAAP. EBITDA is defined as earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA is defined 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 share-based compensation, impairment charges, store closing costs 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 expense. The Company's historical presentation of Adjusted EBITDA, including for fiscal years 2017-2020, did not exclude share-based compensation expense. However, Adjusted EBITDA for fiscal years 2017-2020, as presented in this presentation, has been recast to exclude share-based compensation expense to enhance the comparability of this measure between historical fiscal years and fiscal year 2021. Management believes that excluding share-based compensation expense 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 measure 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 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;
- Adjusted EBITDA does not reflect share-based compensation expense, impairment 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,				
	2021	2020	2019	2018	2017
Net income	\$ 20,581	\$ 20,009	\$ 9,416	\$ 12,661	\$ 6,891
Interest expense, net	2,271	2,048	4,952	4,560	3,793
Provision for income taxes	5,475	5,692	2,398	(2,168)	3,414
Depreciation and amortization	29,633	31,193	28,977	29,430	29,511
EBITDA	\$ 57,960	\$ 58,942	\$ 45,743	\$ 44,483	\$ 43,609
Impairment of long-lived assets & store closing costs	1,455	612	380	585	-
Share-based compensation	877	1,129	1,185	810	758
Adjusted EBITDA ⁽¹⁾	\$ 60,292	\$ 60,683	\$ 47,308	\$ 45,878	\$ 44,367

	Three months ended September 30,	
	2021	2020
Net income	\$ 7,213	\$ 3,732
Interest expense, net	572	491
Provision for income taxes	1,586	735
Depreciation and amortization	7,171	7,685
EBITDA	\$ 16,542	\$ 12,643
Impairment of long-lived assets & store closing costs	1,050	612
Share-based compensation	211	378
Adjusted EBITDA	\$ 17,803	\$ 13,633

⁽¹⁾ Adjusted EBITDA for fiscal years 2017-2020, as presented, has been recast to exclude share-based compensation expense to enhance the comparability of this measure between fiscal years 2017-2020 and fiscal year 2021.