

Smart & Final.

Smart & Final Stores LLC

600 Citadel Drive, Commerce, CA 90040

Dear Fellow Stockholders:

2016 was a year of unprecedented store growth for Smart & Final Stores, Inc. We added 37 new stores to our two store banners, ending 2016 with 305 stores – representing new unit growth of 15% in the Smart & Final banner and 7% in the Cash & Carry banner. With this store growth, in 2016 we provided significant new employment opportunities in our communities – adding 30% new associates to our headcount, promoting over 1,300 of our associates, and ending the year with more than 12,000 team members.

While we were able to grow our store base, 2016 was a year that also presented challenges. The retail food industry has been mired in the longest period of deflation in five decades, which impacted sales growth across all of our stores. Our Smart & Final banner faced the additional challenge of integrating 33 stores which we acquired at the end of 2015, and which resulted in planned sales cannibalization from our existing store base.

Nevertheless we were able to deliver over 11% revenue growth on a consistent 52-week comparison basisⁱ, including double-digit sales growth in the Smart & Final banner. In addition to adding new stores, this revenue growth was achieved by making successful merchandising investments – listening to what our customers want, identifying where to make improvements, and continually evolving our merchandising and offerings to address their demands.

In our Smart & Final banner, we opened 33 new *Smart & Final Extra!* stores, converted six legacy stores to the *Extra!* format, and relocated six legacy stores into larger, better *Extra!* locations. We ended the year with 246 Smart & Final banner stores, with over 70% of those in the *Extra!* format.

Across the Smart & Final banner, total customer transactions increased by 16.9% over 2015 levels on a consistent 52-week comparison basis. Total unit sales grew 13.9%, reflecting both new stores and merchandising initiatives, which have helped us attract new customers and build basket size – including high quality perishables, natural and organic items, bulk foods, fresh meat and seafood, and oven roasted chicken.

In the Cash & Carry banner, we added four new stores in 2016, growing our total to 59 stores. Our Cash & Carry new store development took us to a new state – Utah – marking our second consecutive year of new market entry.

Although 2016 was challenging, we were pleased with our overall performance. We delivered significant store and associate growth while continuing to invest in our sales initiatives against the backdrop of persistent deflation.

We expect this positive momentum to continue in 2017. We plan to open 15 new Smart & Final *Extra!* stores for an average two-year new unit growth rate of approximately 10%, and four new Cash & Carry stores, for a total of 11 new Cash & Carry stores since late 2014. After a year of significant growth in stores and headcount in 2016, we look forward to realizing operational efficiencies as new stores mature and by continuing to invest in the development of our associates.

In 2017, we plan to continue to advance our sales initiatives, including growth of private label sales through increased product assortment and innovation. We also plan to continue testing our newer merchandising initiatives, including cut fruit, gourmet cheese, hot bakery and sushi in select stores. We'll support customer growth and retention through investments in our marketing and digital footprint initiatives.

In closing, I want to thank our 12,000 associates who help make Smart & Final and Cash & Carry stores a great place to work and shop. Our successful execution of growth in 2016 was directly attributable to their collective efforts and commitment to the foundation of our rich 146-year history – a strong culture based on teamwork.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Hirz", with a large, stylized flourish at the end.

Dave Hirz

President and Chief Executive Officer

ⁱ The Company's fiscal year ended January 1, 2017 comprised a 52-week period, and the Company's fiscal year ended January 3, 2016 comprised a 53-week period. Consistent 52-week comparisons are calculated by excluding the first week of the 53-week period.