

Smart & Final.

Smart & Final Stores LLC

600 Citadel Drive, Commerce, CA 90040

Dear Fellow Stockholders:

2017 was an extremely dynamic year in the grocery industry, with new competitors, formats and channels of distribution impacting our marketplace. In this environment, I remain confident in Smart & Final's future, based on our strong competitive position and continued operational and financial strength. Our stores are truly differentiated in the marketplace, with strong business-customer relationships and merchandising emphasis on warehouse club sizes, and high sales penetration of quality private label products. We also have a growing online and delivery presence that leverages our close-to-the-customer brick-and-mortar locations.

The unifying theme among these factors is the exceptional value we provide our customers through an every-day-low-price approach, supported by convenient easy-to-shop stores. Our broad selection of private-label products and large offering of warehouse club pack SKUs are examples of how our products augment the store experience for our customers.

For the full year 2017¹ we delivered 5.3% total sales growth, and 1.0% growth in our comparable store sales. We are proud of this achievement as we successfully navigated a year marked by persistent deflation in the first half, low levels of inflation in the second half and a challenging competitive environment throughout. In addition to adding new stores, our revenue growth was achieved through merchandising and pricing initiatives, with resulting growth in comparable store traffic and average sale.

We have continued opportunities for growth in both of our banners. In 2017, we added 14 new Smart & Final *Extra!* stores and four new Cash & Carry Smart Foodservice stores, ending the year with 323 stores. This represents a two-year average growth rate of 10 percent unit growth and we continue to be pleased with the performance of our recent vintages of new stores.

In our Smart & Final banner, we also converted five legacy stores to the *Extra!* format and relocated three legacy stores into larger, improved *Extra!* locations. We ended the year with 260 Smart & Final banner stores, with almost 75% in the *Extra!* store format.

In 2017, across the Smart & Final banner, total sales grew 4.6%, reflecting both new stores and merchandising initiatives, which have helped us attract new customers and build basket size. Being positioned properly for business customers is important to our continued success – our business customers are typically store-loyal and have higher average transactions than our household customers. We value the relationships we have built with our business customers in the local communities that we serve and support these relationships through dedicated in-store resources and tailored merchandise offerings.

Throughout 2017, we began investing in e-commerce and related online offerings as an opportunity to develop deeper relationships with both business and household customers, and we continue to expand our online channels. These include our recently launched website shop.smartandfinal.com, our continuing relationship with our online delivery partner, and expanding our Click & Collect model. At the end of 2017,

more than 85% of our Smart & Final banner stores offered a delivery or store-pickup option. Smart & Final's value proposition is resonating with our online customers, who are showing solid repeat purchase rates and higher average basket sizes relative to in-store shoppers.

In the Cash & Carry Smart Foodservice banner, we added four new stores in 2017, growing our total to 63 stores. Our Cash & Carry new store development took us to a new state – Montana – marking our third consecutive year of new market entry. The overall health of Cash & Carry's typically smaller foodservice operators is strong, and we're making strides in achieving faster sales growth in new stores through merchandising enhancements and a more robust customer outreach campaign. We're also steadily expanding our Click & Collect and third-party delivery options to Cash & Carry Smart Foodservice customers, reaching more than 40% of banner stores at year-end 2017. All of these initiatives resulted in another year of strong performance, with Cash & Carry total sales growth of 7.6%.

Although 2017 was not without its challenges, we were pleased with our overall performance. We exited the year with solid operating metrics and an active runway of merchandising and marketing initiatives. In the coming year, we will be making investments in our infrastructure, digital marketing and online and delivery channels to continue to engage with and serve our customers and support our competitive position as the low-cost leader in the marketplace.

We've established a strategic plan that will balance our growth opportunities with the increasing changes in the retail space and will provide us with an opportunity to invest in digital transformation and IT infrastructure, as well as fund balance sheet deleveraging.

We are currently well-positioned in the market and making the right moves to ensure continued success for Smart & Final. Focusing on our business customers, using our merchandising initiatives to drive incremental sales and developing our digital business model are keys that will enable us to continue to be successful into the future.

We couldn't do any of this without our associates, and I'd like to thank them for their continued support and dedication. Their commitment to our customers and communities are what make Smart & Final and Cash & Carry Smart Foodservice stores such great places to shop. We look forward to another strong year ahead.

Sincerely,

Dave Hirz, President and Chief Executive Officer

A handwritten signature in black ink, appearing to read 'D. Hirz', is positioned above a horizontal line.

¹ The Company's current fiscal year ended December 31, 2017 compared to the Company's previous fiscal year ended January 1, 2017, which both comprised 52-week periods.