UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 27, 2025
OR

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

For the transition period from to
Commission File Number: 001-38950

Grocery Outlet Holding Corp.
(Exact name of registrant as specified in its charter)

Delaware	**47-1874201**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5650 Hollis Street, Emeryville, California	**94608**
(Address of principal executive offices)	**(Zip Code)**

(510) 845-1999
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.001 per share	GO	Nasdaq Global Select Market

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 ☒

As of October 30, 2025, the registrant had 98,137,230 shares of common stock outstanding.

GROCERY OUTLET HOLDING CORP.
FORM 10-Q

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q ("Form 10-Q" or "report") constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this report other than statements of historical fact may constitute forward-looking statements, including statements regarding our future operating results and financial position, our business strategy and plans, the opening of new stores and new store growth, costs and benefits associated with the Restructuring Plan as defined in this Form 10-Q, our enterprise resource planning system project and impacts, the remediation plan of our material weakness, business and market trends, macroeconomic and geopolitical conditions, our private label program, our share of the excess inventory market, and the sufficiency of our cash balances, working capital and cash generated from operating, investing, and financing activities for our future liquidity and capital resource needs. Words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "outlook," "plan," "project," "seek," "will," and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions that may cause actual results to differ materially from those expressed or implied by any forward-looking statements we make, including those described under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report and our Annual Report on Form 10-K for the fiscal year ended December 28, 2024 ("2024 Form 10-K"), and as described in other subsequent reports we file with the United States ("U.S.") Securities and Exchange Commission (the "SEC"). We encourage you to read this report and our other filings with the SEC carefully. Moreover, we operate in a very competitive and rapidly changing environment and new risks emerge from time to time.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, and our expectations based on third-party information and projections are from sources that management believes to be reputable, we cannot guarantee future results, levels of activities, performance or achievements. These forward-looking statements are made as of the date of this report or as of the date specified herein and we have based these forward-looking statements on our current expectations and projections about future events and trends. Except as required by law, we do not undertake any duty to update any of these forward-looking statements after the date of this report or to conform these statements to actual results or revised expectations.

As used in this report, references to "Grocery Outlet," "the Company," "registrant," "we," "us" and "our," refer to Grocery Outlet Holding Corp. and its consolidated subsidiaries unless otherwise indicated or the context requires otherwise.

Website Disclosure

We use our website, https://investors.groceryoutlet.com, as a channel of distribution of Company information. Financial and other important information about us is routinely accessible through and posted on our website. Accordingly, investors should monitor our website, in addition to following our press releases, SEC filings and public conference calls and webcasts. The contents of our website and information accessible through our website is not, however, incorporated by reference or a part of this report. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports, and the proxy statements for our annual meetings of stockholders are available, free of charge, on our website as soon as practicable after we file the reports with the SEC.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

GROCERY OUTLET HOLDING CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(unaudited)

	September 27, 2025	December 28, 2024
Assets		
Current assets:		
Cash and cash equivalents	$ 52,125	$ 62,828
Independent operator receivables and current portion of independent operator notes, net of allowance $11,551 and $5,770	15,511	16,051
Other accounts receivable, net of allowance $9 and $9	3,641	4,166
Merchandise inventories	417,846	394,152
Prepaid expenses and other current assets	28,335	26,701
Total current assets	517,458	503,898
Independent operator notes and receivables, net of allowance $14,015 and $12,709	41,207	36,441
Property and equipment, net	818,130	750,423
Operating lease right-of-use assets	1,123,785	1,014,678
Intangible assets, net	80,098	78,778
Goodwill	782,835	782,734
Other assets	5,125	6,869
Total assets	$ 3,368,638	$ 3,173,821
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	$ 196,723	$ 175,871
Accrued and other current liabilities	62,452	55,240
Accrued compensation	27,453	19,687
Current portion of long-term debt	18,750	15,000
Current lease liabilities	80,468	72,905
Income and other taxes payable	12,848	10,921
Total current liabilities	398,694	349,624
Long-term debt, net	481,549	462,502
Deferred income tax liabilities, net	56,595	56,178
Long-term lease liabilities	1,230,632	1,106,219
Other long-term liabilities	2,561	1,914
Total liabilities	2,170,031	1,976,437
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, par value $0.001 per share, 500,000,000 shares authorized; 98,137,230 and 97,262,557 shares issued and outstanding, respectively	98	97
Series A preferred stock, par value $0.001 per share, 50,000,000 shares authorized; no shares issued and outstanding	—	—
Additional paid-in capital	823,831	815,858
Retained earnings	374,678	381,429
Total stockholders' equity	1,198,607	1,197,384
Total liabilities and stockholders' equity	$ 3,368,638	$ 3,173,821

See Notes to Condensed Consolidated Financial Statements

GROCERY OUTLET HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(in thousands, except per share data)
(unaudited)

	13 Weeks Ended		39 Weeks Ended	
	September 27, 2025	September 28, 2024	September 27, 2025	September 28, 2024
Net sales	$ 1,168,153	$ 1,108,183	$ 3,473,492	$ 3,273,647
Cost of sales	813,017	763,311	2,415,218	2,275,590
Gross profit	355,136	344,872	1,058,274	998,057
Selling, general and administrative expenses	331,016	304,586	998,858	931,103
Restructuring charges	1,296	—	46,328	—
Operating income	22,824	40,286	13,088	66,954
Interest expense, net	6,705	6,439	19,769	15,174
Income (loss) before income taxes	16,119	33,847	(6,681)	51,780
Income tax expense	4,514	9,669	70	14,626
Net income (loss) and comprehensive income (loss)	$ 11,605	$ 24,178	$ (6,751)	$ 37,154
Basic earnings (net loss) per share	$ 0.12	$ 0.25	$ (0.07)	$ 0.37
Diluted earnings (net loss) per share	$ 0.12	$ 0.24	$ (0.07)	$ 0.37
Weighted-average shares outstanding:				
Basic	98,160	98,359	97,921	99,140
Diluted	98,705	98,933	97,921	100,146

See Notes to Condensed Consolidated Financial Statements

GROCERY OUTLET HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)
(unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
Balance at December 28, 2024	97,262,557	$ 97	$ 815,858	$ 381,429	$ 1,197,384
Exercise and vesting of share-based awards	742,511	1	53	—	54
Share-based compensation expense	—	—	5,458	—	5,458
Net loss and comprehensive loss	—	—	—	(23,317)	(23,317)
Balance at March 29, 2025	98,005,068	$ 98	$ 821,369	$ 358,112	$ 1,179,579
Exercise and vesting of share-based awards	98,227	0	342	—	342
Share-based compensation expense	—	—	1,960	—	1,960
Net income and comprehensive income	—	—	—	4,961	4,961
Balance as of June 28, 2025	98,103,295	$ 98	$ 823,671	$ 363,073	$ 1,186,842
Exercise and vesting of share-based awards	33,935	0	170	—	170
Share-based compensation benefit	—	—	(10)	—	(10)
Net income and comprehensive income	—	—	—	11,605	11,605
Balance as of September 27, 2025	98,137,230	$ 98	$ 823,831	$ 374,678	$ 1,198,607

See Notes to Condensed Consolidated Financial Statements

GROCERY OUTLET HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY, continued
(in thousands, except share amounts)
(unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
Balance at December 30, 2023	99,223,863	$ 99	$ 877,276	$ 341,964	$ 1,219,339
Exercise and vesting of share-based awards	1,124,005	1	3,441	—	3,442
Share-based compensation expense	—	—	8,142	—	8,142
Repurchase of common stock	(200,803)	—	(5,325)	—	(5,325)
Net loss and comprehensive loss	—	—	—	(1,025)	(1,025)
Balance at March 30, 2024	100,147,065	$ 100	$ 883,534	$ 340,939	$ 1,224,573
Exercise and vesting of share-based awards	112,410	—	302	—	302
Share-based compensation expense	—	—	7,001	—	7,001
Repurchase of common stock	(1,104,726)	(1)	(25,032)	—	(25,033)
Net income and comprehensive income	—	—	—	14,001	14,001
Balance as of June 29, 2024	99,154,749	$ 99	$ 865,805	$ 354,940	$ 1,220,844
Exercise and vesting of share-based awards	653,250	1	4,515	—	4,516
Share-based compensation expense	—	—	1,663	—	1,663
Repurchase of common stock	(1,164,423)	(1)	(25,149)	—	(25,150)
Net income and comprehensive income	—	—	—	24,178	24,178
Balance as of September 28, 2024	98,643,576	$ 99	$ 846,834	$ 379,118	$ 1,226,051

See Notes to Condensed Consolidated Financial Statements

GROCERY OUTLET HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	39 Weeks Ended	
	September 27, 2025	September 28, 2024
Cash flows from operating activities:		
Net income (loss)	$ (6,751)	$ 37,154
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation of property and equipment	78,089	66,730
Amortization of intangible and other assets	16,532	12,519
Amortization of debt issuance costs and debt discounts	683	683
Non-cash rent	6,146	3,561
Impairment of long-lived assets	11,511	—
Share-based compensation	7,408	16,806
Provision for independent operator and other accounts receivable reserves	9,278	3,137
Deferred income taxes	417	13,822
Other	1,377	915
Changes in operating assets and liabilities:		
Independent operator and other accounts receivable	(5,288)	(2,035)
Merchandise inventories	(23,694)	(32,692)
Prepaid expenses and other assets	(1,157)	4,740
Income and other taxes payable	1,927	(3,425)
Trade accounts payable	21,566	(15,858)
Accrued and other liabilities	9,679	(32,134)
Accrued compensation	7,665	(11,672)
Operating lease liabilities	14,451	10,214
Net cash provided by operating activities	149,839	72,465
Cash flows from investing activities:		
Advances to independent operators	(10,855)	(8,266)
Repayments of advances from independent operators	3,165	3,884
Business acquisition, net of cash and cash equivalents acquired	—	(60,526)
Purchases of property and equipment	(158,513)	(127,500)
Proceeds from sales of assets	—	17
Investments in intangible assets and licenses	(16,368)	(13,287)
Net cash used in investing activities	(182,571)	(205,678)
Cash flows from financing activities:		
Proceeds from exercise of stock options	565	8,260
Proceeds from revolving credit facility	50,000	140,000
Principal payments on revolving credit facility	(20,000)	—
Principal payments on senior term loan due 2028	(7,500)	(3,750)
Principal payments on finance leases	(1,036)	(1,323)
Repurchase of common stock	—	(56,308)
Net cash provided by financing activities	22,029	86,879
Net decrease in cash and cash equivalents	(10,703)	(46,334)
Cash and cash equivalents at beginning of period	62,828	114,987
Cash and cash equivalents at end of period	$ 52,125	$ 68,653

See Notes to Condensed Consolidated Financial Statements

GROCERY OUTLET HOLDING CORP.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Organization and Summary of Significant Accounting Policies

Description of Business — Based in Emeryville, California, and incorporated in Delaware in 2014, Grocery Outlet Holding Corp. (together with its wholly owned subsidiaries, collectively, "Grocery Outlet," "we," or the "Company") is a high-growth, extreme value retailer of quality, name-brand consumables and fresh products sold primarily through a network of independently operated stores. As of September 27, 2025, we had 563 stores throughout California, Washington, Oregon, Pennsylvania, Tennessee, Idaho, Nevada, Maryland, New Jersey, Ohio, North Carolina, Georgia, Alabama, Delaware, Kentucky and Virginia.

Fiscal Year and Quarters — We operate on a fiscal year that ends on the Saturday closest to December 31st each year. The fiscal years ended January 3, 2026 ("fiscal 2025") and December 28, 2024 ("fiscal 2024") consist of 53 weeks and 52 weeks, respectively. References to the third quarter of fiscal 2025 and the third quarter of fiscal 2024 refer to the 13 weeks ended September 27, 2025 and September 28, 2024, respectively. References to the second quarter of fiscal 2025 refer to the 13 weeks ended June 28, 2025. References to the first quarter of fiscal 2025 refer to the 13 weeks ended March 29, 2025.

Basis of Presentation — The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the applicable rules and regulations of the United States ("U.S.") Securities and Exchange Commission ("SEC") for interim reporting. Certain information and note disclosures included in our annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our Annual Report on Form 10-K for fiscal 2024 (the "2024 Form 10-K"). The condensed consolidated balance sheet as of December 28, 2024 included herein has been derived from those audited consolidated financial statements.

Our unaudited condensed consolidated financial statements include the accounts of Grocery Outlet Holding Corp. and its wholly owned subsidiaries. All intercompany balances and transactions were eliminated. In the opinion of management, these condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the periods presented. The interim results of operations and cash flows are not necessarily indicative of those results and cash flows expected for any future interim or annual period. Prior period amounts have been reclassified to conform to current period presentation.

Use of Estimates — The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Actual results can differ from these estimates depending upon certain risks and uncertainties. Changes in these estimates are recorded when known. We consider our accounting policy relating to long-lived asset impairment to be a significant accounting policy that involves management's estimates and judgments.

Merchandise Inventories — Merchandise inventories are valued at the lower of cost or net realizable value. Cost is primarily determined by the weighted-average cost method for warehouse inventories and the retail inventory method for store inventories. We provide for estimated inventory losses between physical inventory counts based on historical averages. This provision is adjusted periodically to reflect the actual shrink results of the physical inventory counts.

Leases — We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets, current lease liabilities, and long-term lease liabilities in our condensed consolidated balance sheets. Finance leases are included in other assets, current lease liabilities, and long-term lease liabilities in our condensed consolidated balance sheets. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease over the same term. Right-of-use assets and liabilities are recognized at the commencement date based on the present value of the lease payments over the lease term, reduced by landlord incentives. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate, which is estimated to approximate the interest rate on a collateralized basis with similar terms and payments based on the information available at the commencement date, to determine the present value of our lease payments. Lease term is defined as the non-cancelable period of the lease plus any options to extend or terminate the lease when it is reasonably certain that we will exercise the option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term while finance lease payments are charged to interest expense and depreciation and amortization expense over the lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet; lease expense for these short-term leases is recognized on a straight-line basis over the lease term.

We generally lease retail facilities for store locations, distribution centers, office space and equipment and account for these leases as operating leases. We account for certain equipment leases as finance leases. Lease and non-lease components are accounted for separately. We sublease certain real estate to unrelated third parties under non-cancelable leases and the sublease portfolio consists of operating leases for retail stores.

Fair Value Measurements — Fair value is defined as the exchange price, or exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value of financial instruments is categorized based on the level of judgment associated with the inputs used to measure their fair values. Fair value is measured using inputs from the three levels of the fair value hierarchy, which are described as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities

Level 2 — Quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 — Unobservable inputs in which there is little or no market data, which requires us to develop our own assumptions when pricing the financial instruments, such as cash flow modeling assumptions

The assets' or liabilities' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The fair value framework requires that we maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

There were no assets or liabilities measured at fair value on a recurring basis as of September 27, 2025 or December 28, 2024. Generally, long-lived assets are recorded at fair value on a non-recurring basis after the asset has been impaired. As of September 27, 2025 and December 28, 2024, certain long-lived assets were determined to be impaired and as such were measured at fair value at the time of the impairment determination. For the 13 and 39 weeks ended September 27, 2025, we recognized $0.7 million and $11.5 million of impairment of long-lived assets, respectively, of which less than $0.1 million and $7.9 million, respectively, resulted from the Restructuring Plan as defined in Note 11. See "Property and Equipment" and "Goodwill and Other Intangible Assets" within Note 1 to the consolidated financial statements in our 2024 Form 10-K for additional information. There were no transfers of assets or liabilities between levels within the fair value hierarchy during the 13 and 39 weeks ended September 27, 2025.

Our financial assets and liabilities are carried at cost, which generally approximates their fair value, as described below:

Cash and cash equivalents, independent operator ("IO") receivables, other accounts receivable and trade accounts payable — The carrying value of such financial instruments approximates their fair value due to factors such as their short-term nature, their variable interest rates or the effect of the related allowance for expected credit losses.

Independent operator notes — The carrying value of such financial instruments approximates their fair value due to the effect of the related allowance for expected credit losses.

The following table sets forth by level within the fair value hierarchy the carrying amounts and estimated fair values of our significant financial liabilities that are not recorded at fair value on the condensed consolidated balance sheets (amounts in thousands):

	September 27, 2025		December 28, 2024	
	Carrying Amount [1]	Estimated Fair Value [2]	Carrying Amount [1]	Estimated Fair Value [2]
Financial Liabilities:				
Senior term loan (Level 2)	$ 280,299	$ 281,250	$ 287,502	$ 288,750
Revolving credit facility (Level 2)	$ 220,000	$ 220,000	$ 190,000	$ 190,000

(1) The carrying amounts of the senior term loan as of September 27, 2025 and December 28, 2024 were net of debt issuance costs of $1.0 million and $1.2 million, respectively.

(2) The estimated fair value of our current senior term loan and revolving credit facility borrowings under the 2023 Credit Agreement, as defined in Note 3, was deemed to approximate the carrying value, excluding unamortized debt issuance costs, because the interest rate is variable with short reset periods and is reflective of the current market rate.

Revenue Recognition

Net Sales — We recognize revenue from the sale of products at the point of sale, net of any taxes or deposits collected and remitted to governmental authorities. For e-commerce related sales in which a third-party provides home delivery service, revenue is recognized upon delivery to the customer. Our performance obligations are satisfied upon the transfer of goods to the customer, at the point of sale, and payment from customers is also due at the time of sale. Discounts provided to customers by us are recognized at the time of sale as a reduction in net sales as the products are sold. Discounts provided by IOs are not recognized as a reduction in net sales as these are provided solely by the IO who bears the incremental costs arising from the discount. We do not accept manufacturer coupons.

We did not have any material contract assets or receivables from contracts with customers, any revenue recognized in the current year from performance obligations satisfied in previous periods, any material performance obligations other than our gift card deferred revenue liability, or any material costs to obtain or fulfill a contract as of September 27, 2025 and December 28, 2024.

Gift Cards — We record a deferred revenue liability when a Grocery Outlet gift card is sold. Revenue related to gift cards is recognized as the gift cards are redeemed, which is when we have satisfied our performance obligation. While gift cards are generally redeemed within 12 months, some are never fully redeemed. We reduce the liability and recognize revenue for the unused portion of the gift cards ("breakage") under the proportional method, where recognition of breakage income is based upon the historical run-off rate of unredeemed gift cards. Our gift card deferred revenue liability was $3.3 million and $4.1 million as of September 27, 2025 and December 28, 2024, respectively. Breakage amounts were immaterial for the 13 and 39 weeks ended September 27, 2025 and September 28, 2024, respectively.

Disaggregated Revenues — The following table presents net sales revenue by type of product for the periods indicated (amounts in thousands):

	13 Weeks Ended		39 Weeks Ended	
	September 27, 2025	September 28, 2024	September 27, 2025	September 28, 2024
Perishable [1]	$ 440,990	$ 412,243	$ 1,322,768	$ 1,216,688
Non-perishable [2]	727,163	695,940	2,150,724	2,056,959
Total net sales	$ 1,168,153	$ 1,108,183	$ 3,473,492	$ 3,273,647

(1) Perishable departments include dairy and deli; produce and floral; and fresh meat and seafood.

(2) Non-perishable departments include non-perishable grocery; frozen foods; beer and wine; general merchandise; and health and beauty care.

Variable Interest Entities — In accordance with the variable interest entities sub-section of Accounting Standards Codification ("ASC") Topic 810, *Consolidation*, we assess at each reporting period whether we, or any consolidated entity, are considered the primary beneficiary of a variable interest entity ("VIE") and therefore required to consolidate the financial results of the VIE in our condensed consolidated financial statements. Determining whether to consolidate a VIE may require judgment in assessing (i) whether an entity is a VIE, and (ii) if a reporting entity is a VIE's primary beneficiary. A reporting entity is determined to be a VIE's primary beneficiary if it has the power to direct the activities that most significantly impact a VIE's economic performance and the obligation to absorb losses or rights to receive benefits that could potentially be significant to a VIE.

We had 522, 491 and 486 stores operated by IOs as of September 27, 2025, December 28, 2024 and September 28, 2024, respectively. We have agreements in place with each IO. The IO orders merchandise exclusively from us which is provided to the IO on consignment. Under the independent operator agreement (the "Operator Agreement"), the IO selects a majority of merchandise that we consign to the IO, which the IO chooses from our merchandise order guide according to the IO's knowledge and experience with local customer purchasing trends, preferences, historical sales and similar factors. The Operator Agreement gives the IO discretion to adjust our initial prices if the overall effect of all price changes at any time comports with the reputation of our Grocery Outlet retail stores for selling quality, name-brand consumables and fresh products and other merchandise at extreme discounts. The IO is required to furnish initial working capital and to acquire certain store and safety assets. The IO is also required to hire, train and employ a properly trained workforce sufficient in number to enable the IO to fulfill its obligations under the Operator Agreement. Additionally, the IO is responsible for expenses required for business operations, including all labor costs, utilities, credit card processing fees, supplies, taxes, fines, levies and other expenses. Either party may terminate the Operator Agreement without cause upon 75 days' notice.

As consignor of all merchandise to each IO, the aggregate net sales proceeds from merchandise sales belongs to us. Net sales related to IO stores were $1.11 billion and $1.05 billion for the 13 weeks ended September 27, 2025 and September 28, 2024, respectively, and $3.30 billion and $3.15 billion for the 39 weeks ended September 27, 2025 and September 28, 2024, respectively. We, in turn, pay each IO a commission based on a share of the gross profit of the store. Inventories and related net sales proceeds are our property, and we are responsible for store rent and related occupancy costs. IO commissions are expensed and included in selling, general and administrative expenses. IO commissions were $165.1 million and $157.0 million for the 13 weeks ended September 27, 2025 and September 28, 2024, respectively, and $496.5 million and $484.8 million for the 39 weeks ended September 27, 2025 and September 28, 2024, respectively. IO commissions of $6.2 million and $5.6 million were included in accrued and other current liabilities as of September 27, 2025 and December 28, 2024, respectively.

An IO may fund its initial store investment from existing capital, a third-party loan or most commonly through a loan from us, as further discussed in Note 2. As collateral for IO obligations and performance, the Operator Agreement grants us the security interests in the assets owned by each IO related to the respective store. Since the total investment at risk associated with each IO is not sufficient to permit each IO to finance its activities without additional subordinated financial support, each IO is a VIE that we have a variable interest in. To determine if we are the primary beneficiary of a VIE, we evaluate whether we have (i) the power to direct the activities that most significantly impact the IO's economic performance and (ii) the obligation to absorb losses or the right to receive benefits of the IO that could potentially be significant to the IO. Our evaluation includes identification of significant activities and an assessment of the IO's ability to direct those activities.

Activities that most significantly impact the IO's economic performance relate to sales and labor. Sales activities that significantly impact the IO's economic performance include determining what merchandise the IO will order and sell and the price of such merchandise, both of which the IO controls. The IO is also responsible for all of its own labor. Labor activities that significantly impact the IO's economic performance include hiring, training, supervising, directing, compensating (including wages, salaries and employee benefits) and terminating all of the employees of the IO, activities which the IO controls. Accordingly, the IO has the power to direct the activities that most significantly impact the IO's economic performance. Furthermore, the mutual termination rights associated with the Operator Agreement illustrate the lack of ultimate control over the IO. Therefore, we are not the primary beneficiary of these VIEs.

Our maximum exposure, in accordance with ASC Topic 810, to the IOs is generally limited to the IO notes and IO receivables due from these entities, which were $82.3 million and $71.0 million, gross, as of September 27, 2025 and December 28, 2024, respectively. See Note 2 for additional information.

Recently Adopted Accounting Standards

No recently adopted accounting pronouncements had a material effect on our condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

ASU No. 2023-09 — In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740) ("ASU 2023-09"). ASU 2023-09 requires public entities to disclose additional information in specified categories with respect to the reconciliation of the effective tax rate to the statutory rate (the rate reconciliation) for federal, state, and foreign income taxes. It also requires greater detail about individual reconciling items in the rate reconciliation to the extent the impact of those items exceeds a specified threshold. In addition to new disclosures associated with the rate reconciliation, the ASU requires information pertaining to taxes paid (net of refunds received) to be disaggregated for federal, state, and foreign taxes and further disaggregated for specific jurisdictions to the extent the related amounts exceed a quantitative threshold. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024. We do not expect the adoption of ASU 2023-09 to have a material impact on our consolidated financial statements and disclosures.

ASU No. 2024-03 — In November 2024, the FASB issued ASU No. 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40) ("ASU 2024-03"). ASU 2024-03 requires public entities to disclose, in the notes to financial statements, specified information about certain costs and expenses, including the amounts of purchases of inventory, employee compensation, depreciation and intangible asset amortization included in each expense caption presented on the face of the income statement, a qualitative description of the amounts remaining in these expense captions that are not separately disaggregated quantitatively, and the total amount of selling expenses and an entity's definition of selling expenses. ASU 2024-03, as clarified by ASU No. 2025-01, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40), is effective for annual reporting periods beginning after December 15, 2026 and interim reporting periods within annual reporting periods beginning after December 15, 2027, with early adoption permitted. Further, the amendments in ASU 2024-03 should be applied either prospectively or retrospectively. We are currently evaluating the impact on our consolidated financial statements and disclosures.

ASU No. 2025-06 — In September 2025, the FASB issued ASU No. 2025-06, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40) ("ASU 2025-06"). ASU 2025-06 removes all references to prescriptive and sequential software development stages throughout Subtopic 350-40, and therefore requires an entity to start capitalizing software costs when management has authorized and committed to funding the software project, and it is probable that the project will be completed and the software will be used to perform the function intended. The amendments in ASU 2025-06 further specify and clarify disclosure requirements for property, plant and equipment and intangibles, as well as supersede the website development costs guidance and incorporate the recognition requirements for website-specific development costs. ASU 2025-06 is effective for annual reporting periods beginning after December 15, 2027 and interim reporting periods within those annual reporting periods, with early adoption permitted. Further, the amendments in ASU 2025-06 should be applied using a transition approach that is prospective, modified based on the project status and whether software costs were capitalized before the adoption date, or retrospective. We are currently evaluating the impact on our consolidated financial statements and disclosures.

Note 2. Independent Operator Notes and Independent Operator Receivables

The amounts included in IO notes and IO receivables consist primarily of funds we loaned to IOs, net of estimated uncollectible amounts. IO notes, which are payable on demand and have no maturity date, typically bear interest at rates between 4.00% and 9.95%. Accrued interest receivable on IO notes is included within the "independent operator receivables and current portion of independent operator notes, net of allowance" line item on the condensed consolidated balance sheets and was $3.6 million and $3.0 million as of September 27, 2025 and December 28, 2024, respectively. There were no IO notes that were past due or on a non-accrual status due to delinquency as of September 27, 2025 or December 28, 2024. Notes and receivables from our IOs participating in our Temporary Commission Adjustment Program ("TCAP"), as detailed below, are not considered to be past due or on a non-accrual status due to delinquency and are excluded from such measures.

IO notes and IO receivables are financial assets which are measured and carried at amortized cost. An allowance for expected credit losses is deducted from (for expected losses) or added to (for expected recoveries) the amortized cost basis of these assets to arrive at the net carrying amount expected to be collected for such assets.

The allowance is estimated using an expected loss framework, which includes information about past events, current conditions, and reasonable and supportable forecasts that impact the collectibility of the reported amounts of the assets over their lifetime. The allowance is evaluated on a collective basis for assets with shared risk characteristics and credit quality indicators. The primary shared risk characteristic and credit quality indicator pools that we use as a basis for collective evaluation include:

- TCAP — Includes the notes and receivables from IOs with stores that have been open for more than 18 months that are participating in our TCAP as of the end of each reporting period. TCAP allows us to provide a greater commission to participating IOs who require assistance in meeting their working capital needs for various reasons, such as new or increased competition or differences in IO skills and experience.
- Non-TCAP — Includes the notes and receivables from IOs with stores that have been open for more than 18 months that are not participating in TCAP as of the end of each reporting period.
- New store — Includes the notes and receivables from IOs with stores that have been open for less than 18 months as of the end of each reporting period, and may or may not be participating in TCAP.

Assets without such shared risk characteristics or credit quality indicators, such as assets with unique circumstances or with delinquencies and historical losses in excess of their TCAP, non-TCAP or new store peers are evaluated on an individual basis.

Amounts due from IOs and the related allowances as of September 27, 2025 and December 28, 2024 consisted of the following (amounts in thousands):

	Gross	Allowance		Net		
		Current Portion	Long-term Portion	Total	Current Portion	Long-term Portion
September 27, 2025						
Independent operator notes	$ 54,160	$ (424)	$ (12,701)	$ 41,035	$ 2,180	$ 38,855
Independent operator receivables	28,124	(11,127)	(1,314)	15,683	13,331	2,352
Total	$ 82,284	$ (11,551)	$ (14,015)	$ 56,718	$ 15,511	$ 41,207

	Gross	Allowance		Net		
		Current Portion	Long-term Portion	Total	Current Portion	Long-term Portion
December 28, 2024						
Independent operator notes	$ 46,917	$ (368)	$ (11,454)	$ 35,095	$ 471	$ 34,624
Independent operator receivables	24,054	(5,402)	(1,255)	17,397	15,580	1,817
Total	$ 70,971	$ (5,770)	$ (12,709)	$ 52,492	$ 16,051	$ 36,441

A summary of activity in the IO notes and IO receivables allowance was as follows (amounts in thousands):

	13 Weeks Ended		39 Weeks Ended	
	September 27, 2025	September 28, 2024	September 27, 2025	September 28, 2024
Beginning balance	$ 23,178	$ 16,564	$ 18,479	$ 16,151
Provision for IO notes and IO receivables reserves	2,700	1,189	9,274	3,080
Write-off of uncollectible IO notes and IO receivables	(312)	(90)	(2,187)	(1,568)
Ending balance	$ 25,566	$ 17,663	$ 25,566	$ 17,663

The following table presents the outstanding gross balance of IO notes by fiscal year of origination and credit quality indicator as of September 27, 2025 (amounts in thousands):

	Fiscal Year of Origination						
Credit Quality Indicator	**2025 (YTD)**	**2024**	**2023**	**2022**	**2021**	**Prior**	**Total**
TCAP	$ 2,591	$ 4,912	$ 4,277	$ 4,053	$ 1,267	$ 2,402	$ 19,502
Non-TCAP	5,258	5,059	3,471	3,928	2,841	3,100	23,657
New store	8,007	2,994	—	—	—	—	11,001
Total	$ 15,856	$ 12,965	$ 7,748	$ 7,981	$ 4,108	$ 5,502	$ 54,160

TCAP IO Notes

Notes of IOs participating in our TCAP represented 45.5% and 49.1% of total IO note balances, gross, as of September 27, 2025 and December 28, 2024, respectively.

A total of $2.0 million of IO notes were added into our TCAP during the 13 weeks ended September 27, 2025. The weighted-average contractual interest rate of these IO notes was 4.00% as of September 27, 2025, a reduction from the standard rate of 9.95%. In addition, $0.3 million of IO notes were transferred from TCAP to Non-TCAP during the 13 weeks ended September 27, 2025.

A total of $5.5 million of IO notes were added into our TCAP during the 39 weeks ended September 27, 2025. The weighted-average contractual interest rate of these IO notes was 4.00% as of September 27, 2025, a reduction from the standard rate of 9.95%. In addition, $2.2 million of IO notes were transferred from TCAP to Non-TCAP during the 39 weeks ended September 27, 2025.

Note 3. Long-term Debt

Long-term debt consisted of the following (amounts in thousands):

	September 27, 2025	December 28, 2024
2023 Credit Agreement:		
Senior term loan due 2028	$ 281,250	$ 288,750
Revolving credit facility	220,000	190,000
Long-term debt, gross	501,250	478,750
Less: Unamortized debt issuance costs	(951)	(1,248)
Long-term debt, less unamortized debt issuance costs	500,299	477,502
Less: Current portion	(18,750)	(15,000)
Long-term debt, net	$ 481,549	$ 462,502

2023 Credit Agreement

We are party to a credit agreement, dated February 21, 2023 (the "2023 Credit Agreement"), with Bank of America, N.A., as administrative agent and collateral agent, and a syndicate of lenders that consists of (i) a senior secured term loan facility (the "senior term loan") and (ii) a senior secured revolving credit facility (the "revolving credit facility" and, together with the senior term loan, the "credit facilities") in an aggregate principal amount of $400.0 million. The revolving credit facility includes sub-commitments for $50.0 million letters of credit and $25.0 million of swingline loans.

Borrowings under the 2023 Credit Agreement bear interest at a rate equal to, at our option, either (a) the base rate, which is defined as a fluctuating rate per annum equal to the greatest of (i) the federal funds rate then in effect, plus 0.50%, (ii) the prime rate then in effect and (iii) a specified Term SOFR (as defined in the 2023 Credit Agreement) rate plus 1.00%, subject to the interest rate floors set forth therein, plus an applicable margin ranging from 0.75% to 1.75% based on our Total Net Leverage Ratio (as defined in the 2023 Credit Agreement); and (b) an adjusted Term SOFR rate determined on the basis of a one, three or six month interest period, plus 0.10%, subject to the interest rate floors set forth therein, plus an applicable margin ranging from 1.75% to 2.75% based on our Total Net Leverage Ratio. As of September 27, 2025, interest on borrowings under the credit facilities was based on Term SOFR with interest periods ranging from one month to six months. The applicable margin was 2.25% on all borrowings.

The 2023 Credit Agreement permits us to add incremental term loan facilities, increase any existing term loan facility, increase revolving commitments, and/or add incremental replacement revolving credit facility tranches. The aggregate principal amount of such incremental facilities are limited to (a) an amount not in excess of the sum of the greater of $200.0 million and 100% of Consolidated EBITDA (as defined in the 2023 Credit Agreement), subject to certain limitations, plus (b) voluntary prepayments of any term loan facility, voluntary permanent reductions of the commitments for the revolving credit facility and voluntary prepayments of indebtedness secured by liens on the collateral securing the credit facilities, subject to certain exceptions, plus (c) an amount such that (assuming that the full amount of any such incremental revolving increase and/or incremental replacement revolving credit facility was drawn, and after giving effect to any appropriate pro forma adjustment events) we would be in compliance, on a pro forma basis (but excluding the cash proceeds of such incurrence), with a Total Net Leverage Ratio of 3.00 to 1.00.

Our obligations under the 2023 Credit Agreement are unconditionally guaranteed by Grocery Outlet Holding Corp.'s direct and indirect wholly owned restricted subsidiaries, subject to certain exceptions. All obligations under the 2023 Credit Agreement, and the guarantee of such obligations, are secured, subject to permitted liens and other exceptions, by substantially all of the Company’s assets and those of each subsidiary guarantor.

The 2023 Credit Agreement requires us to make scheduled quarterly amortization payments on the senior term loan, which were $1.875 million from June 2023 through March 2025, and are $3.75 million from June 2025 through December 2027, with the remaining balance due on February 21, 2028. We may voluntarily prepay the credit facilities, in whole or in part, at any time without premium or penalty, subject to reimbursement of the lenders’ breakage and redeployment costs in applicable cases.

The senior term loan and the revolving credit facility under the 2023 Credit Agreement mature on February 21, 2028.

Senior Term Loan due 2028

The senior term loan under the 2023 Credit Agreement had an interest rate of 6.57% as of September 27, 2025.

Revolving Credit Facility

The aggregate outstanding principal balance under the revolving credit facility was $220.0 million and $190.0 million as of September 27, 2025 and December 28, 2024, respectively. As of September 27, 2025, we had $5.1 million of outstanding letters of credit and $174.9 million of remaining borrowing capacity available under the revolving credit facility. Borrowings under the revolving credit facility had interest rates ranging from 6.51% to 6.59% as of September 27, 2025.

We are required to pay a quarterly commitment fee ranging from 0.15% to 0.30% on the daily unused amount of the commitment under the revolving credit facility based upon our Total Net Leverage Ratio. We are also required to pay fronting fees and other customary fees for letters of credit issued under the revolving credit facility.

Debt Covenants

The 2023 Credit Agreement contains certain customary representations and warranties, subject to limitations and exceptions, and affirmative and customary covenants. The 2023 Credit Agreement contains certain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: pay dividends or distributions, repurchase equity, prepay junior debt and make certain investments; incur additional debt or issue certain disqualified stock and preferred stock; incur liens on assets; merge or consolidate with another company or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its assets; enter into transactions with affiliates; and allow to exist certain restrictions on the ability of our subsidiaries to pay dividends or make other payments to the borrower. The 2023 Credit Agreement also contains financial performance covenants requiring us to satisfy a maximum total net leverage ratio test and a minimum interest coverage ratio test as of the last day of each fiscal quarter. The maximum total net leverage ratio test requires us to be in compliance with a Total Net Leverage Ratio no greater than 3.50 to 1.00 as of the last day of each test period ending prior to the test period ending on or about December 31, 2025, and no greater than 3.25 to 1.00 as of the last day of each test period ending thereafter, subject to certain adjustments set forth in the 2023 Credit Agreement. The minimum interest coverage ratio test requires us to be in compliance with a Consolidated Interest Coverage Ratio (as defined in the 2023 Credit Agreement) of no less than 1.75 to 1.00 as of the last day of each test period.

As of September 27, 2025, we were in compliance with all applicable financial covenant requirements for the 2023 Credit Agreement.

Schedule of Principal Maturities

Principal maturities of debt as of September 27, 2025 are as follows (amounts in thousands):

Remainder of fiscal 2025	$	7,500
Fiscal 2026		15,000
Fiscal 2027		15,000
Fiscal 2028		463,750
Fiscal 2029 and thereafter		—
Total	$	501,250

Interest Expense, Net

Interest expense, net, consisted of the following (amounts in thousands):

	13 Weeks Ended		39 Weeks Ended	
	September 27, 2025	September 28, 2024	September 27, 2025	September 28, 2024
Interest on loans	$ 8,162	$ 7,871	$ 24,262	$ 20,638
Amortization of debt issuance costs and debt discounts	228	228	683	683
Interest on finance leases	50	90	164	269
Other	—	—	—	24
Interest income	(1,157)	(1,390)	(3,679)	(5,406)
Capitalized interest	(578)	(360)	(1,661)	(1,034)
Interest expense, net	$ 6,705	$ 6,439	$ 19,769	$ 15,174

Note 4. Stockholders' Equity

Share Repurchase Program

In November 2021, our Board of Directors (the "Board") approved a share repurchase program (the "2021 Share Repurchase Program"). This program, which was effective November 5, 2021 and without an expiration date, authorized us to repurchase up to $100.0 million of our outstanding common stock utilizing a variety of methods including open-market purchases, accelerated share repurchase programs, privately negotiated transactions, structured repurchase transactions and under a Rule 10b5-1 plan (which would permit shares to be repurchased when we might otherwise be precluded from doing so under securities laws). Any repurchased shares were constructively retired and returned to an unissued status.

In the fourth quarter of fiscal 2024, the Board approved a new share repurchase program (the "2024 Share Repurchase Program"), which replaced the Company's 2021 Share Repurchase Program, under which $9.4 million previously remained available for repurchase. The 2024 Share Repurchase Program does not have an expiration date and authorizes us to repurchase up to $100.0 million of our outstanding common stock (inclusive of fees and commissions) utilizing a variety of methods including open-market purchases, accelerated equity repurchase programs, privately negotiated transactions, block trades and under a Rule 10b5-1 plan. Any repurchased shares are constructively retired and returned to an unissued status.

The following table presents activity related to the share repurchase programs (amounts in thousands except share and per share amounts). We repurchased these shares in open-market transactions pursuant to a Rule 10b5-1 plan.

	13 Weeks Ended		39 Weeks Ended	
	September 27, 2025	September 28, 2024	September 27, 2025	September 28, 2024
Shares repurchased	—	1,164,423	—	2,469,952
Amount repurchased [1]	$ —	$ 25,035	$ —	$ 55,394
Average repurchase price per share	$ —	$ 21.50	$ —	$ 22.43

(1) Includes commissions for the shares repurchased during the 13 and 39 weeks ended September 28, 2024 and excludes excise tax due of $0.1 million under the Inflation Reduction Act of 2022 for the 13 and 39 weeks ended September 28, 2024.

As of September 27, 2025, we had $100.0 million of repurchase authority remaining under the 2024 Share Repurchase Program.

Note 5. Share-based Awards

For a discussion of our share-based incentive plans, refer to Note 8 to the consolidated financial statements in our 2024 Form 10-K.

Share-based Award Activity

During the 39 weeks ended September 27, 2025, we granted time-based stock options, which have a ten-year term and vest in annual installments over a three-year period, subject to continued employment. In addition, during the 39 weeks ended September 27, 2025, we granted a one-time, special new hire stock option award with a ten-year term to our President and Chief Executive Officer. Under this award, one-third of such stock options vest and become exercisable three years after the grant date, subject to continued employment. The remaining two-thirds of those stock options vest based upon the achievement of certain price targets of the Company's common stock during the three-year period following the grant date. Any options that vest based on achievement of stock price targets, regardless of when such options vest, will not be exercisable until the third anniversary of the grant date, subject to the recipient's continued employment at that time.

The fair value of stock option grants is determined on the grant date. For time-based stock options, a Black-Scholes valuation model is used to estimate the fair value of the awards. For market-based stock options, a Monte Carlo simulation model is used to estimate the fair value of the awards. Time-based stock options and market-based stock options granted during the 39 weeks ended September 27, 2025 had weighted-average grant date fair values per share of $5.80 and $4.65, respectively.

We determine the input assumptions for the Black-Scholes stock option valuation model as follows:

- Expected term — The expected term represents the period that a stock option award is expected to be outstanding. We have limited historical exercise data from which to derive expected term input assumptions. Consequently, we calculate the expected term using the SEC simplified method whereby the expected term of a stock option award is equal to the average of the award's contractual term and vesting term.
- Expected volatility — For stock option awards where we have sufficient historical data available from which to derive stock price volatility input assumptions, we calculate the expected stock price volatility for our common stock based on our historical volatility data over a time frame consistent with the expected life of the awards. Certain stock option awards were granted prior to having sufficient historical data available from which to derive stock price volatility input assumptions. Consequently, the stock price volatility for these awards was estimated by using a time-weighted average methodology, placing proportional weight on our volatility over our available trading history and the average volatility of industry peers over the expected term. Industry peers consisted of several public companies in our industry which were of similar size, complexity and stage of development.
- Risk-free interest rate — The risk-free interest rate is based on the U.S. Treasury yield curve on a stock option award's grant date. Maturities that approximate the expected term of the stock option award were used to interpolate the risk-free rate.
- Dividend yield — Dividend yield is assumed to be zero as we have not historically paid and do not expect to pay cash dividends on our common shares issued.

The grant date fair value of time-based stock options awarded during the 39 weeks ended September 27, 2025 was estimated using the Black-Scholes valuation model with the following weighted-average assumptions:

	39 Weeks Ended
	September 27, 2025
Expected volatility	43.4%
Risk-free interest rate	4.0%
Dividend yield	—%
Expected term (in years)	6.03

The following table summarizes stock option activity under all equity incentive plans during the 39 weeks ended September 27, 2025:

	Time-Based Stock Options		Market-Based and Performance-Based Stock Options	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Options outstanding as of December 28, 2024	879,357	$ 19.98	99,384	$ 10.25
Granted	1,336,588	12.11	166,667	11.87
Exercised	(38,731)	11.23	(22,640)	5.73
Forfeited	(382,016)	18.40	—	—
Options outstanding as of September 27, 2025	1,795,198	$ 14.65	243,411	$ 11.78
Options vested and exercisable as of September 27, 2025	592,600	$ 19.73	76,744	$ 11.59

The following table summarizes time-based restricted stock unit ("RSU") activity under all equity incentive plans during the 39 weeks ended September 27, 2025:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested balance as of December 28, 2024	1,179,071	$ 22.93
Granted	1,265,972	12.23
Vested	(494,183)	24.30
Forfeited	(396,152)	16.83
Unvested balance as of September 27, 2025	1,554,708	$ 15.33

The following table summarizes performance-based restricted stock unit ("PSU") activity under the Grocery Outlet Holding Corp. 2019 Incentive Plan during the 39 weeks ended September 27, 2025:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested balance as of December 28, 2024	791,884	$ 27.83
Granted [1]	937,533	12.04
Adjustment for expected performance achievement [2]	(674,199)	17.63
Vested	(320,430)	29.18
Forfeited	(157,360)	17.17
Unvested balance as of September 27, 2025 [3]	577,428	$ 16.26

(1) Represents initial grant of PSUs based on performance target level achievement of 100%.

(2) Represents the year-to-date adjustment to previously granted PSUs based on performance expectations as of September 27, 2025.

(3) Up to an additional 2,319,623 PSUs could potentially be included if the actual performance level achievement exceeds the current expected target performance level of achievement (with 200% being the maximum performance level achievement).

Share-based Compensation Expense (Benefit)

We recognize compensation expense (benefit) for stock options, RSUs and PSUs by amortizing the grant date fair value on a straight-line basis over the expected vesting period to the extent we determine the achievement of the grant's service or performance vesting requirements is probable. We recognize share-based award forfeitures in the period such forfeitures occur.

Share-based compensation expense (benefit) consisted of the following (amounts in thousands):

	13 Weeks Ended		39 Weeks Ended	
	September 27, 2025	September 28, 2024	September 27, 2025	September 28, 2024
Time-based stock options	$ 555	$ —	$ 1,262	$ 11
Market-based and performance-based stock options	64	—	149	—
RSUs	3,137	3,079	9,274	9,641
PSUs	(3,766)	(1,416)	(3,277)	7,154
Share-based compensation expense (benefit)	$ (10)	$ 1,663	$ 7,408	$ 16,806

Note 6. Income Taxes

Our income tax expense and effective income tax rate were as follows (amounts in thousands, except percentages):

	13 Weeks Ended		39 Weeks Ended	
	September 27, 2025	September 28, 2024	September 27, 2025	September 28, 2024
Income tax expense	$ 4,514	$ 9,669	$ 70	$ 14,626
Effective income tax rate	28.0 %	28.6 %	(1.0) %	28.2 %

Our tax provision for interim periods is determined using an estimated annual effective tax rate, adjusted for discrete events arising in each respective fiscal quarter. Our effective income tax rate for the 13 weeks ended September 27, 2025 was higher than the combined U.S. federal and state statutory income tax rates primarily due to limitations of deductions for certain employees under Internal Revenue Code Section 162(m) (the "Code"), partially offset by the benefit of certain acquisition related deductions. Our effective income tax rate for the 39 weeks ended September 27, 2025 was lower than the combined U.S. federal and state statutory income tax rates primarily due to changes in our level of earnings and the benefit of certain acquisition related deductions, partially offset by limitations of deductions for certain employees under the Code and a reduction in the tax benefit from share-based compensation.

The change in our effective income tax rate for the 13 weeks ended September 27, 2025 compared to the 13 weeks ended September 28, 2024 was primarily due to the benefit of certain acquisition related deductions, partially offset by a reduction in the tax benefit from share-based compensation. The change in our effective income tax rate for the 39 weeks ended September 27, 2025 compared to the 39 weeks ended September 28, 2024 was primarily driven by the change in earnings, partially offset by a reduction in the tax benefit from share-based compensation.

Our policy is to recognize interest and penalties associated with uncertain tax positions as part of the income tax provision in our condensed consolidated statements of operations and comprehensive income (loss) and include accrued interest and penalties with the related income tax liability on our condensed consolidated balance sheets. To date, we have not recognized any interest and penalties, nor have we accrued for or made payments for interest and penalties. We had no uncertain tax positions as of September 27, 2025 and December 28, 2024, respectively.

On July 4, 2025, the One Big Beautiful Bill Act ("OBBBA") was signed into law. The OBBBA includes changes to U.S. federal tax law, which may be subject to further clarification and the issuance of interpretive guidance. The OBBBA did not have a material impact to the effective tax rate for the 13 and 39 weeks ended September 27, 2025, and we do not expect the OBBBA to have a material impact on our effective tax rate for the current fiscal year.

Note 7. Related Party Transactions

Related Party Leases

As of September 27, 2025 and September 28, 2024, we leased 14 store locations and one warehouse location from entities in which Eric Lindberg, Jr., Chairman of the Board and former Chief Executive Officer (who also served as Interim President and Chief Executive Officer for a portion of fiscal 2024 and the 39 weeks ended September 27, 2025), or his family, had a direct or indirect financial interest. As of September 27, 2025, the right-of-use assets and lease liabilities related to these properties were $45.7 million and $50.8 million, respectively. As of December 28, 2024, the right-of-use assets and lease liabilities related to these properties were $38.7 million and $43.8 million, respectively. These related parties received aggregate lease payments from us of $1.9 million and $1.9 million for the 13 weeks ended September 27, 2025 and September 28, 2024, respectively, and $5.7 million and $5.5 million for the 39 weeks ended September 27, 2025 and September 28, 2024, respectively.

Independent Operator Notes and Independent Operator Receivables

We offer interest-bearing notes to IOs and the gross amount of IO operating notes and IO receivables due was $82.3 million and $71.0 million as of September 27, 2025 and December 28, 2024, respectively. See Note 2 for additional information.

Note 8. Commitments and Contingencies

From time to time, we may be a party to legal proceedings that arise in the ordinary course of business, some of which may be covered by insurance. We establish an accrual for legal proceedings if and when those matters reach a stage where they present loss contingencies that are both probable and reasonably estimable. In such cases, there may be a possible exposure to loss in excess of any amounts accrued. We monitor those matters for developments that would affect the likelihood of a loss and the accrued amount, if any, thereof, and adjust the amount as appropriate. If the loss contingency at issue is not both probable and reasonably estimable, we do not establish an accrual, but will continue to monitor the matter for developments that could make the loss contingency both probable and reasonably estimable. If there is at least a reasonable possibility that a material loss will occur, we will provide disclosure regarding the contingency. Except as disclosed below, management believes that we do not have any pending legal proceedings that, separately or in the aggregate, would have a material adverse effect on our results of operations, financial condition or cash flows.

On January 30, 2025, a federal securities class action lawsuit, captioned *Liberato v. Grocery Outlet Holding Corp., et al.*, Case No. 25-cv-00957, was filed in the U.S. District Court in the Northern District of California against Grocery Outlet Holding Corp. and certain of its former officers purportedly on behalf of purchasers of our common stock between November 7, 2023 and May 7, 2024 (the "Liberato Lawsuit"). On March 28, 2025, a second and related federal securities class action lawsuit, captioned *Cavanaugh v. Grocery Outlet Holding Corp., et al.*, Case No. 25-cv-2886, was filed in the U.S. District Court in the Northern District of California against the same defendants on behalf of purchasers of our common stock between August 8, 2023 and October 29, 2024 (the "Cavanaugh Lawsuit," and together with the Liberato Lawsuit, the "Class Action Lawsuits"). The Class Action Lawsuits allege that the defendants violated federal securities laws by making materially false and misleading statements and/or failing to disclose material adverse facts regarding our transition to new and upgraded internal systems. The Class Action Lawsuits seek remedies under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including an undisclosed amount of monetary damages, interest, fees and other costs. On March 31, 2025, the plaintiff who filed the Cavanaugh Lawsuit filed a motion to consolidate both actions and to be appointed as lead plaintiff. On June 3, 2025, the Class Action Lawsuits were consolidated in the U.S. District Court in the Northern District of California (the "Consolidated Class Action Lawsuit"). The lead plaintiff filed an amended complaint in the Consolidated Class Action Lawsuit on August 19, 2025, and the Company filed its motion to dismiss on October 21, 2025. A hearing on the Company's motion to dismiss is scheduled for March 19, 2026.

On April 28, 2025, a federal stockholder derivative lawsuit, captioned *Conners v. Sheedy, et al.* , Case No. 25-cv-03697, was filed in the U.S. District Court in the Northern District of California against certain of the Company's directors and two of its former officers purportedly on behalf of the Company. On May 2, 2025, a second federal stockholder derivative lawsuit, captioned *Jackson v. Lindberg, et. al.*, Case No. 25-cv-03843, was filed in the U.S. District Court in the Northern District of California against certain of the Company's directors and two of its former officers purportedly on behalf of the Company. These stockholder derivative lawsuits are collectively referred to as the "Derivative Lawsuits." The Derivative Lawsuits allege claims for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, waste of corporate assets and for violations of Sections 10(b), 14(a), and 20(a) of the Exchange Act, based on similar allegations to those at issue in the Class Action Lawsuits. The Derivative Lawsuits seek, among other relief, undisclosed damages, restitution, fees and other costs, and the institution of corporate governance reforms. On July 14, 2025, the parties in the Derivative Lawsuits stipulated to consolidate the Derivative Lawsuits in the U.S. District Court in the Northern District of California and stay the consolidated Derivative Lawsuits pending resolution of the Company's motion to dismiss in the Consolidated Class Action Lawsuit discussed above. On July 29, 2025, the court granted the parties' stipulation, consolidating the Derivatives Lawsuits and staying the consolidated derivative action pending resolution of the Company's motion to dismiss the Consolidated Class Action Lawsuit.

We intend to defend the Consolidated Class Action Lawsuit and the Derivative Lawsuits vigorously.

We are unable to determine the probability of the outcome of the Consolidated Class Action Lawsuit or the Derivative Lawsuits, and the possible range of losses is not reasonably estimable.

Note 9. Earnings (Net Loss) Per Share

The following table sets forth the calculation of basic and diluted earnings (net loss) per share (amounts in thousands, except per share data):

	13 Weeks Ended		39 Weeks Ended	
	September 27, 2025	September 28, 2024	September 27, 2025	September 28, 2024
Numerator				
Net income (loss) and comprehensive income (loss)	$ 11,605	$ 24,178	$ (6,751)	$ 37,154
Denominator				
Weighted-average shares outstanding – basic	98,160	98,359	97,921	99,140
Effect of dilutive options [1]	67	465	—	787
Effect of dilutive RSUs and PSUs [1]	478	109	—	219
Weighted-average shares outstanding – diluted [2]	98,705	98,933	97,921	100,146
Earnings (net loss) per share:				
Basic	$ 0.12	$ 0.25	$ (0.07)	$ 0.37
Diluted	$ 0.12	$ 0.24	$ (0.07)	$ 0.37

(1) We are required to include in diluted weighted-average shares outstanding contingently issuable shares that would be exercisable or issued, assuming the end of our reporting period was the end of the relevant market-based option award or PSU award contingency period.

(2) For the 39 weeks ended September 27, 2025, there is no difference in the weighted-average shares outstanding used in the above calculations due to the Company's net loss.

The following weighted-average common share equivalents were excluded from the calculation of diluted earnings (net loss) per share because their effect would have been anti-dilutive (amounts in thousands):

	13 Weeks Ended		39 Weeks Ended	
	September 27, 2025	September 28, 2024	September 27, 2025	September 28, 2024
Stock options	1,670	753	1,564	251
RSUs	285	821	834	685
Total	1,955	1,574	2,398	936

Note 10. Segment Information

We are a retailer of quality, name-brand consumables and fresh products sold primarily through a network of independently operated stores. We manage our business on a consolidated basis and have one reportable segment. The accounting policies of the segment are the same as those described in the summary of significant accounting policies. In addition, all of our sales were made to customers located in the U.S. and all property and equipment is located in the U.S.

The chief operating decision maker ("CODM"), who is our President and Chief Executive Officer, assesses performance for the segment and decides how to allocate resources based on net income (loss) and comprehensive income (loss), which is reported on the condensed consolidated statements of operations and comprehensive income (loss). The CODM uses this measure in deciding where to reinvest profits and to monitor budget versus actual results. The measure of segment assets is reported on the condensed consolidated balance sheets as total assets.

Information for the segment, including the significant expenses regularly reviewed by the CODM, is provided in the following tables for the periods indicated (amounts in thousands):

	13 Weeks Ended		39 Weeks Ended	
	September 27, 2025	September 28, 2024	September 27, 2025	September 28, 2024
Net sales	$ 1,168,153	$ 1,108,183	$ 3,473,492	$ 3,273,647
Less:				
Cost of sales [1]	811,438	762,201	2,410,782	2,272,516
Commission expenses [2]	165,042	156,942	496,453	484,781
Other selling expenses [3]	78,254	70,084	231,749	195,051
General and administrative expenses [4]	55,919	49,192	173,063	158,290
Restructuring charges [5]	1,296	—	46,328	—
Other segment items [6]	(10)	1,663	7,408	16,806
Depreciation and amortization expenses	33,390	27,815	94,621	79,249
Interest income	(1,735)	(1,750)	(5,340)	(6,440)
Interest expense	8,440	8,189	25,109	21,614
Income tax expense	4,514	9,669	70	14,626
Net income (loss) and comprehensive income (loss)	$ 11,605	$ 24,178	$ (6,751)	$ 37,154

(1) Cost of sales includes merchandise costs, inventory markdowns, inventory losses, transportation costs and distribution and warehousing costs and excludes depreciation and amortization expenses, which were $1.6 million and $1.1 million for the 13 weeks ended September 27, 2025 and September 28, 2024, respectively, and $4.4 million and $3.1 million for the 39 weeks ended September 27, 2025 and September 28, 2024, respectively.

(2) Commission expenses represent commissions paid to IOs.

(3) Other selling expenses include occupancy for all stores, our portion of maintenance costs for IO stores, the cost of opening new IO stores and payroll, benefits, maintenance, supplies and utilities for company-operated stores.

(4) General and administrative expenses include payroll and benefits for corporate and field support, marketing and advertising, insurance and professional services and operator recruiting and training costs.

(5) Restructuring charges include lease termination costs, non-cash impairment and disposal of long-lived assets, employee severance and benefit costs and legal, professional and other costs related to the Restructuring Plan, as defined in Note 11.

(6) Other segment items represents share-based compensation expense (benefit).

	39 Weeks Ended	
	September 27, 2025	September 28, 2024
Purchases of property and equipment	$ 158,513	$ 127,500
Investments in intangible assets and licenses	16,368	13,287
Total capital expenditures	$ 174,881	$ 140,787

Note 11. Restructuring Plan

We initiated a restructuring plan during the fourth quarter of fiscal 2024, with continued implementation in fiscal 2025, intended to improve our long-term profitability, cash flow generation and return on invested capital, optimize the footprint of new store growth, and lower our cost base (the "Restructuring Plan"). Under the Restructuring Plan:

- We are optimizing new store growth in the next several years to increase efficiencies for distribution and optimize brand awareness and marketing. Specifically, we have narrowed our focus on our future new store openings to target existing markets and a smaller set of high-priority adjacent new markets to improve new store sales productivity and return on invested capital. As such we determined to terminate a total of 28 leases for unopened stores in suboptimal locations which we had planned to open in the next several years and to discontinue development of certain future store sites where we had incurred initial costs, but leases had not yet been signed.
- We have shifted our planned investments in our distribution infrastructure in fiscal 2025 and fiscal 2026 away from highly capital-intensive projects. We have instead, and plan to continue to, invest in lower cost distribution centers for dry goods to enhance capacity and improve inventory management and overall execution. During the first quarter of fiscal 2025, we cancelled certain warehouse projects in connection with such strategy.
- We reduced headcount by approximately 40 full-time employees in the first quarter of fiscal 2025.

The following table summarizes charges incurred related to the Restructuring Plan for the 13 and 39 weeks ended September 27, 2025 and for the cumulative-to-date period ended September 27, 2025 since the initiation of the Restructuring Plan (in thousands). The actions under the Restructuring Plan were substantially completed in the second quarter of fiscal 2025.

	13 Weeks Ended [1]	39 Weeks Ended [1]	Cumulative [2]
	September 27, 2025	September 27, 2025	September 27, 2025
Cash restructuring charges:			
Lease termination costs	$ 1,286	$ 35,398	$ 35,398
Employee severance and benefit costs	—	1,532	1,532
Legal, professional and other costs	3	1,525	1,525
Total cash restructuring costs	1,289	38,455	38,455
Non-cash impairment and disposal of long-lived assets	7	7,873	23,761
Total restructuring charges	$ 1,296	$ 46,328	$ 62,216

(1) All costs incurred related to the Restructuring Plan during the 13 and 39 weeks ended September 27, 2025 are included in Restructuring charges on the condensed consolidated statements of operations and comprehensive income (loss).

(2) Cumulative-to-date since the initiation of the Restructuring Plan during the fourth quarter of fiscal 2024.

The following table summarizes the restructuring liability activity for the Restructuring Plan during the 39 weeks ended September 27, 2025 (in thousands):

	Lease Termination Costs	Employee Severance and Benefit Costs	Legal, Professional and Other Costs	Total
Balance at December 28, 2024	$ —	$ —	$ —	$ —
Cash restructuring charges	35,398	1,532	1,525	38,455
Cash payments	(35,398)	(1,532)	(1,199)	(38,129)
Balance at September 27, 2025	$ —	$ —	$ 326	$ 326

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

You should read the following discussion of our financial condition and results of operations in conjunction with the unaudited condensed consolidated financial statements and related notes thereto included elsewhere in this Form 10-Q, and the audited consolidated financial statements and related notes thereto and management's discussion and analysis of financial condition and results of operations included in our 2024 Form 10-K. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in other sections of this report. See "Special Note Regarding Forward-Looking Statements" in this report.

We operate on a fiscal year that ends on the Saturday closest to December 31st each year. The fiscal years ended January 3, 2026 ("fiscal 2025") and December 28, 2024 ("fiscal 2024") consist of 53 weeks and 52 weeks, respectively. References to the third quarter of fiscal 2025 and the third quarter of fiscal 2024 refer to the 13 weeks ended September 27, 2025 and September 28, 2024, respectively. References to the second quarter of fiscal 2025 refer to the 13 weeks ended June 28, 2025. References to the first quarter of fiscal 2025 refer to the 13 weeks ended March 29, 2025.

As used in this report, references to "Grocery Outlet," "the Company," "the registrant," "we," "us" and "our," refer to Grocery Outlet Holding Corp. and its consolidated subsidiaries unless otherwise indicated or the context requires otherwise.

Overview

We are a high-growth, extreme value retailer of quality, name-brand consumables and fresh products sold primarily through a network of independently operated stores. Our flexible buying model allows us to offer quality, name-brand opportunistic products at prices generally 40% to 70% below those of conventional retailers. Our Grocery Outlet stores are primarily run by entrepreneurial independent operators ("IOs") who create a neighborhood feel through personalized customer service and a localized product offering. As of September 27, 2025, we had 563 stores in California, Washington, Oregon, Pennsylvania, Tennessee, Idaho, Nevada, Maryland, New Jersey, Ohio, North Carolina, Georgia, Alabama, Delaware, Kentucky and Virginia.

Recent Trends and Developments

The extent of the continuing impact of the factors set forth below on our operational and financial performance will depend on many factors, including certain factors outside of our control.

Macroeconomic Conditions and Regulatory Developments. Over the past several years, our business has been and continues to be impacted by macroeconomic conditions including supply chain and labor challenges, inflation and subsequent disinflation, tariffs, and changes in consumer behavior, and our IOs have been impacted by staffing challenges and increased labor costs and utility costs within their businesses. In recent periods, comparable store sales have been negatively impacted by decreased average transaction size. We are actively pursuing initiatives to increase average transaction size through our deployment of enhanced in-store merchandising and execution to further improve the shopping experience.

Tariffs, such as those recently implemented or proposed by the U.S. government on goods imported from China and certain other countries, may result in cost increases on some of the products we sell, such as fresh meat and general merchandise that we import from impacted countries, as well as the materials and supplies we use for store construction. Tariffs may also negatively affect consumer sentiment. The tariff environment remains highly dynamic and specific tariffs applicable to our business continue to evolve. While we are regularly re-evaluating the potential impact of implemented and proposed tariffs, the short-term impact of price increases due to tariffs is largely dependent on our ability to negotiate with suppliers, opportunities to change sources of supply, our assortment decisions and whether or not we pass the effects through to our customers, which will largely depend upon competitive market conditions. It is reasonably possible that new or additional tariffs will be periodically implemented or proposed given the current global trade environment. Sustained uncertainty about, or worsening of, current global economic conditions and further tariffs and escalations of tensions between the U.S. and its trading partners has and could continue to adversely impact the stability of global financial markets and result in a global economic slowdown and long-term changes to global trade, which could in turn have a material adverse impact on our business and financial condition.

On July 4, 2025, the One Big Beautiful Bill Act ("OBBBA") was signed into law. We expect the OBBBA to have favorable impacts on our current year cash taxes payable and immaterial impacts to our effective tax rate.

On October 1, 2025, the U.S. Government entered a shutdown, which is ongoing as of this filing. This shutdown has adversely impacted the disbursement of benefits from federally-funded assistance programs that many of our customers depend on, including the Supplemental Nutrition Assistance Program ("SNAP"), and a prolonged shutdown could continue to adversely impact future disbursements. During the last fiscal year, approximately 9% of our net sales were in the form of Electronic Benefits Transfer payments and a substantial portion of these payments may be related to benefits associated with SNAP. In addition, a prolonged shutdown could delay our ability to register and participate in SNAP for future new stores that we open. We are closely monitoring the known and potential impacts of the shutdown, which if prolonged, could affect the spending habits of our customers and adversely impact our business performance and results of operations.

Pricing Competition. During the last few years we have observed an increase in promotional and pricing activities from key competitors, putting further pressure on our relative value proposition, which in turn, has resulted in our increased efforts to actively negotiate costs and adjust prices to sharpen our value proposition.

Restructuring Plan. We initiated a restructuring plan during the fourth quarter of fiscal 2024, with continued implementation in fiscal 2025, intended to improve long-term profitability, cash flow generation and return on invested capital, optimize the footprint of new store growth and lower our cost base (the "Restructuring Plan"). The Restructuring Plan included (i) the termination of a total of 28 leases for unopened stores in suboptimal locations and the discontinued development of certain future store sites where we had incurred initial costs, but leases had not yet been signed, (ii) the cancellation of certain capital-intensive warehouse projects and (iii) a reduction in headcount in building a more scalable cost structure. As of September 27, 2025, we incurred total costs under the Restructuring Plan of $62 million, of which $38 million were cash expenditures. All costs incurred during the third quarter and first three quarters of fiscal 2025 are included in Restructuring charges on the condensed consolidated statements of operations and comprehensive income (loss). The actions under the Restructuring Plan were substantially completed in the second quarter of fiscal 2025.

See Note 11 to the condensed consolidated financial statements for additional information regarding the Restructuring Plan, including the costs incurred and restructuring liability activity.

New Store Growth. Planned construction and opening of new stores has been, and may continue to be, negatively impacted due to both increased lead times to acquire materials, obtain permits and licenses, hook up utilities as well as higher construction and development related costs. Recently implemented and proposed tariffs could further impact our constructions costs.

Our new store growth efforts are focused on organic growth combined with complementary real estate opportunities that align with our long-term geographic expansion and store growth strategies. Complementary growth opportunities may include expanding strategic relationships with large property owners, evaluating acquisitions of opportunistic real estate that become available through consolidation in the retail sector, and exploring strategic regional acquisitions of operating businesses. On April 1, 2024, we acquired The Bargain Barn, Inc., a Tennessee corporation doing business as United Grocery Outlet ("United Grocery Outlet"), which included 40 stores in six adjacent states we did not operate in as of such date (Tennessee, North Carolina, Georgia, Alabama, Kentucky and Virginia) and a company-operated distribution center. The acquisition provides us with the opportunity to scale in a new region and is a platform for potential future expansion in the Southeast. Our near-term integration focus is expanding the assortment, investing in store refreshes and new fixtures and introducing some of our marketing programs to the Southeast region. We opened 35 stores and closed 5 stores in the first three quarters of fiscal 2025 and plan to open 37 net new stores in fiscal 2025.

Enterprise Resource Planning System Upgrades and Challenges. In late August 2023, we replaced components of our enterprise resource planning system, including our financial ledger, inventory management platform and product data warehouse system. The implementation of these system upgrades resulted in significant disruption to our business operations, including ordering and inventory disruptions, as well as payment processing, which adversely impacted our results of operations during the remainder of fiscal 2023 through and into fiscal 2025. We have since improved the data visibility to help us manage and forecast the business and we continue to work to further improve visibility into additional operating data, and to increase the speed and efficiency of the tools that we and our IOs use to manage the business.

Private Label Products. We introduced our private label products in stores beginning in the third quarter of fiscal 2024, with approximately 400 new private-label SKUs across various grocery, deli, frozen, general merchandise and wine categories introduced through the third quarter of fiscal 2025. Our private label products are intended to foster customer loyalty through both everyday commodity staples and unique items exclusive to us. In addition to providing better value and inventory consistency for our customers, our private label products generally deliver higher margins for us and our IOs.

Key Factors and Measures We Use to Evaluate Our Business

We consider a variety of financial and operating measures in assessing the performance of our business. The key financial measures we use in accordance with accounting principles generally accepted in the United States of America ("GAAP") are net sales, gross profit and gross margin, selling, general and administrative expenses ("SG&A"), operating income, net income (loss) and comprehensive income (loss) and earnings (net loss) per share. The key operational metrics and non-GAAP financial measures we use are number of new stores, comparable store sales, EBITDA, adjusted EBITDA, adjusted net income and adjusted earnings per share.

Third Quarter of Fiscal 2025 Overview

Key financial and operating performance results for the third quarter of fiscal 2025 compared to the third quarter of fiscal 2024 were as follows:

- Net sales increased 5.4% to $1.17 billion from $1.11 billion in the third quarter of fiscal 2024.
- Comparable store sales increased by 1.2%, driven by a 1.8% increase in the number of transactions, partially offset by a 0.6% decrease in average transaction size.
- Gross margin decreased by 70 basis points to 30.4%, compared to gross margin of 31.1% in the third quarter of fiscal 2024.
- We opened 13 new stores and closed 2 stores, ending the third quarter of fiscal 2025 with 563 stores in 16 states.
- SG&A increased by 8.7% to $331.0 million, or 28.3% of net sales.
- Operating income was $22.8 million, which included $1.3 million in charges during the quarter related to the Restructuring Plan (see Note 11 to the condensed consolidated financial statements for additional information).
- Net income was $11.6 million, or $0.12 per diluted share, compared to net income of $24.2 million, or $0.24 per diluted share, in the third quarter of fiscal 2024.
- Adjusted net income[(1)] decreased 25.7% to $20.7 million, or $0.21 diluted adjusted earnings per share[(1)], compared to $27.9 million, or $0.28 diluted adjusted earnings per share, in the third quarter of fiscal 2024.
- Adjusted EBITDA[(1)] was $66.7 million compared to $72.3 million in the third quarter of fiscal 2024.

(1) Adjusted net income, diluted adjusted earnings per share and adjusted EBITDA are non-GAAP financial measures, which exclude the impact of certain special items. Please note that our non-GAAP financial measures should be considered as a supplement to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. See the "Operating Metrics and Non-GAAP Financial Measures" section below for additional information about these items, including their definitions, how the non-GAAP financial measures provide useful information to investors and how management utilizes them, and reconciliations of the non-GAAP financial measures and the most directly comparable GAAP financial measures.

Key Components of Results of Operations

Net Sales

We recognize revenues from the sale of products at the point of sale, net of any taxes or deposits collected and remitted to governmental authorities. Discounts provided to customers by us are recognized at the time of sale as a reduction in net sales as the products are sold. Discounts that are funded solely by IOs are not recognized as a reduction in net sales as the IO bears the incidental costs arising from the discount. We do not accept manufacturer coupons. Net sales consist of net sales from comparable stores, described below under "Operating Metrics and Non-GAAP Financial Measures - Comparable Store Sales," and non-comparable stores. Growth of our net sales is generally driven by expansion of our store base in existing and new markets as well as comparable store sales growth. Net sales are impacted by the spending habits of our customers, customer perception of value in our offerings, product mix and supply, as well as promotional and competitive activities. Our ever-changing selection of offerings across diverse product categories supports growth in net sales by attracting new customers and encouraging repeat visits from our existing customers. The spending habits of our customers are affected by changes in macroeconomic conditions, governmental benefit programs such as the Supplemental Nutrition Assistance Program and discretionary income. Our customers' discretionary income is impacted by wages, fuel and other cost-of-living increases including food-at-home inflation, as well as consumer trends and preferences, which fluctuate depending on the environment. Because we offer a broad selection of merchandise at extreme values, our business has in the past benefited from certain periods of economic uncertainty.

Gross Profit and Gross Margin

Gross profit is equal to our net sales less our cost of sales, which includes, among other things, merchandise costs, inventory markdowns, inventory losses, transportation costs and distribution and warehousing costs, including depreciation. Gross margin is gross profit as a percentage of our net sales. Gross margin is a measure used by management to indicate whether we are selling merchandise at an appropriate gross profit. Gross margin is impacted by product mix and availability, as some products generally provide higher gross margins, and by our merchandise costs, which can vary. Gross margin is also impacted by the costs of distributing and transporting product to our stores, which can vary. Our gross profit is variable in nature and generally follows changes in net sales. While our disciplined buying approach has produced consistent gross margins throughout economic cycles, which we believe has helped to mitigate adverse impacts on gross profit and results of operations, changes in consumer demand as a result of macroeconomic conditions, including inflationary cost increases for goods, labor and transportation, supply chain constraints and changes in discretionary income, have resulted and could continue to result in higher variability to our gross margins. The components of our cost of sales, as well as our gross profit and gross margin, may not be comparable to the same or similar measures of our competitors and other retailers.

Selling, General and Administrative Expenses

SG&A are comprised of both store-related expenses and corporate expenses. Our store-related expenses include commissions paid to IOs, occupancy and our portion of maintenance costs, depreciation and amortization of store-related assets, the cost of opening new IO stores and impairment of long-lived assets. Company-operated store-related expenses also include payroll, benefits, supplies and utilities. Corporate expenses include payroll and benefits for corporate and field support, share-based compensation, marketing and advertising, insurance and professional services, depreciation and amortization of corporate assets and operator recruiting and training costs. We continue to closely manage our expenses and monitor SG&A as a percentage of net sales. SG&A generally increases as we grow our store base and invest in our corporate infrastructure. SG&A related to commissions paid to IOs are variable in nature and generally increase as gross profits rise and decrease as gross profits decline. We expect that our SG&A will continue to increase in future periods as we continue to grow our net sales and gross profit. The components of our SG&A may not be comparable to the components of similar measures of our competitors and other retailers.

Restructuring Charges

Restructuring charges include lease termination costs, non-cash impairment and disposal of long-lived assets, employee severance and benefit costs and legal, professional and other costs related to the Restructuring Plan. See Note 11 to the condensed consolidated financial statements for additional information on the Restructuring Plan.

Operating Income

Operating income is gross profit less SG&A. Operating income excludes interest expense, net and income tax expense. We use operating income as an indicator of the productivity of our business and our ability to manage expenses.

Results of Operations

The following table summarizes key components of our results of operations both in dollars and as a percentage of net sales (amounts in thousands, except for percentages):

	13 Weeks Ended					
	September 27, 2025		September 28, 2024			
	Amount	% of Net Sales [1]	Amount	% of Net Sales [1]	$ Change	% Change
Net sales	$ 1,168,153	100.0 %	$ 1,108,183	100.0 %	$ 59,970	5.4 %
Cost of sales	813,017	69.6 %	763,311	68.9 %	49,706	6.5 %
Gross profit	355,136	30.4 %	344,872	31.1 %	10,264	3.0 %
Selling, general and administrative expenses	331,016	28.3 %	304,586	27.5 %	26,430	8.7 %
Restructuring charges	1,296	0.1 %	—	— %	1,296	100.0 %
Operating income	22,824	2.0 %	40,286	3.6 %	(17,462)	(43.3)%
Interest expense, net	6,705	0.6 %	6,439	0.6 %	266	4.1 %
Income before income taxes	16,119	1.4 %	33,847	3.1 %	(17,728)	(52.4)%
Income tax expense	4,514	0.4 %	9,669	0.9 %	(5,155)	(53.3)%
Net income and comprehensive income	$ 11,605	1.0 %	$ 24,178	2.2 %	$ (12,573)	(52.0)%

	39 Weeks Ended					
	September 27, 2025		September 28, 2024			
	Amount	% of Net Sales [1]	Amount	% of Net Sales [1]	$ Change	% Change
Net sales	$ 3,473,492	100.0 %	$ 3,273,647	100.0 %	$ 199,845	6.1 %
Cost of sales	2,415,218	69.5 %	2,275,590	69.5 %	139,628	6.1 %
Gross profit	1,058,274	30.5 %	998,057	30.5 %	60,217	6.0 %
Selling, general and administrative expenses	998,858	28.8 %	931,103	28.4 %	67,755	7.3 %
Restructuring charges	46,328	1.3 %	—	— %	46,328	100.0 %
Operating income	13,088	0.4 %	66,954	2.0 %	(53,866)	(80.5)%
Interest expense, net	19,769	0.6 %	15,174	0.5 %	4,595	30.3 %
Income (loss) before income taxes	(6,681)	(0.2)%	51,780	1.6 %	(58,461)	*
Income tax expense	70	— %	14,626	0.4 %	(14,556)	(99.5)%
Net income (loss) and comprehensive income (loss)	$ (6,751)	(0.2)%	$ 37,154	1.1 %	$ (43,905)	*

(1) Components may not sum to totals due to rounding.

* Represents a change that is not meaningful.

Operating Metrics and Non-GAAP Financial Measures

Number of New Stores

The number of new stores reflects the number of stores opened or acquired during a particular reporting period. Newly opened stores require an initial capital investment from us for store build-outs, fixtures and equipment that we amortize over time as well as cash required for inventory and pre-opening expenses and typically the issuance of IO notes to support IO startup costs. Certain newly acquired stores may require refreshes and new fixtures.

We expect new store growth to be a significant and critical driver of our net sales growth over the long term. We lease substantially all of our store locations. Our initial lease terms on stores are typically ten years with options to renew for two or three successive five-year periods.

Comparable Store Sales

We use comparable store sales as an operating metric to measure performance of a store during the current reporting period against the performance of the same store in the corresponding period of the previous year. Comparable store sales are impacted by the same factors that impact net sales.

Comparable store sales consist of net sales from our stores beginning on the first day of the fourteenth full fiscal month following a store's opening, which is when we believe comparability is achieved, or the thirteenth full fiscal month following a store's acquisition. Included in our comparable store definition are those stores that have been remodeled, expanded, or relocated in their existing location or respective trade areas. Excluded from our comparable store definition are those stores that have been temporarily closed for an extended period, those that have had their business materially disrupted for both planned projects as well as due to unforeseen circumstances, permanent store closures and dispositions. When applicable, as is the case with fiscal 2025, we exclude the net sales in the non-comparable week of a 53-week year from the same store sales calculation after comparing the current and prior year weekly periods that are most closely aligned. Starting in the second quarter of fiscal 2025, comparable stores sales include the addition of stores from the acquisition of United Grocery Outlet on April 1, 2024.

Opening or, on a limited strategic basis, acquiring new stores is a primary component of our growth strategy and, as we continue to execute on our growth strategy, we expect that a significant portion of our net sales growth will be attributable to non-comparable store net sales. Accordingly, comparable store sales is only one of many measures we use to assess the success of our growth strategy.

EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings Per Share

EBITDA, adjusted EBITDA, adjusted net income and adjusted earnings per share are non-GAAP financial measures that are supplemental key metrics used by management and our Board of Directors to assess our financial performance. EBITDA, adjusted EBITDA, adjusted net income and adjusted earnings per share are also frequently used by analysts, investors and other interested parties to evaluate us and other companies in our industry. Management believes it is useful to investors and analysts to evaluate these non-GAAP financial measures on the same basis as management uses to evaluate our operating results. We use these non-GAAP financial measures to supplement GAAP financial measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures. In addition, we use adjusted EBITDA to supplement GAAP financial measures of performance to evaluate our performance in connection with compensation decisions. We believe that excluding items from operating income, net income (loss) and earnings (net loss) per diluted share that may not be indicative of, or are unrelated to, our core operating results, and that may vary in frequency or magnitude, enhances the comparability of our results and provides additional information for analyzing trends in our business.

We define EBITDA as net income (loss) before net interest expense, income taxes and depreciation and amortization expenses. Adjusted EBITDA represents EBITDA adjusted to exclude share-based compensation expense (benefit), asset impairment and gain or loss on disposition, acquisition and integration costs, costs related to the amortization of inventory purchase accounting asset step-ups, restructuring charges, and certain other expenses that may not be indicative of, or are unrelated to, our core operating results, and that may vary in frequency or magnitude. Adjusted net income represents net income (loss) adjusted for the previously mentioned adjusted EBITDA adjustments, further adjusted for the amortization of property and equipment purchase accounting asset step-ups and deferred financing costs, tax adjustment to normalize the effective tax rate, and tax effect of total adjustments. Basic adjusted earnings per share is calculated using adjusted net income, as defined above, and basic weighted-average shares outstanding. Diluted adjusted earnings per share is calculated using adjusted net income, as defined above, and diluted weighted-average shares outstanding. These non-GAAP financial measures may not be comparable to similar measures reported by other companies and have limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. We address the limitations of the non-GAAP financial measures through the use of various GAAP measures. In the future, we will incur expenses or charges such as those added back to calculate adjusted EBITDA or adjusted net income. Our presentation of these non-GAAP financial measures should not be construed as an inference that our future results will be unaffected by the adjustments we have used to derive such non-GAAP measures.

The following table summarizes key operating metrics and non-GAAP financial measures for the periods presented (amounts in thousands, except for percentages and store counts):

	13 Weeks Ended		39 Weeks Ended	
	September 27, 2025	September 28, 2024	September 27, 2025	September 28, 2024
Other Financial and Operations Data				
Number of new stores [1]	13	5	35	62
Number of stores open at end of period	563	529	563	529
Comparable store sales increase [2]	1.2 %	1.2 %	0.9 %	2.6 %
EBITDA [3]	$ 56,214	$ 68,101	$ 107,709	$ 146,203
Adjusted EBITDA [3]	$ 66,668	$ 72,258	$ 186,300	$ 179,531
Adjusted net income [3]	$ 20,687	$ 27,853	$ 56,460	$ 61,757

(1) For the 39 weeks ended September 28, 2024, includes the addition of 40 stores from acquisition of United Grocery Outlet.

(2) Comparable store sales consist of net sales from our stores beginning on the first day of the fourteenth full fiscal month following the store's opening, which is when we believe comparability is achieved, or the thirteenth full fiscal month following the store's acquisition.

(3) See "GAAP to Non-GAAP Reconciliations" section below for the applicable reconciliations.

GAAP to Non-GAAP Reconciliations

The following tables provide reconciliations from our GAAP net income (loss) to EBITDA and adjusted EBITDA, GAAP net income (loss) to adjusted net income, and our GAAP earnings (net loss) per share to adjusted earnings per share for the periods presented (amounts in thousands, except per share data):

	13 Weeks Ended		39 Weeks Ended	
	September 27, 2025	September 28, 2024	September 27, 2025	September 28, 2024
Net income (loss)	$ 11,605	$ 24,178	$ (6,751)	$ 37,154
Interest expense, net	6,705	6,439	19,769	15,174
Income tax expense	4,514	9,669	70	14,626
Depreciation and amortization expenses	33,390	27,815	94,621	79,249
EBITDA	56,214	68,101	107,709	146,203
Share-based compensation expense (benefit) [1]	(10)	1,663	7,408	16,806
Asset impairment and gain or loss on disposition [2]	1,046	216	5,015	961
Acquisition and integration costs [3]	551	760	1,038	8,346
Amortization of purchase accounting assets [4]	—	—	—	839
Restructuring charges [5]	1,296	—	46,328	—
Other [6]	7,571	1,518	18,802	6,376
Adjusted EBITDA	$ 66,668	$ 72,258	$ 186,300	$ 179,531

	13 Weeks Ended		39 Weeks Ended	
	September 27, 2025	September 28, 2024	September 27, 2025	September 28, 2024
Net income (loss)	$ 11,605	$ 24,178	$ (6,751)	$ 37,154
Share-based compensation expense (benefit) [1]	(10)	1,663	7,408	16,806
Asset impairment and gain or loss on disposition [2]	1,046	216	5,015	961
Acquisition and integration costs [3]	551	760	1,038	8,346
Amortization of purchase accounting assets and deferred financing costs [4]	1,268	1,389	3,805	4,939
Restructuring charges [5]	1,296	—	46,328	—
Other [6]	7,571	1,518	18,802	6,376
Tax adjustment to normalize effective tax rate [7]	(649)	(600)	2,736	(1,308)
Tax effect of total adjustments [8]	(1,991)	(1,271)	(21,921)	(11,517)
Adjusted net income	$ 20,687	$ 27,853	$ 56,460	$ 61,757
GAAP earnings (net loss) per share:				
Basic	$ 0.12	$ 0.25	$ (0.07)	$ 0.37
Diluted	$ 0.12	$ 0.24	$ (0.07)	$ 0.37
Adjusted earnings per share:				
Basic	$ 0.21	$ 0.28	$ 0.58	$ 0.62
Diluted	$ 0.21	$ 0.28	$ 0.57	$ 0.62
Weighted-average shares outstanding:				
Basic	98,160	98,359	97,921	99,140
Diluted [9]	98,705	98,933	97,921	100,146
Non-GAAP weighted-average shares outstanding:				
Basic	98,160	98,359	97,921	99,140
Diluted [10]	98,705	98,933	98,464	100,146

(1) Includes non-cash share-based compensation expense.

(2) Represents non-restructuring asset impairment charges and gains or losses on dispositions of assets.

(3) Represents costs related to the acquisition and integration of United Grocery Outlet, including due diligence, legal, other consulting and retention bonus expenses.

(4) For purposes of determining adjusted EBITDA, this line represents the incremental amortization of inventory step-ups resulting from purchase price accounting related to the acquisition of United Grocery Outlet. For purposes of determining adjusted net income, in addition to the previously noted item, this line also represents the incremental amortization of an asset step-up resulting from purchase price accounting related to our acquisition in 2014 by an investment fund affiliated with Hellman & Friedman LLC, as well as the amortization of debt issuance costs, as these items are already included in the adjusted EBITDA reconciliation within the depreciation and amortization expenses and interest expense, net, respectively.

(5) Represents charges related to the Restructuring Plan, which include lease termination costs, non-cash impairment and disposal of long-lived assets, employee severance and benefit costs and legal, professional and other costs. See Note 11 to the condensed consolidated financial statements for additional information on the Restructuring Plan.

(6) Represents other non-recurring, non-cash or non-operational items, such as certain personnel-related hiring and termination costs of $2.1 million and $7.4 million for the 13 and 39 weeks ended September 27, 2025, respectively, system implementation costs of $1.9 million and $4.2 million for the 13 and 39 weeks ended September 27, 2025, respectively, strategic project costs of $3.0 million and $4.1 million for the 13 and 39 weeks ended September 27, 2025, respectively, store closing costs, costs related to employer payroll taxes associated with equity awards, legal settlements and other legal expenses and miscellaneous costs.

(7) Represents adjustments to normalize the effective tax rate for the impact of unusual or infrequent tax items that we do not consider in our evaluation of ongoing performance, including excess tax benefits or shortfalls related to stock option exercises and vesting of time-based restricted stock units ("RSUs") and performance-based restricted stock units ("PSUs") that are recorded in earnings as discrete items in the reporting period in which they occur.

(8) Represents the tax effect of the total adjustments. We calculate the tax effect of the total adjustments on a discrete basis excluding any non-recurring and unusual tax items.

(9) As discussed in Note 9 to the condensed consolidated financial statements, for the 39 weeks ended September 27, 2025, there is no difference in the weighted-average shares outstanding used to calculate the basic and diluted GAAP net loss per share due to the Company's net loss.

(10) To calculate diluted adjusted earnings per share, we adjusted the weighted-average shares outstanding for the dilutive effect of all potential shares of common stock.

Comparison of the 13 and 39 weeks ended September 27, 2025 and September 28, 2024 (amounts in thousands, except percentages)

Net Sales

	13 Weeks Ended				39 Weeks Ended			
	September 27, 2025	September 28, 2024	$ Change	% Change	September 27, 2025	September 28, 2024	$ Change	% Change
Net sales	$ 1,168,153	$ 1,108,183	$ 59,970	5.4 %	$ 3,473,492	$ 3,273,647	$ 199,845	6.1 %

The increases in net sales for the 13 and 39 weeks ended September 27, 2025 were primarily attributable to the addition of 34 net new stores opened over the last 12 months as well as an increase in comparable store sales.

Comparable store sales increased 1.2% for the 13 weeks ended September 27, 2025, driven by a 1.8% increase in the number of transactions, partially offset by a 0.6% decrease in average transaction size. For the 39 weeks ended September 27, 2025, comparable store sales increased 0.9%, driven by a 1.9% increase in the number of transactions, partially offset by a 1.0% decrease in average transaction size.

Gross Profit and Gross Margin

	13 Weeks Ended				39 Weeks Ended			
	September 27, 2025	September 28, 2024	$ Change	% Change	September 27, 2025	September 28, 2024	$ Change	% Change
Gross profit	$ 355,136	$ 344,872	$ 10,264	3.0 %	$ 1,058,274	$ 998,057	$ 60,217	6.0 %
Gross margin	30.4 %	31.1 %			30.5 %	30.5 %		

The increases in gross profit for the 13 and 39 weeks ended September 27, 2025 were primarily the result of the addition of 34 net new stores opened over the last 12 months combined with increases in comparable store sales.

For the 13 weeks ended September 27, 2025, gross margin declined largely due to pricing adjustments on everyday staples designed to support our value proposition and appeal to the bargain-minded customer and supply chain investments. For the 39 weeks ended September 27, 2025, gross margin remained flat.

Selling, General and Administrative Expenses

	13 Weeks Ended				39 Weeks Ended			
	September 27, 2025	September 28, 2024	$ Change	% Change	September 27, 2025	September 28, 2024	$ Change	% Change
SG&A	$ 331,016	$ 304,586	$ 26,430	8.7 %	$ 998,858	$ 931,103	$ 67,755	7.3 %
% of net sales	28.3 %	27.5 %			28.8 %	28.4 %		

The increase in SG&A for the 13 weeks ended September 27, 2025 includes $19.7 million in higher store-related expenses driven primarily by higher commissions, store occupancy costs, and depreciation. Also contributing to the increase in SG&A was an increase of $6.8 million in corporate-related expenses due primarily to higher incentive compensation, software amortization and other costs to support the continued growth of the business. As a percentage of net sales, SG&A increased compared to the prior year due primarily to the aforementioned factors.

The increase in SG&A for the 39 weeks ended September 27, 2025 includes $58.0 million in higher store-related expenses driven primarily by higher store occupancy costs, commissions, depreciation, personnel costs from Company-operated stores acquired in the United Grocery Outlet transaction in April of last year, and bad debt reserves. Also contributing to the increase in SG&A was an increase of $9.8 million in higher corporate-related expenses due primarily to higher software amortization, insurance, severance and other costs to support the continued growth of the business, partially offset by acquisition costs in the prior year. As a percentage of net sales, SG&A increased compared to the prior year due primarily to the aforementioned factors, partially offset by a decrease from elective commission support we provided to operators in the prior year related to the systems conversion.

Restructuring Charges

	13 Weeks Ended				39 Weeks Ended			
	September 27, 2025	September 28, 2024	$ Change	% Change	September 27, 2025	September 28, 2024	$ Change	% Change
Restructuring charges	$ 1,296	$ —	$ 1,296	100.0 %	$ 46,328	$ —	$ 46,328	100.0 %
% of net sales	0.1 %	— %			1.3 %	— %		

Restructuring charges for the 39 weeks ended September 27, 2025 included lease termination costs, non-cash impairment and disposal of long-lived assets, employee severance and benefit costs and legal, professional and other costs related to the Restructuring Plan (see Note 11 to the condensed consolidated financial statements for additional information).

Interest Expense, Net

	13 Weeks Ended				39 Weeks Ended			
	September 27, 2025	September 28, 2024	$ Change	% Change	September 27, 2025	September 28, 2024	$ Change	% Change
Interest expense, net	$ 6,705	$ 6,439	$ 266	4.1 %	$ 19,769	$ 15,174	$ 4,595	30.3 %
% of net sales	0.6 %	0.6 %			0.6 %	0.5 %		

The increases in net interest expense for the 13 and 39 weeks ended September 27, 2025 were primarily driven by higher average principal debt outstanding during the 13 and 39 weeks ended September 27, 2025, partially offset by lower average interest rates on these borrowings during the 13 and 39 weeks ended September 27, 2025.

Income Tax Expense

	13 Weeks Ended				39 Weeks Ended			
	September 27, 2025	September 28, 2024	$ Change	% Change	September 27, 2025	September 28, 2024	$ Change	% Change
Income tax expense	$ 4,514	$ 9,669	$ (5,155)	(53.3)%	$ 70	$ 14,626	$ (14,556)	(99.5)%
% of net sales	0.4 %	0.9 %			— %	0.4 %		
Effective income tax rate	28.0 %	28.6 %			(1.0) %	28.2 %		

The decrease in income tax expense for the 13 weeks ended September 27, 2025 was primarily due to the change in earnings in the current period, partially offset by an increase in our estimated annual effective tax rate for fiscal 2025, driven by changes in forecasted annual income. The decrease in income tax expense for the 39 weeks ended September 27, 2025 was primarily due to the change in earnings in the current period, partially offset by a reduction in the tax benefit from share-based compensation during the 39 weeks ended September 27, 2025.

The change in our effective income tax rate for the 13 weeks ended September 27, 2025 compared to the 13 weeks ended September 28, 2024 was primarily due to the benefit of certain acquisition related deductions, partially offset by a reduction in the tax benefit from share-based compensation. The change in our effective income tax rate for the 39 weeks ended September 27, 2025 compared to the 39 weeks ended September 28, 2024 was primarily driven by the change in earnings, partially offset by a reduction in the tax benefit from share-based compensation.

On July 4, 2025, the OBBBA was signed into law. The OBBBA includes changes to U.S. federal tax law, which may be subject to further clarification and the issuance of interpretive guidance. We expect the OBBBA to have favorable impacts on our current year cash taxes payable and immaterial impacts to our effective tax rate.

Net Income (Loss)

	13 Weeks Ended				39 Weeks Ended			
	September 27, 2025	September 28, 2024	$ Change	% Change [1]	September 27, 2025	September 28, 2024	$ Change	% Change
Net income (loss)	$ 11,605	$ 24,178	$ (12,573)	(52.0)%	$ (6,751)	$ 37,154	$ (43,905)	*
% of net sales	1.0 %	2.2 %			(0.2)%	1.1 %		

* Represents a change that is not meaningful.

As a result of the foregoing factors, net income decreased for the 13 weeks ended September 27, 2025 compared to the same period in fiscal 2024, and net loss was $6.8 million for the 39 weeks ended September 27, 2025 compared to net income of $37.2 million for the same period in fiscal 2024.

Adjusted EBITDA

	13 Weeks Ended				39 Weeks Ended			
	September 27, 2025	September 28, 2024	$ Change	% Change	September 27, 2025	September 28, 2024	$ Change	% Change
Adjusted EBITDA	$ 66,668	$ 72,258	$ (5,590)	(7.7) %	$ 186,300	$ 179,531	$ 6,769	3.8 %

Adjusted EBITDA decreased for the 13 weeks ended September 27, 2025 compared to the prior year, primarily as a result of a decline in gross margin and higher SG&A, partially offset by an increase in net sales, as discussed above.

The increase in adjusted EBITDA for the 39 weeks ended September 27, 2025 compared to the prior year was primarily attributable to an increase in gross profit.

Adjusted Net Income

	13 Weeks Ended				39 Weeks Ended			
	September 27, 2025	September 28, 2024	$ Change	% Change	September 27, 2025	September 28, 2024	$ Change	% Change
Adjusted net income	$ 20,687	$ 27,853	$ (7,166)	(25.7)%	$ 56,460	$ 61,757	$ (5,297)	(8.6) %

The decrease in adjusted net income for the 13 weeks ended September 27, 2025 was primarily attributable to a decline in gross margin, higher SG&A (including higher depreciation expense) and higher net interest expense, partially offset by an increase in net sales for the 13 weeks ended September 27, 2025, as discussed above.

The decrease in adjusted net income for the 39 weeks ended September 27, 2025 was primarily attributable to higher SG&A (including higher depreciation expense) and higher net interest expense, partially offset by an increase in net sales for the 39 weeks ended September 27, 2025, as discussed above.

Liquidity and Capital Resources

Sources of Liquidity

Based on our current operations and new store growth plans, we expect to satisfy our short-term and long-term cash requirements through a combination of our existing cash and cash equivalents position, funds generated from operating activities, and the borrowing capacity available in the revolving credit facility under our credit agreement, dated February 21, 2023, with Bank of America, N.A. (the "2023 Credit Agreement"). If cash generated from our operations and borrowings under the revolving credit facility are not sufficient or available to meet our liquidity requirements, then we will be required to obtain additional equity or debt financing in the future. There can be no assurance that equity or debt financing will be available to us when we need it or, if available, the terms will be satisfactory to us and not dilutive to our then-current stockholders. Additionally, we may seek to take advantage of market opportunities to refinance our existing debt instruments with new debt instruments at interest rates, maturities and terms we deem attractive.

As of September 27, 2025, we had cash and cash equivalents of $52.1 million, which consisted primarily of cash held in checking and money market accounts with financial institutions. In addition, we have a revolving credit facility with $400.0 million in borrowing capacity under the 2023 Credit Agreement. As of September 27, 2025, we had $220.0 million of borrowings outstanding under the revolving credit facility and $5.1 million of outstanding standby letters of credit, resulting in $174.9 million of remaining borrowing capacity available under this revolving credit facility.

The senior secured credit facilities of the 2023 Credit Agreement permit us to add incremental term loan facilities, increase any existing term loan facility, increase revolving commitments, and/or add incremental replacement revolving credit facility tranches. The aggregate principal amount of such incremental facilities are limited to (a) an amount not in excess of the sum of the greater of $200.0 million and 100% of Consolidated EBITDA (as defined in the 2023 Credit Agreement), subject to certain limitations, plus (b) voluntary prepayments of any term loan facility, voluntary permanent reductions of the commitments for the revolving credit facility and voluntary prepayments of indebtedness secured by liens on the collateral securing the credit facilities, subject to certain exceptions, plus (c) an amount such that (assuming that the full amount of any such incremental revolving increase and/or incremental replacement revolving credit facility was drawn, and after giving effect to any appropriate pro forma adjustment events) we would be in compliance, on a pro forma basis (but excluding the cash proceeds of such incurrence), with a Total Net Leverage Ratio (as defined in the 2023 Credit Agreement) of 3.00 to 1.00.

We may also, from time to time, at our sole discretion, prepay or retire all or a portion of our outstanding debt.

Material Cash Requirements

There has been no material change in our material cash requirements since the end of fiscal 2024, other than those which occur in the ordinary course of business and the information noted below. See our 2024 Form 10-K for additional information.

Capital Expenditures

Capital expenditures include purchases of capital assets such as property and equipment as well as intangible assets and licenses. Capital expenditures for the 39 weeks ended September 27, 2025, before tenant improvement allowances, were $174.9 million, and, net of tenant improvement allowances, were $154.9 million. We currently expect total capital expenditures, net of tenant improvement allowances, to be approximately $210.0 million for fiscal 2025, which includes new store growth, upgrades to our existing store base, ongoing investments in technology and supply chain and infrastructure.

Debt Obligations

The 2023 Credit Agreement requires us to make scheduled quarterly amortization payments of the senior term loan. Such payments total $37.5 million over the remaining term of the senior term loan, with $7.5 million payable over the remainder of fiscal 2025. The remaining senior term loan principal balance and any outstanding revolving credit facility balance will become due in February 2028 at maturity. See Note 3 to the condensed consolidated financial statements for additional information.

Purchase Commitments

During the 39 weeks ended September 27, 2025, we renewed a contract related to storage and handling services at certain third-party distribution centers, which includes a non-cancelable obligation of $26.3 million through 2030, as of September 27, 2025.

Debt Covenants

The 2023 Credit Agreement contains certain customary representations and warranties, subject to limitations and exceptions, and affirmative and customary covenants. The 2023 Credit Agreement contains certain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: pay dividends or distributions, repurchase equity, prepay junior debt and make certain investments; incur additional debt or issue certain disqualified stock and preferred stock; incur liens on assets; merge or consolidate with another company or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its assets; enter into transactions with affiliates; and allow to exist certain restrictions on the ability of our subsidiaries to pay dividends or make other payments to the borrower. The 2023 Credit Agreement also contains financial performance covenants requiring us to satisfy a maximum total net leverage ratio test and a minimum interest coverage ratio test as of the last day of each fiscal quarter. The maximum total net leverage ratio test requires us to be in compliance with a Total Net Leverage Ratio no greater than 3.50 to 1.00 as of the last day of each test period ending prior to the test period ending on or about December 31, 2025, and no greater than 3.25 to 1.00 as of the last day of each test period ending thereafter, subject to certain adjustments set forth in the 2023 Credit Agreement. The minimum interest coverage ratio test requires us to be in compliance with a Consolidated Interest Coverage Ratio (as defined in the 2023 Credit Agreement) of no less than 1.75 to 1.00 as of the last day of each test period.

As of September 27, 2025, we were in compliance with all applicable financial covenant requirements for the 2023 Credit Agreement.

Cash Flows

The following table summarizes our cash flows for the periods presented (amounts in thousands):

	39 Weeks Ended			
	September 27, 2025	September 28, 2024	$ Change	% Change
Net cash provided by operating activities	$ 149,839	$ 72,465	$ 77,374	106.8 %
Net cash used in investing activities	(182,571)	(205,678)	23,107	(11.2)%
Net cash provided by financing activities	22,029	86,879	(64,850)	(74.6)%
Net decrease in cash and cash equivalents	$ (10,703)	$ (46,334)	$ 35,631	(76.9)%

Cash Provided by Operating Activities

The increase in net cash provided by operating activities of $77.4 million for the 39 weeks ended September 27, 2025 compared to the same period in fiscal 2024 was primarily driven by changes in accrued and other liabilities, trade accounts payable and accrued compensation, partially offset by the net loss for the 39 weeks ended September 27, 2025. The changes in accrued and other liabilities and trade accounts payable were primarily due to timing differences of accruals and payments for goods and services and the disruptions related to the implementation of our systems conversion for the 39 weeks ended September 28, 2024.

Cash Used in Investing Activities

The decrease in net cash used in investing activities of $23.1 million for the 39 weeks ended September 27, 2025 compared to the same period in fiscal 2024 was primarily due to the acquisition of United Grocery Outlet in the prior year, partially offset by increased spending on property and equipment due to higher store count and construction related to future stores.

Cash Provided by Financing Activities

Net cash provided by financing activities of $22.0 million for the 39 weeks ended September 27, 2025 was primarily due to the borrowing of $50.0 million on our revolving credit facility, partially offset by principal payments of $20.0 million on our revolving credit facility and $7.5 million in scheduled principal payments on the senior term loan under the 2023 Credit Agreement. Net cash provided by financing activities of $86.9 million for the 39 weeks ended September 28, 2024 was primarily due to the borrowing of $140.0 million on our revolving credit facility under the 2023 Credit Agreement and $8.3 million in proceeds from the exercise of stock options, partially offset by the repurchase of $56.4 million of our common stock and $3.8 million in scheduled principal payments on the senior term loan under the 2023 Credit Agreement.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with GAAP and the applicable rules and regulations of the SEC for interim reporting. The preparation of our condensed consolidated financial statements requires us to make judgments and estimates that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our judgments and estimates are based on historical experience and other factors believed to be reasonable under the circumstances. With respect to critical accounting policies, even a relatively minor variance between actual and expected results can potentially have a materially favorable or unfavorable impact on subsequent results of operations.

There have been no material changes to our critical accounting policies and estimates during the 39 weeks ended September 27, 2025 from those disclosed in our 2024 Form 10-K.

Recent Accounting Pronouncements

Refer to Note 1 to the condensed consolidated financial statements included elsewhere in this report.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Interest Rate Risk

Our operating results are subject to market risk from interest rate fluctuations on our credit facilities, which bear variable interest rates. As of September 27, 2025, our outstanding borrowings included $281.3 million from the senior term loan and $220.0 million from the revolving credit facility under the 2023 Credit Agreement. As of September 27, 2025, the interest rate on these borrowings ranged from 6.51% to 6.59% (see Note 3 to the condensed consolidated financial statements for additional information). Based on the outstanding balances and interest rates of the senior term loan and the revolving credit facility as of September 27, 2025, a hypothetical 10% relative increase or decrease in the interest rate would cause an increase or decrease in interest expense, excluding the capitalization of interest, of approximately $3.3 million over the next 12 months.

We do not use derivative financial instruments for speculative or trading purposes, but this does not preclude our adoption of specific hedging strategies in the future.

Impact of Inflation

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we have experienced over the last several years varying levels of inflation and subsequent disinflation, resulting in part from various supply disruptions, increased shipping and transportation costs, increased commodity costs, increased labor costs in the supply chain, increased materials costs to develop new stores, increased SG&A related to personnel, travel, and other operational costs and other disruptions caused by the recent macroeconomic environment. Similarly, our IOs have been impacted by staffing challenges and increased labor costs and utility costs within their businesses. Furthermore, our results of operations and financial condition may be materially impacted by inflation in the future.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and our Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Based on that evaluation, our Principal Executive Officer and Principal Financial Officer have concluded our disclosure controls and procedures were not effective as of September 27, 2025 due to the ongoing remediation of our material weakness in our internal control over financial reporting identified as of December 30, 2023 and continuing as of September 27, 2025. A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement in annual or interim financial statements will not be prevented or detected on a timely basis.

Previously Identified Material Weakness and Ongoing Remediation Plan

The previously identified material weakness in internal control over financial reporting relates to deficiencies in the design and operating effectiveness of certain information technology general computer controls ("ITGCs"). In particular, the replacement of components of our enterprise resource planning system in late August 2023 led to a significant increase in the volume of transactions across user access, program change management, and information technology operations for which our existing controls for such matters were not designed to address. As a result, certain of the Company's related business controls that are dependent upon the affected ITGCs were also deemed ineffective.

As of December 28, 2024, management's assessment concluded that the controls required to remediate the material weakness were designed and implemented appropriately, however, certain controls were not consistently operating effectively for a sufficient period of time to conclude the material weakness was remediated. We did not identify any material misstatements to the consolidated financial statements as of and for the year ended December 28, 2024, and as of and for the fiscal quarter ended September 27, 2025, because of these control deficiencies. However, the pervasive impact of these control deficiencies to the Company's internal control over financial reporting created a reasonable possibility that a material misstatement to the consolidated financial statements would not be prevented or detected on a timely basis. Therefore, we concluded that the deficiencies represented a material weakness in our internal control over financial reporting and, as such, our internal control over financial reporting was not effective as of December 28, 2024 and continuing as of September 27, 2025.

The previously identified material weakness will be considered fully remediated once management has concluded, through continued testing, that these specific controls have operated effectively for a sufficient period of time. This ongoing remediation effort is expected to be fully completed during fiscal 2025.

For further information regarding the identified material weakness, see Part I, Item 1A. "Risk Factors" and Part II, Item 9A. "Controls and Procedures" in our 2024 Form 10-K.

Changes in Internal Control over Financial Reporting

Other than the remediation effort identified above, during the fiscal quarter ended September 27, 2025, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes 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.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be party to legal proceedings that arise in the ordinary course of our business, some of which may be covered by insurance. Except for the description of legal proceedings disclosed in Note 8 to the condensed consolidated financial statements, which is incorporated herein by reference, management believes that we do not have any pending legal proceedings that, separately or in the aggregate, would have a material adverse effect on our results of operations, financial condition or cash flows. No material legal proceedings were terminated, settled or otherwise resolved during the 13 weeks ended September 27, 2025.

In addition, SEC regulations require us to disclose information about certain environmental proceedings if we reasonably believe that such proceedings may result in monetary sanctions above a stated threshold. Pursuant to SEC regulations, we use a threshold of $1.0 million for purposes of determining whether disclosure of any such proceedings is required.

Item 1A. Risk Factors.

In addition to the other information set forth in this Form 10-Q, our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described in Part I, Item 1A of our 2024 Form 10-K under the heading "Risk Factors," any one or more of which could, directly or indirectly, cause our actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, operating results and stock price. There have been no material changes to our risk factors since the 2024 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the 13 weeks ended September 27, 2025, we did not repurchase any shares of our common stock.

Item 3. Default Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosure.

Not applicable.

Item 5. Other Information.

Rule 10b5-1 Trading Plans and Arrangements - Directors and Section 16 Officers

During the 13 weeks ended September 27, 2025, none of the Company's directors or Section 16 officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act, referred to as Rule 10b5-1 trading plans, or any "non-Rule 10b5-1 trading arrangement" (as defined in Item 408(c) of SEC Regulation S-K).

Item 6. Exhibits.

Exhibit No.	Exhibit	Incorporated by Reference			
		Form	File No.	Filing Date	Exhibit No.
3.1	Restated Certificate of Incorporation of Grocery Outlet Holding Corp.	8-K	001-38950	6/6/2025	3.1
3.2	Amended and Restated Bylaws of Grocery Outlet Holding Corp., effective as of June 3, 2025.	8-K	001-38950	6/6/2025	3.3
31.1*	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2*	Certification of Principal Financial Officer and Principal Accounting Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
32.2**	Certification of Principal Financial Officer and Principal Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document				
101.CAL*	Inline XBRL Extension Calculation Linkbase Document				
101.DEF*	Inline XBRL Extension Definition Linkbase Document				
101.LAB*	Inline XBRL Extension Label Linkbase Document				
101.PRE*	Inline XBRL Extension Presentation Linkbase Document				
104*	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document and included as Exhibit 101.				

* Filed herewith.

** Furnished herewith. The certifications attached as Exhibit 32.1 and 32.2 that accompany this Form 10-Q are deemed furnished and not filed with the SEC and are not to be incorporated by reference into any filing of Grocery Outlet under the Securities Act of 1933 or the Exchange Act whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURE

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 thereunto duly authorized.

Grocery Outlet Holding Corp.

Date: November 5, 2025

By: /s/ Christopher M. Miller

Christopher M. Miller
Executive Vice President, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)