

Natural Grocers by Vitamin Cottage, Inc.
Form 10-Q
February 07, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 001-35608

Natural Grocers by Vitamin Cottage, Inc.

(Exact name of registrant as specified in its charter)

| | |
|--|---|
| Delaware | 45-5034161 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

12612 West Alameda Parkway **80228**
Lakewood, Colorado

(Zip code)

(Address of principal executive offices)

(303) 986-4600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
No

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The number of shares of the registrant's common stock, \$0.001 par value, outstanding as of February 4, 2019 was 22,406,696.

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Natural Grocers by Vitamin Cottage, Inc.

Quarterly Report on Form 10-Q

For the Quarterly Period Ended December 31, 2018

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Except where the context otherwise requires or where otherwise indicated: (i) all references herein to “we,” “us,” “our,” “Natural Grocers” and the “Company” refer collectively to Natural Grocers by Vitamin Cottage, Inc. and its consolidated subsidiaries and (ii) all references to a “fiscal year” refer to a year beginning on October 1 of the previous year and ending on September 30 of such year (for example, “fiscal year 2019” refers to the year from October 1, 2018 to September 30, 2019).

Forward-Looking Statements

This Quarterly Report on Form 10-Q (this Form 10-Q) includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 in addition to historical information. These forward-looking statements are included throughout this Form 10-Q, including in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” 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,” “potentially,” “project,” “future,” “target” and similar terms and phrases to identify forward-looking statements in this Form 10-Q.

The forward-looking statements contained in this Form 10-Q 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 we have anticipated. Actual results may differ materially from these expectations due to changes in global, regional or local political, economic, business, competitive, market, regulatory and other factors, many of which are beyond our control. We believe these factors include those referenced in Item 1A - “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2018 (the Form 10-K) and Item 1A - “Risk Factors” in this 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 Form 10-Q 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 www.naturalgrocers.com.

Table of Contents**PART I. Financial Information****Item 1. Financial Statements****NATURAL GROCERS BY VITAMIN COTTAGE, INC.****Consolidated Balance Sheets***(Dollars in thousands, except per share data)*

| | December 31, 2018 | September 30, 2018 |
|---|---------------------------------------|--|
| | (unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,536 | 9,398 |
| Accounts receivable, net | 4,876 | 4,738 |
| Merchandise inventory | 95,197 | 94,228 |
| Prepaid expenses and other current assets | 2,716 | 2,590 |
| Total current assets | 107,325 | 110,954 |
| Property and equipment, net | 194,696 | 188,768 |
| Other assets: | | |
| Deposits and other assets | 1,694 | 1,682 |
| Goodwill and other intangible assets, net | 6,390 | 5,648 |
| Deferred financing costs, net | 27 | 31 |
| Total other assets | 8,111 | 7,361 |
| Total assets | \$ 310,132 | 307,083 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 54,420 | 61,104 |
| Accrued expenses | 21,591 | 17,851 |
| Capital and financing lease obligations, current portion | 805 | 736 |
| Total current liabilities | 76,816 | 79,691 |
| Long-term liabilities: | | |
| Capital and financing lease obligations, net of current portion | 44,849 | 40,406 |
| Revolving credit facility | 12,692 | 13,192 |

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| | | |
|---|------------|----------|
| Deferred income tax liabilities, net | 6,183 | 6,447 |
| Deferred compensation | 700 | 688 |
| Deferred rent | 11,121 | 11,038 |
| Leasehold incentives | 8,603 | 8,895 |
| Total long-term liabilities | 84,148 | 80,666 |
| Total liabilities | 160,964 | 160,357 |
| Commitments (Notes 7 and 13) | | |
| Stockholders' equity: | | |
| Common stock, \$0.001 par value, 50,000,000 shares authorized, 22,510,279 shares issued at December 31, 2018 and September 30, 2018 and 22,392,310 and 22,373,382 outstanding at December 31, 2018 and September 30, 2018, respectively | 23 | 23 |
| Additional paid-in capital | 56,337 | 56,236 |
| Retained earnings | 93,704 | 91,507 |
| Common stock in treasury at cost, 117,969 and 136,897 shares, at December 31, 2018 and September 30, 2018, respectively | (896) | (1,040) |
| Total stockholders' equity | 149,168 | 146,726 |
| Total liabilities and stockholders' equity | \$ 310,132 | 307,083 |

See accompanying notes to unaudited interim consolidated financial statements.

Table of Contents**NATURAL GROCERS BY VITAMIN COTTAGE, INC.****Consolidated Statements of Income****(Unaudited)***(Dollars in thousands, except per share data)*

| | Three months ended December 31, | |
|--|--|-------------|
| | 2018 | 2017 |
| Net sales | \$221,515 | 202,480 |
| Cost of goods sold and occupancy costs | 162,369 | 149,321 |
| Gross profit | 59,146 | 53,159 |
| Store expenses | 49,123 | 45,166 |
| Administrative expenses | 5,315 | 5,257 |
| Pre-opening and relocation expenses | 672 | 543 |
| Operating income | 4,036 | 2,193 |
| Interest expense, net | (1,255 |) (1,089) |
| Income before income taxes | 2,781 | 1,104 |
| (Provision for) benefit from income taxes | (584 |) 4,077 |
| Net income | \$2,197 | 5,181 |
| Net income per common share: | | |
| Basic | \$0.10 | 0.23 |
| Diluted | \$0.10 | 0.23 |
| Weighted average number of shares of common stock outstanding: | | |
| Basic | 22,386,566 | 22,359,828 |
| Diluted | 22,595,961 | 22,366,749 |

See accompanying notes to unaudited interim consolidated financial statements.

Table of Contents**NATURAL GROCERS BY VITAMIN COTTAGE, INC.****Consolidated Statements of Cash Flows****(Unaudited)***(Dollars in thousands)*

| | Three months ended | |
|---|-------------------------------|-------------|
| | December 31, 2018 | 2017 |
| Operating activities: | | |
| Net income | \$2,197 | 5,181 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 7,286 | 7,415 |
| Loss on disposal of property and equipment | 41 | 48 |
| Share-based compensation | 399 | 160 |
| Deferred income tax benefit | (264) | (4,446) |
| Non-cash interest expense | 3 | 3 |
| Changes in operating assets and liabilities | | |
| (Increase) decrease in: | | |
| Accounts receivable, net | (151) | 383 |
| Merchandise inventory | (969) | 2,190 |
| Prepaid expenses and other assets | (339) | 22 |
| Income tax receivable | 181 | 351 |
| (Decrease) increase in: | | |
| Accounts payable | (4,400) | (3,564) |
| Accrued expenses | 3,740 | 3,013 |
| Deferred compensation | 12 | 124 |
| Deferred rent and leasehold incentives | (209) | 89 |
| Net cash provided by operating activities | 7,527 | 10,969 |
| Investing activities: | | |
| Acquisition of property and equipment ⁽¹⁾ | (11,511) | (4,919) |
| Acquisition of other intangibles ⁽¹⁾ | (68) | (6) |
| Proceeds from sale of property and equipment | — | 41 |
| Proceeds from property insurance settlements | 19 | — |
| Net cash used in investing activities | (11,560) | (4,884) |
| Financing activities: | | |
| Borrowings under credit facility | 94,300 | 87,500 |
| Repayments under credit facility | (94,800) | (91,300) |

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| | | |
|---|----------|----------|
| Capital and financing lease obligations payments | (175) | (132) |
| Repurchases of common stock | — | (581) |
| Payments on withholding tax for restricted stock unit vesting | (154) | (4) |
| Net cash used in financing activities | (829) | (4,517) |
| Net (decrease) increase in cash and cash equivalents | (4,862) | 1,568 |
| Cash and cash equivalents, beginning of period | 9,398 | 6,521 |
| Cash and cash equivalents, end of period | \$4,536 | 8,089 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$224 | 217 |
| Cash paid for interest on capital and financing lease obligations, net of capitalized interest of \$43 and \$25, respectively | 1,024 | 848 |
| Income taxes paid | 20 | 19 |
| Supplemental disclosures of non-cash investing and financing activities: | | |
| Acquisition of property and equipment not yet paid | \$2,970 | 1,722 |
| Property acquired through capital and financing lease obligations | 4,688 | 4,428 |

(1) Certain prior year amounts have been separated for consistency with current year presentation.

See accompanying notes to unaudited interim consolidated financial statements.

Table of Contents**NATURAL GROCERS BY VITAMIN COTTAGE, INC.****Consolidated Statements of Changes in Stockholders' Equity****For the Three Months Ended December 31, 2018 and December 31, 2017****(Unaudited)***(Dollars in thousands, except per share data)*

| | Common stock -\$0.001 par value | | Additional | | | Total |
|-----------------------------|--|---------------|-------------------|-----------------|-----------------|----------------------|
| | Shares | Amount | paid-in | Retained | Treasury | stockholders' |
| | outstanding | | capital | earnings | stock | equity |
| Balances September 30, 2018 | 22,373,382 | \$ 23 | \$ 56,236 | \$ 91,507 | \$(1,040) | \$ 146,726 |
| Net income | — | — | — | 2,197 | — | 2,197 |
| Share-based compensation | 18,928 | — | 101 | — | 144 | 245 |
| Balances December 31, 2018 | 22,392,310 | \$ 23 | \$ 56,337 | \$ 93,704 | \$(896) | \$ 149,168 |

| | Common stock -\$0.001 par value | | Additional | | | Total |
|-----------------------------|--|---------------|-------------------|-----------------|-----------------|----------------------|
| | Shares | Amount | paid-in | Retained | Treasury | stockholders' |
| | outstanding | | capital | earnings | stock | equity |
| Balances September 30, 2017 | 22,448,056 | \$ 23 | \$ 55,678 | \$ 78,846 | \$(664) | \$ 133,883 |
| Net income | — | — | — | 5,181 | — | 5,181 |
| Share-based compensation | 1,226 | — | 147 | — | 9 | 156 |
| Repurchase of common stock | (101,573) | — | — | — | (581) | (581) |
| Balances December 31, 2017 | 22,347,709 | \$ 23 | \$ 55,825 | \$ 84,027 | \$(1,236) | \$ 138,639 |

See accompanying notes to unaudited interim consolidated financial statements.

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NATURAL GROCERS BY VITAMIN COTTAGE, INC.

Notes to Unaudited Interim Consolidated Financial Statements

December 31, 2018 and 2017

1. Organization

Nature of Business

Natural Grocers by Vitamin Cottage, Inc. (Natural Grocers or the holding company) and its consolidated subsidiaries (collectively, the Company) operate retail stores that specialize in natural and organic groceries and dietary supplements. The Company operates its retail stores under its trademark *Natural Grocers by Vitamin Cottage*®. As of December 31, 2018, the Company operated 151 stores in 19 states. The Company also has a bulk food repackaging facility and distribution center in Golden, Colorado. The Company had 148 stores in 19 states as of September 30, 2018.

2. Basis of Presentation and Summary of Significant Accounting Policies

Consolidated Financial Statements

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial statements and are in the form prescribed by Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. The information included in this Form 10-Q should be read in conjunction with Item 7 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and notes thereto included in the Form 10-K. The accompanying unaudited consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the Company’s financial results. Interim results are not necessarily indicative of results for any other interim period or for a full fiscal year. The Company reports its results of operations on a fiscal

year ending September 30.

The accompanying unaudited consolidated financial statements include all the accounts of the holding company's wholly owned subsidiaries, Vitamin Cottage Natural Food Markets, Inc. (the operating company) and Vitamin Cottage Two Ltd. Liability Company (VC2). All significant intercompany balances and transactions have been eliminated in consolidation.

The Company has one reporting segment: natural and organic retail stores. Sales from the Company's natural and organic retail stores are derived from sales of the following product categories, which are presented as a percentage of sales for the three months ended December 31, 2018 and 2017, as follows:

| | Three months ended | |
|---------------------|-----------------------------------|-------------|
| | December 31, | |
| | 2018 | 2017 |
| Grocery | 68 % | 67 |
| Dietary supplements | 21 | 22 |
| Other | 11 | 11 |
| | 100% | 100 |

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (including the fair value of assets acquired and liabilities assumed in a business combination), the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management reviews its estimates on an ongoing basis, including those related to: allowances for self-insurance reserves; valuation of inventories; useful lives of property and equipment for depreciation and amortization; impairment of finite-lived intangible assets, long-lived assets, and goodwill; lease assumptions; and litigation based on currently available information. Changes in facts and circumstances may result in revised estimates and actual results could differ from those estimates.

U.S. Tax Reform

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the Tax Reform Act). The Tax Reform Act significantly revised the ongoing federal income tax by, among other things, lowering U.S. corporate income tax rates effective January 1, 2018. The Company has a U.S. federal income tax rate of approximately 21.0% for the fiscal year ending September 30, 2019. The Tax Reform Act resulted in a blended U.S. federal income tax rate of approximately 24.3% for the fiscal year ended September 30, 2018. Remeasurement of the Company's deferred tax balance under the Tax Reform Act resulted in a non-cash tax benefit of approximately \$4.3 million for the three months ended December 31, 2017 and the fiscal year ended September 30, 2018.

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Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, “Revenue from Contracts with Customers,” Topic 606, “Revenue from Contracts with Customers” (ASU 2014-09). ASU 2014-09 provides guidance for revenue recognition and will replace most existing revenue recognition guidance in GAAP. ASU 2014-09’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled for the transfer of those goods or services. The Company adopted this ASU and related amendments on October 1, 2018, using the modified retrospective approach. Additionally, upon adoption of this ASU, the Company elected the following practical expedients:

ASU 2016-09, pursuant to which the incremental costs of obtaining a contract are recognized as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

ASU 2016-12, pursuant to which sales taxes and other similar taxes collected from customers are presented net of sales.

ASU 2016-20, pursuant to which the transaction price allocated to performance obligations is not disclosed when the related contract has a duration of one year or less.

Updated accounting policies and other disclosures are discussed below in *Recent Accounting Pronouncements* in this Note 2. The adoption of ASU 2014-09 did not have a material impact on the Company’s consolidated financial statements for the three months ended December 31, 2018.

Recent Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, “Simplifying the Test for Goodwill Impairment,” Topic 350, “Intangibles – Goodwill and Other” (ASU 2017-04). The amendments in ASU 2017-04 simplify the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in the current two-step impairment test. An impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value should be recognized; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendments should be applied on a prospective basis. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017, and the ASU is effective for the Company’s first quarter of the fiscal year ending September 30, 2020. The Company is currently evaluating the impact that the adoption of these provisions will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases,” Topic 842, “Leases” (ASU 2016-02). ASU No. 2016-02 requires lessees to recognize a right-of-use asset and corresponding lease liability for all leases with terms of more than 12 months. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. ASU 2016-02 also requires certain quantitative and qualitative disclosures. The provisions of ASU 2016-02 are effective for the Company’s first quarter of the fiscal year ending September 30, 2020, with early adoption permitted. The Company will apply the transition provisions of ASU 2016-02 at its adoption date, rather than the earliest comparative period presented in the financial statements, as permitted by ASU 2018-11, “Leases,” Topic 842, “Targeted Improvements,” released in July 2018.

The adoption of ASU 2016-02 will result in a material increase to the Company’s consolidated balance sheets for lease liabilities and right-of-use assets. The Company is also performing a comprehensive review of its current processes to determine and implement changes required to support the adoption of this standard. As part of this review process, the Company is implementing new software solutions to support the lease reporting upon adoption. The Company is currently evaluating the other effects the adoption of ASU 2016-02 will have on its consolidated financial statements.

In January 2018, the FASB issued ASU 2018-01, “Leases,” Topic 842, “Land Easement Practical Expedient for Transition to Topic 842” (ASU 2018-01). ASU 2018-01 permits an entity to elect a transition practical expedient to not assess, under Accounting Standards Codification (ASC) 842, land easements that exist or expired before the standard’s effective date that were not previously accounted for as leases under ASC 840. The Company plans to elect this practical expedient in implementing ASU 2016-02.

In June 2018, the FASB issued ASU 2018-07, “Compensation-Stock Compensation,” Topic 718, “Improvements to Nonemployee Share-Based Payment Accounting” (ASU 2018-07) as part of its Simplification Initiative to reduce complexity when accounting for share-based payments to non-employees. ASU 2018-07 expands the scope of Topic 718 to more closely align share-based payment transactions for acquiring goods and services from non-employees with the accounting for share-based payments to employees, with certain exceptions. The provisions of ASU 2018-07 are effective for the Company’s first quarter of the fiscal year ending September 30, 2020, with early adoption permitted. This ASU is not expected to have a material impact on the Company’s consolidated financial statements.

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SEC Disclosure Update

In August 2018, the SEC adopted final rules under SEC Release No. 33-10532, *Disclosure Update and Simplification*, amending and expanding certain disclosure requirements. The rules require, among other things, that registrants include in their interim financial statements a reconciliation of changes in stockholders' equity in the notes or as a separate statement that reconciles the beginning balance to the ending balance of each caption in stockholders' equity for each period for which an income statement is required to be filed. The Company applied the new SEC disclosure requirements to the Consolidated Statements of Stockholders' Equity for the three months ended December 31, 2018 on a retrospective basis.

3. Revenue Recognition

The nature of the goods the Company transfers to customers at the point of sale consists of merchandise purchased for resale. In these transactions, the Company acts as a principal and recognizes revenue ("net sales") from the sale of goods when control of the promised goods is transferred to the customer. Control refers to the ability of the customer to direct the use of, and obtain substantially all the remaining benefits from, the transferred goods.

The Company's performance obligations are satisfied upon the transfer of goods to the customer (at the point of sale), and payment from the customer is also due at that time. Transaction prices are considered fixed. Discounts provided to customers at the point of sale are recognized as a reduction in revenue as the goods are sold. Revenue excludes sales and usage-based taxes collected.

Proceeds from the sale of gift cards are recorded as a liability at the time of sale and recognized as revenue when the gift cards are redeemed by the customer and the performance obligation is satisfied by the Company. The Company also recognizes revenue for a portion of gift card values that is not expected to be redeemed ("breakage"). The estimated breakage takes into consideration several factors, including the laws and regulations applicable to each jurisdiction. The Company determines the amount of breakage income to be recognized on gift cards using historical experience to estimate amounts that will ultimately not be redeemed. The Company recognizes such breakage income in proportion to redemption rates of the overall population of gift cards.

The balance of contract liabilities related to unredeemed gift cards was \$1.2 million and \$1.0 million as of December 31, 2018 and September 30, 2018, respectively. Revenue for the three months ended December 31, 2018 includes approximately \$0.3 million that was included in the contract liability balance of unredeemed gift cards at September 30, 2018.

The following table disaggregates our revenue by product category for the three months ended December 31, 2018 and 2017, dollars in thousands:

| | Three months ended | |
|---------------------|-------------------------------|-------------|
| | December 31, | |
| | 2018 | 2017 |
| Grocery | \$151,301 | 136,101 |
| Dietary supplements | 45,784 | 43,565 |
| Other | 24,430 | 22,814 |
| | \$221,515 | 202,480 |

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Basic earnings per share (EPS) is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted EPS reflects the potential dilution that could occur if the Company's granted but unvested restricted stock units (RSUs) were to vest, resulting in the issuance of common stock that would then share in the Company's earnings.

Presented below are basic and diluted EPS for the three months ended December 31, 2018 and 2017, dollars in thousands, except per share data:

| | Three months ended December 31, | |
|---|--|-------------|
| | 2018 | 2017 |
| Net income | \$2,197 | 5,181 |
| Weighted average number of shares of common stock outstanding | 22,386,566 | 22,359,828 |
| Effect of dilutive securities | 209,395 | 6,921 |
| Weighted average number of shares of common stock outstanding including effect of dilutive securities | 22,595,961 | 22,366,749 |
| Basic earnings per share | \$0.10 | 0.23 |
| Diluted earnings per share | \$0.10 | 0.23 |

There were 5,126 and 157,879 non-vested RSUs for the three months ended December 31, 2018 and 2017, respectively, excluded from the calculation of diluted EPS as they are antidilutive.

The Company did not declare any dividends in the three months ended December 31, 2018 or 2017.

5. Debt*Credit Facility*

On January 28, 2016, the Company entered into a credit facility (the Credit Facility). The operating company is the borrower under the Credit Facility and its obligations under the Credit Facility are guaranteed by the holding company and VC2. The Credit Facility is secured by a lien on substantially all of the Company's assets. The amount available for borrowing under the Credit Facility is \$50.0 million, including a \$5.0 million sublimit for standby letters of credit. The Company has the right to borrow, prepay and re-borrow amounts under the Credit Facility at any time prior to the maturity date. The Credit Facility matures on January 31, 2021. For floating rate borrowings under the Credit Facility, interest is determined by the lender's administrative agent based on the most recent compliance certificate of the operating company and stated at the base rate less the lender spread based upon certain financial measures. For fixed rate borrowings under the Credit Facility, interest is determined by quoted LIBOR rates for the interest period plus the lender spread based upon certain financial measures. The unused commitment fee is based upon certain financial measures.

The Credit Facility requires compliance with certain customary operational and financial covenants, including a leverage ratio. The Credit Facility also contains certain other customary limitations on the Company's ability to incur additional debt, guarantee other obligations, grant liens on assets and make investments or acquisitions, among other limitations. Additionally, the Credit Facility prohibits the payment of cash dividends to the holding company from the operating company without the administrative agent's consent, except when no default or event of default exists. If no default or event of default exists, dividends are allowed for various audit, accounting, tax, securities, indemnification, reimbursement, insurance and other reasonable expenses incurred in the ordinary course of business, including cash dividends to the holding company for the repurchase of shares of common stock in an amount not to exceed \$10.0 million.

The Company had \$12.7 million and \$13.2 million outstanding under the Credit Facility as of December 31, 2018 and September 30, 2018, respectively. As of each of December 31, 2018 and September 30, 2018, the Company had undrawn, issued and outstanding letters of credit of \$1.0 million, which were reserved against the amount available for borrowing under the terms of the Credit Facility. The Company had \$36.3 million and \$35.8 million available for borrowing under the Credit Facility as of December 31, 2018 and September 30, 2018, respectively.

As of December 31, 2018 and September 30, 2018, the Company was in compliance with the financial covenants under the Credit Facility.

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Capital and Financing Lease Obligations

The Company had 21 and 20 leases as of December 31, 2018 and September 30, 2018, respectively, that are included in capital and financing lease obligations (see Note 7). No rent expense is recorded for these capitalized real estate leases, but rather rental payments under the capital leases are recognized as a reduction of the capital and financing lease obligation and as interest expense. The interest rate on capital and financing lease obligations is determined at the inception of the lease.

Interest

The Company incurred gross interest expense of approximately \$1.3 million and \$1.1 million for the three months ended December 31, 2018 and 2017, respectively. Interest expense for the three months ended December 31, 2018 and 2017 relates primarily to interest on capital and financing lease obligations. The Company capitalized interest of less than \$0.1 million for each of the three months ended December 31, 2018 and 2017.

6. Stockholders' Equity

Share Repurchases

On May 4, 2016, the Company's Board of Directors (the Board) authorized a two-year share repurchase program pursuant to which the Company may repurchase up to \$10.0 million in shares of the Company's common stock. On May 2, 2018, Board authorized a two-year extension of the Company's share repurchase program. As a result of such extension, the share repurchase program will terminate on May 4, 2020. Repurchases under the Company's share repurchase program are made from time to time at management's discretion on the open market or through privately negotiated transactions in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended (the Exchange Act), subject to market conditions, applicable legal requirements and other relevant factors. Repurchases of common stock may also be made under a Rule 10b5-1 plan, which would permit common stock to be repurchased when the Company might otherwise be precluded from doing so under insider trading laws. The share repurchase program does not obligate the Company to purchase any particular amount of common stock and may be suspended, modified or discontinued by the Company without prior notice.

Prior to October 1, 2018, the Company repurchased 199,543 shares under the share repurchase program. The Company did not repurchase any shares during the three months ended December 31, 2018. During the three months

ended December 31, 2017, the Company repurchased 101,573 shares under the share repurchase program. The dollar value of the shares of the Company's common stock that may yet be purchased under the share repurchase program is approximately \$8.3 million.

Prior to October 1, 2018, the Company reissued 62,646 treasury shares at a cost of approximately \$0.6 million to satisfy the issuance of common stock pursuant to the vesting of certain restricted stock unit awards and the award of stock grants. During the three months ended December 31, 2018 and 2017, the Company reissued 18,928 treasury shares at a cost of approximately \$0.1 million and 1,226 treasury shares at a cost of less than \$0.1 million, respectively, to satisfy the issuance of common stock pursuant to the vesting of certain restricted stock unit awards and the award of common stock grants. At December 31, 2018 and September 30, 2018, the Company held in treasury 117,969 shares and 136,897 shares, respectively, totaling \$0.9 million and \$1.0 million, respectively.

7. Lease Commitments

Capital and financing lease obligations as of December 31, 2018 and September 30, 2018, were as follows, dollars in thousands:

| | As of | |
|---|-----------------|------------------|
| | December | September |
| | 31, | 30, |
| | 2018 | 2018 |
| Capital lease finance obligations, due in monthly installments through fiscal year 2033 | \$35,104 | 32,523 |
| Capital lease obligations, due in monthly installments through fiscal year 2041 | 6,200 | 4,763 |
| Capital lease finance obligations for assets under construction, due in monthly installments through fiscal year 2034 | 4,350 | 2,350 |
| Capital lease obligations for assets under construction, due in monthly installments through fiscal year 2034 | — | 1,506 |
| Total capital and financing lease obligations | 45,654 | 41,142 |
| Less current portion | (805) | (736) |
| Total capital and financing lease obligations, net of current portion | \$44,849 | 40,406 |

Table of Contents**8. Property and Equipment**

The Company had the following property and equipment balances as of December 31, 2018 and September 30, 2018, dollars in thousands:

| | Useful lives | As of December 31, 2018 | September 30, 2018 |
|--|-----------------|----------------------------------|--------------------------|
| | (in years) | | |
| Construction in process | n/a | \$7,440 | 15,879 |
| Capitalized real estate leases for build-to-suit stores, including unamortized land of \$617 and \$617, respectively | 40 | 42,320 | 35,700 |
| Capitalized real estate leases | 15 | 7,241 | 5,735 |
| Land | n/a | 1,422 | 192 |
| Buildings | 40 | 19,516 | 19,262 |
| Land improvements | 5– 24 | 1,275 | 1,016 |
| Leasehold and building improvements | 1– 25 | 138,731 | 131,474 |
| Fixtures and equipment | 5– 7 | 126,940 | 122,984 |
| Computer hardware and software | 3– 5 | 19,943 | 21,181 |
| | | 364,828 | 353,423 |
| Less accumulated depreciation and amortization | | (170,132) | (164,655) |
| Property and equipment, net | | \$194,696 | 188,768 |

Capitalized real estate leases for build-to-suit stores includes the assets for the Company's buildings under capital lease finance obligations and capitalized real estate leases includes assets for the Company's buildings under capital lease obligations (see Note 7).

Depreciation and amortization expense (related to property and equipment as well as other intangibles) for the three months ended December 31, 2018 and 2017 is summarized as follows, dollars in thousands:

| | Three months ended December 31, 2018 | 2017 |
|---------------------------------------|--|------|
| Depreciation and amortization expense | \$ 182 | 196 |

| | | |
|---|----------|-------|
| included in cost of goods sold and occupancy costs | | |
| Depreciation and amortization expense included in store expenses | 6,842 | 6,850 |
| Depreciation and amortization expense included in administrative expenses | 262 | 369 |
| Total depreciation and amortization expense | \$ 7,286 | 7,415 |

Table of Contents**9. Goodwill and Other Intangible Assets**

The Company had the following goodwill and other intangible asset balances as of December 31, 2018 and September 30, 2018, dollars in thousands:

| | Useful lives (in years) | As of December 31, 2018 | September 30, 2018 |
|---|----------------------------|----------------------------------|--------------------------|
| Amortizable intangible assets: | | | |
| Other intangibles | 0.5– 3 | \$2,013 | 138 |
| Amortizable intangible assets | | 2,013 | 138 |
| Less accumulated amortization | | (1,210) | (77) |
| Amortizable intangible assets, net | | 803 | 61 |
| Trademark | Indefinite | 389 | 389 |
| Total other intangibles, net | | 1,192 | 450 |
| Goodwill | Indefinite | 5,198 | 5,198 |
| Total goodwill and other intangibles, net | | \$6,390 | 5,648 |

10. Accrued Expenses

The composition of accrued expenses as of December 31, 2018 and September 30, 2018 is summarized as follows, dollars in thousands:

| | As of December 31, 2018 | September 30, 2018 |
|---|----------------------------------|--------------------------|
| Accrued property, sales and use tax payable | \$6,855 | 7,043 |
| Income tax payable | 1,550 | 903 |
| Payroll and employee-related expenses | 10,302 | 6,992 |
| Accrued marketing expenses | 289 | 335 |
| Deferred revenue related to gift card sales | 1,554 | 1,453 |
| Other | 1,041 | 1,125 |
| Total accrued expenses | \$21,591 | 17,851 |

11. Income Taxes

Income taxes are accounted for in accordance with the provisions of ASC 740. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are remeasured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized.

Remeasurement of the Company's deferred tax balance resulted in a non-cash tax benefit of approximately \$4.3 million for the three months ended December 31, 2017.

12. Related Party Transactions

The Company has ongoing relationships with related entities as noted below:

Chalet Properties, LLC: The Company has five operating leases and one capital lease with Chalet Properties, LLC (Chalet). Chalet is owned by the Company's four non-independent Board members: Kemper Isely, Zephyr Isely, Heather Isely and Elizabeth Isely, and other related family members. Rent paid to Chalet was approximately \$0.3 million for each of the three months ended December 31, 2018 and 2017.

Isely Family Land Trust LLC: The Company has one operating lease with the Isely Family Land Trust LLC (the Land Trust). The Land Trust is owned by the Isely Children's Trust and by the Margaret A. Isely Family Trust. Rent paid to the Land Trust was less than \$0.1 million for each of the three months ended December 31, 2018 and 2017.

FTVC LLC: The Company has one operating lease for a store location with FTVC LLC, which is owned by the Company's four non-independent Board members and other related family members. Rent paid to FTVC LLC was less than \$0.1 million for each of the three months ended December 31, 2018 and 2017.

13. Commitments and Contingencies

The Company is periodically involved in various legal proceedings that are incidental to the conduct of its business, including but not limited to employment-related claims, customer injury claims and investigations. When the potential liability from a matter can be estimated and the loss is considered probable, the Company records the estimated loss. Due to uncertainties related to the resolution of lawsuits, investigations and claims, the ultimate outcome may differ from the estimates. Although the Company cannot predict with certainty the ultimate resolution of any lawsuits, investigations and claims asserted against it, management does not believe any currently pending legal proceeding to which the Company is a party will have a material adverse effect on its business, prospects, financial condition, cash flows or results of operations.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with our unaudited consolidated financial statements and notes thereto included elsewhere in this Form 10-Q and with the audited consolidated financial statements and notes thereto in our Form 10-K. This MD&A contains forward-looking statements. Refer to “*Forward-Looking Statements*” at the beginning of this Form 10-Q for an explanation of these types of statements. Summarized numbers included in this section, and corresponding percentage or basis point changes, may not sum due to the effects of rounding.

Company Overview

We operate natural and organic grocery and dietary supplement stores that are focused on providing high quality products at affordable prices, exceptional customer service, nutrition education and community outreach. We offer a variety of natural and organic groceries and dietary supplements that meet our strict quality standards. We believe we have been at the forefront of the natural and organic foods movement since our founding. We are headquartered in Lakewood, Colorado. As of December 31, 2018, we operated 151 stores in 19 states, including Colorado, Arkansas, Arizona, Idaho, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, Texas, Utah, Washington and Wyoming. We also operate a bulk food repackaging facility and distribution center in Golden, Colorado.

We offer a variety of natural and organic groceries and dietary supplements that meet our strict quality guidelines. The size of our stores varies from approximately 5,000 to 16,000 selling square feet. During the twelve months ended December 31, 2018, our new stores averaged approximately 10,000 selling square feet. During fiscal year 2017, we introduced a new prototype store layout that has approximately 10,000 square feet of selling space. We anticipate that in the future, a majority of our new stores will use the new prototype layout.

The growth in the organic and natural foods industry and growing consumer interest in health and nutrition have enabled us to continue to open new stores and enter new markets. During the five fiscal years ended September 30, 2018, we increased our store count at a compound annual growth rate of 15.5%. In fiscal year 2018, we opened eight new stores. We currently plan to open seven to nine new stores in fiscal year 2019, four of which opened during the three months ended December 31, 2018. Since December 31, 2018, we have opened one new store. As of the date of this report, we have signed leases for two new stores that we plan to open in fiscal years 2019 and beyond. During the quarter ended December 31, 2018, we relocated one store and closed one store, as discussed in further detail in our Form 10-K. During the remainder of fiscal year 2019, we plan to relocate four to five additional stores.

Performance Highlights

Key highlights of our performance for the three months ended December 31, 2018 are discussed briefly below and in further detail throughout this MD&A. Key financial metrics, including, but not limited to, comparable store sales, daily average comparable store sales, mature store sales and daily average mature store sales are defined under the caption “Key Financial Metrics in Our Business,” presented later in this MD&A.

Net sales. Net sales were \$221.5 million for the three months ended December 31, 2018, an increase of \$19.0 million, or 9.4%, compared to net sales of \$202.5 million for the three months ended December 31, 2017.

Comparable store sales and daily average comparable store sales. Comparable store sales and daily average comparable store sales for the three months ended December 31, 2018 each increased 5.5% compared to the three months ended December 31, 2017.

Mature store sales and daily average mature store sales. Mature store sales and daily average mature store sales for the three months ended December 31, 2018 each increased 3.6% compared to the three months ended December 31, 2017.

Net income. Net income was \$2.2 million for the three months ended December 31, 2018, a decrease of \$3.0 million, or 57.6% compared to net income of \$5.2 million for the three months ended December 31, 2017. Net income for the three months ended December 31, 2017 was favorably impacted by \$4.3 million due to the non-cash remeasurement of deferred tax assets and liabilities.

EBITDA. Earnings before interest, taxes, depreciation and amortization (EBITDA) was \$11.3 million for the three months ended December 31, 2018, an increase of \$1.7 million, or 17.8%, from \$9.6 million for the three months ended December 31, 2017. EBITDA is not a measure of financial performance under GAAP. Refer to the “Non-GAAP Financial Measures” section in this MD&A for a definition of EBITDA and a reconciliation of net income to EBITDA.

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Liquidity. As of December 31, 2018, cash and cash equivalents was \$4.5 million, and there was \$36.3 million available for borrowing under our \$50.0 million Credit Facility, net of undrawn, issued and outstanding letters of credit of \$1.0 million.

New store growth. We opened four new stores and closed one store during the three months ended December 31, 2018. We operated a total of 151 stores as of December 31, 2018. We plan to open a total of seven to nine new stores in fiscal year 2019, which would result in an annual new store growth rate of 4.7% to 6.1% for fiscal year 2019.

Store Relocations and Remodels. During fiscal year 2019, we plan to relocate five to six stores. During the quarter ended December 31, 2018, we relocated one store.

Industry Trends and Economics

We have identified the following recent trends and factors that have impacted and may continue to impact our results of operations and financial condition:

Impact of broader economic trends. The grocery industry and our sales are affected by general economic conditions, including, but not limited to, consumer spending, the level of disposable consumer income, consumer debt, interest rates, the price of commodities, the political environment and consumer confidence. In this regard, we believe our financial results for the three months ended December 31, 2018 reflected improvement in the oil and gas markets we serve, although they generally continue to lag behind our non-oil and gas markets.

Opportunities in the growing natural and organic grocery and dietary supplements industry. Our industry, which includes organic and natural foods and dietary supplements, continues to experience growth driven primarily by increased public interest in health and nutrition. Capitalizing on this opportunity, we continue to open new stores and enter new markets. As we open new stores, our results of operations have been and may continue to be materially adversely affected based on the timing and number of new stores we open, their initial sales and new lease costs. The length of time it takes for a new store to become profitable can vary depending on a number of factors, including location, competition, a new market versus an existing market, the strength of store management and general economic conditions. Once a new store is open, it typically grows at a faster rate than mature stores for several years. Mature stores are stores that have been open for any part of five fiscal years or longer.

As we expand across the United States and enter markets where consumers may not be as familiar with our brand, we seek to secure prime real estate locations for our stores to establish greater visibility with consumers in those markets. This strategy has resulted in higher lease costs, and we anticipate these increased costs will continue into the foreseeable future. Our financial results for the three months ended December 31, 2018 reflect the effects of these factors, and we anticipate future periods will be similarly impacted.

Our performance is also impacted by trends regarding natural and organic products, dietary supplements and at-home meal preparation. Consumer preferences towards dietary supplements or natural and organic food products might shift as a result of, among other things, economic conditions, food safety perceptions, changing consumer choices and the cost of these products. A change in consumer preferences away from our offerings, including those resulting from reductions or changes in our offerings, would have a material adverse effect on our business. Additionally, negative publicity regarding the safety of dietary supplements, product recalls or new or upgraded regulatory standards may adversely affect demand for the products we sell and could result in lower consumer traffic, sales and results of operations.

Increased Competition. The grocery and dietary supplement retail business is a large, fragmented and highly competitive industry, with few barriers to entry. Our competition varies by market and includes conventional supermarkets such as Kroger and Safeway, mass or discount retailers such as Wal-Mart and Target, natural and gourmet markets such as Whole Foods and The Fresh Market, foreign-based discount retailers such as Aldi and Lidl, specialty food retailers such as Sprouts and Trader Joe's, warehouse clubs such as Sam's Club and Costco, independent health food stores, dietary supplement retailers, drug stores, farmers' markets, food co-ops, online retailers such as Amazon, meal delivery services such as Blue Apron and multi-level marketers. Competition in the grocery industry is likely to intensify, and shopping dynamics may shift, as a result of, among other things, Amazon's acquisition of Whole Foods, the plans of Aldi and Lidl to expand their presence in the United States and the expanding availability of grocery ordering, pick-up and delivery options. These businesses compete with us on the basis of price, selection, quality, customer service, shopping experience, ease of ordering and delivery or any combination of these or other factors. They also compete with us for products and locations. In addition, some of our competitors are expanding to offer a greater range of natural and organic foods. We believe our commitment to carrying only carefully vetted, affordably priced and high-quality natural and organic products and dietary supplements, as well as our focus on providing nutritional education, differentiate us in the industry and provide a competitive advantage. In addition, we face internally generated competition when we open new stores in markets we already serve.

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Outlook

We believe there are several key factors that have contributed to our success and will enable us to increase our comparable store sales and continue to profitably expand. These factors include a loyal customer base, increasing basket size, growing consumer interest in nutrition and wellness, a differentiated shopping experience that focuses on customer service, nutrition education and a shopper friendly retail environment, and our focus on high quality, affordable natural and organic groceries and dietary supplements.

We plan for the foreseeable future to continue opening new stores and entering new markets. The rate of new store growth will depend on economic and business conditions and other factors. During the past few years, we have enhanced our infrastructure to enable us to support our continued growth. In addition, in recent years we believe we have enhanced customer loyalty and increased customer engagement by expanding our digital and social media presence and further developing the *{N}power*[®] customer loyalty program. In September 2018, we launched a new website (*www.naturalgrocers.com*) which was designed to offer a more personalized and convenient online experience for our customers. The new website features more advanced ecommerce capabilities, enhanced product and recipe search interfaces and improved functionality with mobile and tablet devices.

We believe there are opportunities for us to continue to expand our store base, expand profitability and increase comparable store sales. However, future sales growth, including comparable store sales, and our profitability could vary due to increasing competitive conditions in the natural and organic grocery and dietary supplement industry and regional and general economic conditions. As we continue to expand our store base, we believe there are opportunities for increased leverage in costs, such as administrative expenses, as well as increased economies of scale in sourcing products. However, due to our commitment to providing high-quality products at affordable prices and increased competition, such sourcing economies and efficiencies at our bulk food repackaging facility and distribution center may not be reflected in our gross margin in the near term. In addition, our ability to leverage costs may be limited due to the fixed nature of our rent obligations and related occupancy expenses.

Our operating results may be affected by the above-described factors as well as a variety of other internal and external factors and trends described more fully in Item 1A - "Risk Factors" in our Form 10-K.

Key Financial Metrics in Our Business

In assessing our performance, we consider a variety of performance and financial measures. The key measures are as follows:

Net sales

Our net sales are comprised of gross sales net of discounts, in-house coupons and returns and allowances. In comparing net sales between periods, we monitor the following:

Change in comparable store sales. We begin to include sales from a store in comparable store sales on the first day of the thirteenth full month following the store's opening. We monitor the percentage change in comparable store sales by comparing sales from all stores in our comparable store base for a reporting period against sales from the same stores for the same number of operating months in the comparable reporting period of the prior year. When a store that is included in comparable store sales is remodeled or relocated, we continue to consider sales from that store to be comparable store sales. Our comparable store sales data may not be presented on the same basis as our competitors. We use the term "new stores" to refer to stores that have been open for less than thirteen months.

Change in daily average comparable store sales. Daily average comparable store sales are comparable store sales divided by the number of selling days in each period. We use this metric to remove the effect of differences in the number of selling days we are open during the comparable periods (for example, as a result of leap years or the Easter holiday shift between quarters).

Change in mature store sales. We begin to include sales from a store in mature store sales after the store has been open for any part of five fiscal years (for example, our mature stores for fiscal year 2019 are stores that opened during or before fiscal year 2014). We monitor the percentage change in mature store sales by comparing sales from all stores in our mature store base for a reporting period against sales from the same stores for the same number of operating months in the comparable reporting period of the prior year. When a store that is included in mature store sales is remodeled or relocated, we continue to consider sales from that store to be mature store sales. Our mature store sales data may not be presented on the same basis as our competitors.

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Change in daily average mature store sales. Daily average mature store sales are mature store sales divided by the number of selling days in each period. We use this metric to remove the effect of differences in the number of selling days during the comparable periods (for example, as a result of leap years or the Easter holiday shift between quarters).

Transaction count. Transaction count represents the number of transactions reported at our stores during the period and includes transactions that are voided, return transactions and exchange transactions.

Average transaction size. Average transaction size, or basket size, is calculated by dividing net sales by transaction count for a given time period. We use this metric to track the trends in average dollars spent in our stores per customer transaction.

Cost of goods sold and occupancy costs

Our cost of goods sold and occupancy costs include the cost of inventory sold during the period (net of discounts and allowances), shipping and handling costs, distribution and supply chain costs (including the costs of our bulk food repackaging facility), buying costs, shrink expense and store occupancy costs. Store occupancy costs include rent, common area maintenance and real estate taxes. Depreciation expense included in cost of goods sold relates to depreciation of assets directly used at our bulk food repackaging facility. The components of our cost of goods sold and occupancy costs may not be identical to those of our competitors, and as a result, our cost of goods sold and occupancy costs data included in this Form 10-Q may not be identical to those of our competitors and may not be comparable to similar data made available by our competitors. Occupancy costs as a percentage of sales typically decrease as new stores mature and increase sales. Rent payments for leases classified as capital and financing lease obligations are not recorded in cost of goods sold and occupancy costs. Rather, these rent payments are recognized as a reduction of the related obligations and as interest expense. Additionally, depreciation expense related to the capitalized asset is recorded in store expenses.

Gross profit and gross margin

Gross profit is equal to our net sales less our cost of goods sold and occupancy costs. Gross margin is gross profit as a percentage of net sales. Gross margin is impacted by changes in retail prices, product costs, occupancy costs and the mix of products sold, as well as the rate at which we open new stores.

Store expenses

Store expenses consist of store level expenses, such as salary and benefits, share-based compensation, supplies, utilities, depreciation, advertising, bank credit card charges and other related costs associated with operations and purchasing support. Depreciation expense included in store expenses relates to depreciation for assets directly used at the stores, including depreciation on capitalized real estate leases, land improvements, leasehold improvements, fixtures and equipment and computer hardware and software. Additionally, store expenses include any gain or loss recorded on the disposal of fixed assets, primarily related to store relocations. The majority of store expenses consist of labor-related expenses, which we closely manage and which trend closely with sales. Labor-related expenses as a percentage of sales tend to be higher at new stores compared to comparable stores, as new stores require a minimum level of staffing in order to maintain adequate levels of customer service combined with lower sales. As new stores increase their sales, labor-related expenses as a percentage of sales typically decrease.

Administrative expenses

Administrative expenses consist of home office-related expenses, such as salary and benefits, share-based compensation, office supplies, hardware and software expenses, depreciation and amortization expense, occupancy costs (including rent, common area maintenance, real estate taxes and utilities), professional services expenses, expenses associated with being a public company, and other general and administrative expenses. Depreciation expense included in administrative expenses relates to depreciation for assets directly used at the home office including depreciation on land improvements, leasehold improvements, fixtures and equipment and computer hardware and software.

Table of Contents*Pre-opening and relocation expenses*

Pre-opening and relocation expenses may include rent expense, salaries, advertising, supplies and other miscellaneous costs incurred prior to the store opening. Rent expense is generally incurred from one to four months prior to a store's opening date for store leases classified as operating. For store leases classified as capital or financing leases, no pre-opening rent expense is recognized. Other pre-opening and relocation expenses are generally incurred in the 60 days prior to the store opening. Certain advertising and promotional costs associated with opening a new store may be incurred both before and after the store opens. All pre-opening and relocation costs are expensed as incurred.

Interest expense, net

Interest expense consists of the interest associated with capital and financing lease obligations, net of capitalized interest. Interest expense also includes interest we incur on our outstanding indebtedness, including under our Credit Facility.

Results of Operations

The following table presents key components of our results of operations expressed as a percentage of net sales for the periods presented:

| | Three months ended December 31, | |
|---|--|-------------|
| | 2018 | 2017 |
| Statements of Income Data:* | | |
| Net sales | 100.0% | 100.0 |
| Cost of goods sold and occupancy costs | 73.3 | 73.7 |
| Gross profit | 26.7 | 26.3 |
| Store expenses | 22.2 | 22.3 |
| Administrative expenses | 2.4 | 2.6 |
| Pre-opening and relocation expenses | 0.3 | 0.3 |
| Operating income | 1.8 | 1.1 |
| Interest expense, net | (0.6) | (0.5) |
| Income before income taxes | 1.3 | 0.5 |
| (Provision for) benefit from income taxes | (0.3) | 2.0 |
| Net income | 1.0 % | 2.6 |

**Figures may not sum due to rounding.*

| | | | |
|--|-----|---|-----|
| Number of stores at end of period | 151 | | 142 |
| Number of stores opened during the period | 4 | | 2 |
| Number of stores closed during the period | 1 | | — |
| Total store unit count increase period over period | 6.3 | % | 8.4 |
| Change in comparable store sales | 5.5 | | 4.7 |
| Change in daily average comparable store sales | 5.5 | | 4.7 |
| Change in mature store sales | 3.6 | | 1.6 |
| Change in daily average mature store sales | 3.6 | | 1.6 |

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The following table summarizes our results of operations and other operating data for the periods presented, dollars in thousands:

| | Three months ended | | Change In | | |
|---|---------------------------|-------------|------------------|----------------|---|
| | December 31, 2018 | 2017 | Dollars | Percent | |
| Statements of Income Data: | | | | | |
| Net sales | \$221,515 | 202,480 | 19,035 | 9.4 | % |
| Cost of goods sold and occupancy costs | 162,369 | 149,321 | 13,048 | 8.7 | |
| Gross profit | 59,146 | 53,159 | 5,987 | 11.3 | |
| Store expenses | 49,123 | 45,166 | 3,957 | 8.8 | |
| Administrative expenses | 5,315 | 5,257 | 58 | 1.1 | |
| Pre-opening and relocation expenses | 672 | 543 | 129 | 23.8 | |
| Operating income | 4,036 | 2,193 | 1,843 | 84.0 | |
| Interest expense, net | (1,255) | (1,089) | (166) | 15.2 | |
| Income before income taxes | 2,781 | 1,104 | 1,677 | 151.9 | |
| (Provision for) benefit from income taxes | (584) | 4,077 | (4,661) | (114.3) | |
| Net income | \$2,197 | 5,181 | (2,984) | (57.6) | |

Net sales

Net sales increased \$19.0 million, or 9.4%, to \$221.5 million for the three months ended December 31, 2018 compared to \$202.5 million for the three months ended December 31, 2017, due to an \$11.1 million increase in comparable store sales and a \$8.3 million increase in sales from new stores, partially offset by a \$0.4 million decrease in sales from one store that closed during the period. Daily average comparable store sales increased 5.5% for the three months ended December 31, 2018 compared to the three months ended December 31, 2017. The daily average comparable store sales increase resulted from a 2.3% increase in daily average transaction count and a 3.2% increase in average transaction size. Comparable store average transaction size was \$36.48 for the three months ended December 31, 2018. Daily average mature store sales increased 3.6% for the three months ended December 31, 2018 compared to the three months ended December 31, 2017. The increase in comparable store sales during the three months ended December 31, 2018 was primarily driven by several marketing initiatives, promotional pricing campaigns and increased membership in and usage of the {N}power customer loyalty program. In addition, we believe the increase in comparable store sales during the three months ended December 31, 2018 reflected enhanced focus on leadership, training and improved operating processes in our stores.

Gross profit

Gross profit increased \$6.0 million, or 11.3%, to \$59.1 million for the three months ended December 31, 2018 compared to \$53.2 million for the three months ended December 31, 2017, primarily driven by an increase in the number of comparable stores. Gross margin increased to 26.7% for the three months ended December 31, 2018 from 26.3% for the three months ended December 31, 2017. Gross margin during the three months ended December 31, 2018 increased primarily due to improved product margins, attributed to more focused promotional pricing campaigns, and to a decrease in occupancy expense as a percentage of sales, partially offset by a shift in sales mix to lower margin products.

We had 21 and 18 store leases that were classified as capital and financing lease obligations for the three months ended December 31, 2018 and 2017, respectively. If these leases had qualified as operating leases, the straight-line rent expense would have been included in occupancy costs, and our costs of goods sold and occupancy costs as a percentage of sales would have been approximately 60 and 55 basis points higher for the three months ended December 31, 2018 and 2017, respectively.

Store expenses

Store expenses increased \$4.0 million, or 8.8%, to \$49.1 million for the three months ended December 31, 2018 compared to \$45.2 million for the three months ended December 31, 2017. Store expenses as a percentage of sales were 22.2% and 22.3% for the three months ended December 31, 2018 and 2017, respectively. The decrease in store expenses as a percentage of sales was primarily due to decreases in depreciation, utilities, marketing and labor-related expenses, partially offset by other expenses, all as a percentage of sales.

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Administrative expenses

Administrative expenses remained consistent period over period at \$5.3 million for each of the three months ended December 31, 2018 and December 31, 2017. Administrative expenses as a percentage of sales were 2.4% and 2.6% for the three months ended December 31, 2018 and 2017, respectively.

Pre-opening and relocation expenses

Pre-opening and relocation expenses increased \$0.1 million, or 23.8%, for the three months ended December 31, 2018 to \$0.7 million compared to \$0.5 million for the three months ended December 31, 2017, due to the impact of the number and timing of new store openings and relocations. We opened four new stores and relocated one store during the three months ended December 31, 2018 and opened two new stores and relocated one store during the three months ended December 31, 2017.

Interest expense, net

Interest expense, net of capitalized interest, increased \$0.2 million, or 15.2%, for the three months ended December 31, 2018 compared to the three months ended December 31, 2017. The increase in interest expense is primarily due to an increase in the number of capital leases during the three months ended December 31, 2018. If the capital and financing lease obligations had qualified as operating leases, interest expense as a percent of sales would have been approximately 50 and 45 basis points lower than as reported for the three months ended December 31, 2018 and 2017, respectively.

Income taxes

Income taxes increased \$4.7 million for the three months ended December 31, 2018 to \$0.6 million compared to a \$4.1 million benefit for the three months ended December 31, 2017. The Company's effective income tax rate for the three months ended December 31, 2018 was approximately 21.0% as compared to (369.3)% for the three months ended December 31, 2017. Income taxes for the three months ended December 31, 2017 reflected the favorable impact of a \$4.3 million non-cash remeasurement of our deferred tax assets and liabilities as a result of the enactment of the Tax Reform Act.

Net income

Net income was \$2.2 million, or \$0.10 diluted earnings per share, for the three months ended December 31, 2018 compared to \$5.2 million, or \$0.23 diluted earnings per share, for the three months ended December 31, 2017.

Net income for the three months ended December 31, 2017 was favorably impacted by \$4.3 million due to the non-cash remeasurement of our deferred tax assets and liabilities as a result of the enactment of the Tax Reform Act. Excluding the favorable impact of the remeasurement of our deferred tax assets and liabilities, net income for the three months ended December 31, 2017 was \$0.8 million, or \$0.04 diluted earnings per share.

*Non-GAAP financial measures**EBITDA*

EBITDA is not a measure of financial performance under GAAP. We define EBITDA as net income before interest expense, provision for income taxes and depreciation and amortization. The following table reconciles net income to EBITDA for the periods presented, dollars in thousands:

| | Three months ended | |
|---|---------------------------|-------------|
| | December 31, | |
| | 2018 | 2017 |
| Net income | \$2,197 | 5,181 |
| Interest expense, net | 1,255 | 1,089 |
| Provision for (benefit from) income taxes | 584 | (4,077) |
| Depreciation and amortization | 7,286 | 7,415 |
| EBITDA | \$11,322 | 9,608 |

EBITDA increased 17.8% to \$11.3 million in the three months ended December 31, 2018 compared to \$9.6 million for the three months ended December 31, 2017. EBITDA as a percentage of sales was 5.1% and 4.7% in the three months ended December 31, 2018 and 2017, respectively. Stores with leases that are classified as capital and financing lease obligations, rather than being reflected as operating leases, increased EBITDA as a percentage of sales by approximately 60 and 55 basis points for the three months ended December 31, 2018 and 2017, respectively, due to the impact on cost of goods sold and occupancy costs as discussed above, as well as occupancy costs that would have been included in pre-opening expenses prior to the stores' opening dates if these leases had been accounted for as operating leases.

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Management believes some investors' understanding of our performance is enhanced by including EBITDA, a non-GAAP financial measure. We believe EBITDA provides 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 as a supplemental measure to evaluate the overall operating performance of companies in our industry. Management believes some investors' understanding of our performance is enhanced by including this non-GAAP financial measure as a reasonable basis for comparing our ongoing results of operations. By providing this non-GAAP financial measure, 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 differently, and as a result, our measure of 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 is a supplemental measure of operating performance that does 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 has 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 does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;

EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

EBITDA does not reflect any impact for straight-line rent expense for leases classified as capital and financing lease obligations;

EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments on our debt;

EBITDA does 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 does not reflect any cash requirements for such replacements.

Due to these limitations, 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 as supplemental information.

Liquidity and Capital Resources

Our ongoing primary sources of liquidity are cash generated from operations, current balances of cash and cash equivalents and borrowings under the Credit Facility. Our primary uses of cash are for purchases of inventory, operating expenses, capital expenditures predominantly in connection with opening, relocating and remodeling stores, interest and principal payments for outstanding indebtedness and corporate taxes. As of December 31, 2018, we had \$4.5 million in cash and cash equivalents, as well as \$36.3 million available for borrowing under our Credit Facility.

On May 4, 2016, our Board authorized a two-year share repurchase program pursuant to which the Company may expend up to \$10.0 million to repurchase shares of the Company's common stock. On May 2, 2018, our Board authorized a two-year extension of the Company's share repurchase program. As a result of such extension, the share repurchase program will terminate on May 4, 2020. We did not repurchase any shares during the three months ended December 31, 2018. Between January 1, 2019 and February 3, 2019 (the latest practicable date for making the determination), we did not repurchase any additional shares of our common stock. The dollar value of the shares of common stock that may yet be purchased under the share repurchase program is approximately \$8.3 million. We expect funding for any future share repurchases will come from operating cash flow, excess cash and/or borrowings under our Credit Facility. The timing and amount of shares repurchased will be dictated by our capital needs and stock market conditions.

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We plan to continue to open new stores, which may require us to borrow additional amounts under the Credit Facility. We plan to spend approximately \$16 million to \$21 million on capital expenditures during the remainder of fiscal year 2019 in connection with three to five additional new store openings and four to five additional store relocations. We believe that cash and cash equivalents, together with the cash generated from operations and the borrowing availability under our Credit Facility, will be sufficient to meet our working capital needs and planned capital expenditures, including capital expenditures related to new store needs for at least the next twelve months. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day or, in the case of credit or debit card transactions, within days from the related sale.

Typically, our new stores require an upfront capital investment of approximately \$2.2 million per store consisting of capital expenditures of approximately \$1.6 million, net of tenant allowances, initial inventory of approximately \$0.3 million, net of payables, and pre-opening expenses of approximately \$0.3 million.

Following is a summary of our operating, investing and financing activities for the periods presented, dollars in thousands:

| | Three months ended | |
|--|-------------------------------|-------------|
| | December 31, | |
| | 2018 | 2017 |
| Net cash provided by operating activities | \$7,527 | 10,969 |
| Net cash used in investing activities | (11,560) | (4,884) |
| Net cash used in financing activities | (829) | (4,517) |
| Net (decrease) increase in cash and cash equivalents | (4,862) | 1,568 |
| Cash and cash equivalents, beginning of period | 9,398 | 6,521 |
| Cash and cash equivalents, end of period | \$4,536 | 8,089 |

Operating Activities

Net cash provided by operating activities consists primarily of net income adjusted for non-cash items, including depreciation and amortization and changes in deferred taxes, and the effect of working capital changes. Cash provided by operating activities decreased \$3.4 million, or 31.4%, to \$7.5 million for the three months ended December 31, 2018 compared to \$11.0 million for the three months ended December 31, 2017. The decrease in cash provided by operating activities was primarily due to an increase in working capital, partially offset by an increase in net income adjusted for non-cash items. Our working capital requirements for inventory will likely increase as we continue to open new stores.

Investing Activities

Net cash used in investing activities increased \$6.7 million, or 136.7%, to \$11.6 million for the three months ended December 31, 2018 compared to \$4.9 million for the three months ended December 31, 2017. This increase was primarily due to a \$6.6 million increase in cash paid for property and equipment, which was driven by more new store openings in the three months ended December 31, 2018.

Financing Activities

Cash used in financing activities consists primarily of borrowings and repayments under our Credit Facility and payments of capital and financing lease obligations. Cash used in financing activities was \$0.8 million and \$4.5 million for the three months ended December 31, 2018 and 2017, respectively.

Credit Facility

The amount available for borrowing under the Credit Facility is \$50.0 million, including a \$5.0 million sublimit for standby letters of credit. The operating company is the borrower under the Credit Facility and its obligations under the Credit Facility are guaranteed by the holding company and VC2. The Credit Facility is secured by a lien on substantially all of the Company's assets. The Company has the right to borrow, prepay and re-borrow amounts under the Credit Facility at any time prior to the maturity date. The Credit Facility matures on January 31, 2021.

For floating rate borrowings under the Credit Facility, interest is determined by the lender's administrative agent based on the most recent compliance certificate of the operating company and stated at the base rate less the lender spread based upon certain financial measures. For fixed rate borrowings under the Credit Facility, interest is determined by quoted LIBOR rates for the interest period plus the lender spread based upon certain financial measures. The unused commitment fee is based upon certain financial measures.

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The Credit Facility requires compliance with certain customary operational and financial covenants, including a leverage ratio. The Credit Facility also contains certain other customary limitations on the Company's ability to incur additional debt, guarantee other obligations, grant liens on assets and make investments or acquisitions, among other limitations. Additionally, the Credit Facility prohibits the payment of cash dividends, except that so long as no default exists or would arise as a result thereof, the operating company may pay cash dividends to the holding company for various audit, accounting, tax, securities, indemnification, reimbursement, insurance and other reasonable expenses incurred in the ordinary course of business, and for repurchases of shares of common stock in an amount not to exceed \$10.0 million.

We had \$12.7 million and \$13.2 million outstanding under the Credit Facility as of December 31, 2018 and September 30, 2018, respectively. As of each of December 31, 2018 and September 30, 2018, we had undrawn, issued and outstanding letters of credit of \$1.0 million, which were reserved against the amount available for borrowing under the terms of the Credit Facility. We had \$36.3 million and \$35.8 million available for borrowing under the Credit Facility as of December 31, 2018 and September 30, 2018, respectively.

As of December 31, 2018 and September 30, 2018, the Company was in compliance with the debt covenants under the Credit Facility.

Share Repurchases

Certain information about the Company's share repurchases is set forth under the heading "Share Repurchases" in Note 6 of Notes to Unaudited Interim Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Off-Balance Sheet Arrangements

As of December 31, 2018, our off-balance sheet arrangements consisted of operating leases and the undrawn portion of our Credit Facility. The majority of our stores and facilities are leased, with varying terms and renewal options. Currently, we own the buildings in which six of our stores are located; of those buildings, five are located on land that is leased pursuant to a ground lease. As of December 31, 2018, 21 store leases were classified as capital and financing lease obligations, and the remaining leases were classified as operating leases in our consolidated financial statements. We have no other off-balance sheet arrangements that have had, or are reasonably likely to have, a material effect on our consolidated financial statements or financial condition.

Recent Accounting Pronouncements

See Note 2 to the consolidated financial statements included in this Form 10-Q.

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures of contingent assets and liabilities. Actual amounts may differ from these estimates. We base our estimates on historical experience and on various other assumptions and factors that we believe to be reasonable under the circumstances. We evaluate our accounting policies and resulting estimates on an ongoing basis to make adjustments we consider appropriate under the facts and circumstances.

Critical accounting policies that affect our more significant judgments and estimates used in the preparation of our financial statements include accounting for income taxes, accounting for impairment of long-lived assets and accounting for leases, which are discussed in more detail under the caption “Critical Accounting Policies” under Item 7 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

To a limited extent, we are exposed to interest rate changes with respect to our Credit Facility. We do not use financial instruments for trading or other speculative purposes. There have been no material changes regarding our market risk position from the information provided under Item 7A – “Quantitative and Qualitative Disclosures about Market Risk” in our Form 10-K.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officers and principal financial and accounting officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act, as of the end of the period covered by this Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on that evaluation, our principal executive officers and principal financial and accounting officer concluded that our disclosure controls and procedures were effective as of December 31, 2018.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

We periodically are involved in various legal proceedings, including discrimination and other employment-related claims, customer personal injury claims, investigations and other proceedings arising in the ordinary course of business. When the potential liability from a matter can be estimated and the loss is considered probable, we record the estimated loss. Due to uncertainties related to the resolution of lawsuits, investigations and claims, the ultimate outcome may differ from our estimates. Although we cannot predict with certainty the ultimate resolution of any lawsuits, investigations and claims asserted against us, we do not believe any currently pending legal proceeding to which we are a party will have a material adverse effect on our business, prospects, financial condition, cash flows or results of operations.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part I, “Item 1A-Risk Factors,” of our Form 10-K.

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Item 6. Exhibits

EXHIBIT INDEX

| Exhibit Number | Description |
|-------------------|---|
| 31.1 | <u>Certification of Kemper Isely, a Principal Executive Officer Required Under Section 302(a) of the Sarbanes-Oxley Act of 2002</u> |
| 31.2 | <u>Certification of Zephyr Isely, a Principal Executive Officer Required Under Section 302(a) of the Sarbanes-Oxley Act of 2002</u> |
| 31.3 | <u>Certification of Todd Dissinger, Principal Financial Officer Required Under Section 302(a) of the Sarbanes-Oxley Act of 2002</u> |
| 32.1† | <u>Certification of Principal Executive Officers and Principal Financial Officer Required Under 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> |
| 101 | The following materials from Natural Grocers by Vitamin Cottage, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2018 (unaudited) and September 30, 2018, (ii) Consolidated Statements of Income for the three months ended December 31, 2018 and 2017 (unaudited), (iii) Consolidated Statements of Cash Flows for the three months ended December 31, 2018 and 2017 (unaudited), (iv) Consolidated Statements of Changes in Stockholders' Equity for the three months ended December 31, 2018 and 2017 (unaudited) and (v) Notes to Unaudited Interim Consolidated Financial Statements. |

† The certifications attached as Exhibit 32.1 that accompany this Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Natural Grocers by Vitamin Cottage, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized on February 7, 2019.

Natural Grocers by Vitamin Cottage, Inc.

By: /s/ KEMPER ISELY
Kemper Isely, Co-President
(Principal Executive Officer)

By: /s/ TODD DISSINGER
Todd Dissinger, Chief Financial Officer
(Principal Financial and Accounting Officer)