

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of report (Date of earliest event reported) **March 14, 2018**

SMART & FINAL STORES, INC.

(Exact Name of Registrant as Specified in Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-36626
(Commission
File Number)

80-0862253
(IRS Employer
Identification No.)

600 Citadel Drive, Commerce, CA
(Address of Principal Executive Offices)

90040
(Zip Code)

Registrant's telephone number, including area code **(323) 869-7500**

N/A

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Item 2.02 Results of Operations and Financial Condition.

On March 14, 2018, Smart & Final Stores, Inc. issued a press release announcing its financial results for the quarter and full year ended December 31, 2017. The text of the press release is included as Exhibit 99.1 to this Form 8-K.

The information disclosed under this Item 2.02, including Exhibit 99.1 hereto, is being furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 and shall not be deemed incorporated by reference into any filing made under the Securities Act of 1933, except as expressly set forth by

specific reference in such filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits:

| <u>Exhibit Number</u> | <u>Description</u> |
|-----------------------|-------------------------------------|
| 99.1 | Press Release, dated March 14, 2018 |

Exhibit Index

| <u>Exhibit Number</u> | <u>Description</u> |
|-----------------------|---|
| 99.1 | Press Release, dated March 14, 2018 |

SIGNATURES

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

SMART & FINAL STORES, INC.

Date: March 14, 2018

By: /s/ Richard N. Phegley
Name: Richard N. Phegley
Title: Senior Vice President and Chief Financial Officer

Exhibit 99.1



Smart & Final Stores, Inc. Reports Fourth Quarter and Full Year 2017 Financial Results

COMMERCE, Calif. (March 14, 2018) – Smart & Final Stores, Inc. (the “Company”) (NYSE:SFS), the value-oriented food and everyday staples retailer, today reported financial results for the fiscal fourth quarter and full year ended December 31, 2017.

Fourth Quarter Highlights:

- Net sales increase of 6.7% to \$1,068 million driven by comparable store sales increase of 3.2%.
- Online options for both business and household customers, including delivery or in-store pickup options, available in over 85% of Smart & Final banner stores.
- Net loss of \$146.6 million in fourth quarter reflects non-cash goodwill impairment charge of \$180 million.
- Adjusted net income of \$11.3 million or \$0.15 per diluted share and adjusted EBITDA of \$49.1 million.
- Named one of Fortune’s “Most Admired Companies” for second consecutive year.

“We have a differentiated position in the evolving retail marketplace and our unique store operating model enables us to maintain our position as a low-cost leader serving multiple sales channels,” said David Hirz, president and chief executive officer. “We are pleased with our strengthening comparable store sales trends, which represent the third

consecutive quarter of comp growth. This reflects the success of our merchandising initiatives aimed at both household and business customers with an emphasis on our natural and organic, private label and club-size items. These initiatives, combined with our efforts in strategic sourcing and pricing, contributed to a gross margin rate expansion in the fourth quarter, despite ongoing promotional activity within the grocery landscape.”

Mr. Hirz continued, “Over the course of 2017, we accelerated the expansion of our online sales channel and delivery offerings, with over 85% of our Smart & Final banner stores offering delivery or in-store pickup at year-end. While we remain focused on our strong brick-and-mortar stores with two successful store banners, we are increasingly focused on digital channels for brand marketing and customer transaction options. In 2018, we plan to make additional investments in our infrastructure to position all of our sales channels for continued success.”

In order to aid understanding of the Company’s business performance, it has presented results in conformity with accounting principles generally accepted in the United States (“GAAP”) and has also presented EBITDA, adjusted EBITDA, adjusted net income, adjusted net income per share, and adjusted net income per diluted share, which are non-GAAP measures that are explained and reconciled to the comparable GAAP measures in the tables included in this release. Where applicable, the results below are first presented on a GAAP basis and then on a non-GAAP adjusted basis.

Fiscal Fourth Quarter 2017 Financial Results

Net sales were \$1,067.9 million in the 12-week quarter ended December 31, 2017, representing a 6.7% increase as compared to \$1,000.6 million for the same period of 2016. Net sales growth was driven by a 3.2% increase in comparable store sales and the net sales contribution of new stores. Comparable store sales growth was comprised of a 3.7% increase in comparable average transaction size, partially offset by a 0.4% decrease in comparable transaction count, including the effect of cannibalization from new stores.

Net sales for Smart & Final banner stores were \$841.4 million, a 5.7% increase as compared to \$796.3 million for the same period of 2016. Comparable store sales growth for the Smart & Final banner was 2.5% in the fourth quarter.

Net sales for Cash & Carry Smart Foodservice banner stores were \$226.6 million, a 10.8% increase as compared to \$204.4 million for 2016. Comparable store sales growth for the Cash & Carry banner was 6.2% in the fourth quarter.

Gross margin was \$164.4 million, a 16.7% increase as compared to \$140.9 million in the fourth quarter of 2016. Gross margin rate was 15.4% as compared to 14.1% for the same period of 2016.

Operating and administrative expenses were \$147.1 million, an 8.8% increase as compared to \$135.2 million for the same period of 2016. The increase was related to expenses associated with the effect of higher minimum wages, the 14 new stores that opened following the fourth quarter of 2016 through the end of the fourth quarter of 2017 and related support costs.

Net loss was \$146.6 million, or \$2.03 per diluted share, as compared to a net loss of \$0.3 million for the same period of 2016. These results included a non-cash net benefit of \$27.0 million, as a result of the Tax Cuts and Jobs Act and other one-time items, primarily due to a lower valuation of net deferred tax liabilities. During the quarter, the Company also recorded a goodwill impairment charge of \$180.0 million, related to the Company’s Smart & Final banner.

Adjusted net income was \$11.3 million, or \$0.15 per diluted share, as compared to \$5.0 million, or \$0.07 per share, for the same period of 2016. Adjusted net income excludes the \$27.0 million, or \$0.37 per diluted share, benefit associated with the Tax Cuts and Jobs Act and other one-time items, and the \$180.0 million, or \$2.44 per diluted share, goodwill impairment charge.

Adjusted EBITDA was \$49.1 million as compared to \$37.3 million for the same period of 2016.

Fiscal 2017 Financial Results

In the fifty-two weeks ended December 31, 2017, net sales were \$4,570.6 million, an increase of 5.3% as compared to \$4,341.8 million for the same period of 2016. Net sales growth was driven by the net sales contribution of new stores, and a 1.0% increase in comparable store sales. Comparable store sales growth was comprised of a 0.3%

increase in comparable transaction count, and a 0.8% increase in comparable average transaction size.

Net sales for Smart & Final banner stores were \$3,557.7 million, an increase of 4.6% as compared to \$3,400.8 million for 2016. Full year 2017 comparable store sales for the Smart & Final banner increased 0.7%.

Net sales for Cash & Carry Smart Foodservice banner stores were \$1,012.9 million, a 7.6% increase as compared to \$941.0 million for 2016. Full year 2017 comparable store sales for the Cash & Carry banner increased 2.4%.

Net loss was \$138.9 million, or \$1.92 per diluted share, as compared to net income of \$12.9 million, or \$0.17 per diluted share, for fiscal 2016. These results included a non-cash net benefit of \$27.0 million, as a result of the Tax Cuts and Jobs Act and other one-time items, primarily due to a lower valuation of net deferred tax liabilities. During the fourth quarter, the Company also recorded a goodwill impairment charge of \$180.0 million, related to the Company's Smart & Final banner.

Adjusted net income was \$33.6 million, or \$0.45 per diluted share, as compared to \$42.2 million, or \$0.54 per share, for 2016. Adjusted net income excludes the \$27.0 million, or \$0.36 per diluted share, benefit associated with income tax reform and other one-time items, as well as the \$180.0 million, or \$2.39 per diluted share, goodwill impairment charge, recorded in the fourth quarter 2017.

Adjusted EBITDA was \$184.4 million as compared to \$180.3 million for 2016.

Goodwill Impairment

In the fourth quarter of 2017, the Company concluded an annual review of its goodwill as required under accounting standard ASC 350. The review included current equity market valuation metrics and the Company's near term plans for growth. The result of the review was an impairment of Smart & Final banner goodwill in the amount of \$180.0 million. The Company does not believe that this impairment charge reflects a fundamental change in the long-term attractiveness of future store investments.

Growth and Development

During the fiscal fourth quarter of 2017, the Company opened seven new Smart & Final Extra! stores, and completed three expansions of legacy Smart & Final stores to the Extra! store format, and one store relocation. As of December 31, 2017, the Company operated a total of 323 stores, including 194 Smart & Final Extra! stores, 66 legacy format Smart & Final stores and 63 Cash & Carry Smart Foodservice stores.

Operating Stores at Fiscal Year End (December 31, 2017)

| | Smart & Final Banner Stores | | | Cash & Carry Banner Stores | Total Company |
|--------------------|-----------------------------|------------------|-------|-------------------------------|------------------|
| | Extra! format | Legacy format | Total | | |
| End of Fiscal 2016 | 172 | 74 | 246 | 59 | 305 |
| New stores | 14 | - | 14 | 4 | 18 |
| Relocations, net | 3 | (3) | - | - | - |
| Expansions | 5 | (5) | - | - | - |
| Store closures | - | - | - | - | - |
| End of Fiscal 2017 | 194 | 66 | 260 | 63 | 323 |

Leverage and Liquidity

As of December 31, 2017, the Company's debt, net of debt issuance costs, was \$699.4 million and cash and cash equivalents were \$71.7 million.

For the fifty-two weeks ended December 31, 2017, the Company generated cash from operations of \$169.5 million and invested \$162.6 million in capital expenditures, primarily related to the development of Extra! format stores and to improvements of existing assets.

Outlook

The Company is providing the following guidance for the full year ending December 30, 2018:

| | |
|---|--|
| Net sales growth | 4.0% - 5.0% |
| Comparable store sales growth | 1.0% - 2.0% |
| Unit growth (new stores) | 3-5 Smart & Final Extra! 3-5 Cash & Carry Smart Foodservice |
| Relocations of existing stores to Extra! format | 2-3 Smart & Final stores |
| Expansions or conversions of legacy stores to Extra! format | 1-2 Smart & Final stores |
| Adjusted EBITDA | \$180 - \$190 million |
| Adjusted net income | \$31 - \$35 million |
| Adjusted diluted EPS | \$0.42 - \$0.47 |
| Capital expenditures (net) | \$80 - \$90 million |
| Fully diluted weighted average shares | 74 to 75 million |

The above guidance includes certain non-GAAP financial measures (namely adjusted EBITDA, adjusted net income and adjusted net income per diluted share), which exclude certain costs and non-cash costs and provide investors with additional financial measures of the expected operating performance of the Company's business. The primary factors in reconciling these non-GAAP financial measures to comparable GAAP measures include the following: pre-opening costs associated with new stores of approximately \$3.8 million, non-cash rent related to stores of approximately \$2.9 million, share-based compensation expense of approximately \$15.5 million, and \$3.9 million of store closure expenses. The other amounts needed to reconcile these non-GAAP financial measures to comparable GAAP measures cannot be quantified and are not available without an unreasonable effort.

The Company additionally is providing first quarter 2018 guidance for comparable store sales growth of 1.0% to 1.5% and adjusted EBITDA in the range of \$23 to \$25 million.

Fiscal Fourth Quarter and Full Year 2017 Conference Call

The Company will host a conference call today at 2:00 p.m. Pacific Time / 5:00 p.m. Eastern Time to discuss its fiscal fourth quarter and fiscal 2017 financial results. To participate in the call, please dial (877) 407-0784 (U.S.) or (201) 689-8560 (International) ten minutes prior to the start time. The conference call can also be accessed on the "For Investors" section of the Company's web site at www.smartandfinal.com.

For those unable to participate during the live broadcast, a telephonic replay of the call will also be available beginning today at approximately 8:00 p.m. Eastern Time, by dialing (844) 512-2921 (U.S.) or (412) 317-6671 (International) and entering the replay pin number: 13677083. The telephonic replay will be available until 11:59 p.m. Eastern Time, March 28, 2018.

About Smart & Final

Smart & Final Stores, Inc. (NYSE: SFS), is a value-oriented food and everyday staples retailer, headquartered in Commerce (near Los Angeles), California. The Company offers quality products in a variety of sizes, saving household, nonprofit and business customers time and money. As of December 31, 2017, the Company operated 323 grocery and foodservice stores under the "Smart & Final," "Smart & Final Extra!" and "Cash & Carry Smart Foodservice" banners in California, Oregon, Washington, Arizona, Nevada, Idaho, Montana and Utah, with an additional 15 stores in Northwestern Mexico operated through a joint venture. In business for over 146 years, the Company remains committed to giving back to local communities through employee volunteer opportunities and Company donations to local nonprofits.

Forward-Looking Statements

Certain statements contained in this release that are not historical information contain forward-looking statements. The forward-looking statements involve risks and uncertainties and actual results may differ materially from those projected or implied. Further, certain forward-looking statements are based on assumptions of future events which may not prove to be accurate. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “may,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or, in each case, their negative, or other variations or comparable terminology. The Company derives many of its forward-looking statements from its operating budgets and forecasts, which are based upon many detailed assumptions. While the Company believes that its assumptions are reasonable, it is difficult to predict the impact of known factors and, of course, it is impossible to anticipate all factors that could affect actual results. These factors are discussed in the special note concerning “Forward-Looking Statements,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Business” sections and elsewhere in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission.

You should keep in mind that any forward-looking statement made by the Company herein, or elsewhere, speaks only as of the date on which made. New risks and uncertainties come up from time to time, and it is impossible for the Company to predict these events or how they may affect it. The Company has no obligation to update any forward-looking statements after the date hereof, except as required by federal securities laws.

INVESTOR CONTACTS:

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Smart & Final Stores, Inc. and Subsidiaries

Consolidated Statements of Operations

(In Thousands, Except Share and Per Share Amounts)

| | Twelve Weeks Ended | | Fifty-two Weeks Ended | |
|---|--------------------|-----------------|-----------------------|-----------------|
| | December 31, 2017 | January 1, 2017 | December 31, 2017 | January 1, 2017 |
| Net sales | \$ 1,067,908 | \$ 1,000,632 | \$ 4,570,565 | \$ 4,341,795 |
| Cost of sales, buying and occupancy | 903,484 | 859,722 | 3,896,897 | 3,712,291 |
| Gross margin | 164,424 | 140,910 | 673,668 | 629,504 |
| Operating and administrative expenses | 147,057 | 135,183 | 621,078 | 582,486 |
| Goodwill impairment | 180,000 | - | 180,000 | - |
| (Loss) income from operations | (162,633) | 5,727 | (127,410) | 47,018 |
| Interest expense, net | 8,732 | 7,925 | 36,470 | 32,654 |
| Loss on early extinguishment of debt | - | - | - | 4,978 |
| Equity in earnings of joint venture | 347 | 295 | 923 | 1,525 |
| (Loss) income before income tax benefit | (171,018) | (1,903) | (162,957) | 10,911 |
| Income tax benefit | 24,462 | 1,650 | 24,043 | 2,037 |

| | | | | | | | | |
|--------------------------------------|----|------------------|----|--------------|----|------------------|----|---------------|
| Net (loss) income | \$ | <u>(146,556)</u> | \$ | <u>(253)</u> | \$ | <u>(138,914)</u> | \$ | <u>12,948</u> |
| Net (loss) income per share: | | | | | | | | |
| Basic | \$ | (2.03) | \$ | 0.00 | \$ | (1.92) | \$ | 0.18 |
| Diluted | \$ | (2.03) | \$ | 0.00 | \$ | (1.92) | \$ | 0.17 |
| Weighted average shares outstanding: | | | | | | | | |
| Basic | | 72,068,998 | | 71,962,127 | | 72,352,102 | | 72,727,071 |
| Diluted | | 72,068,998 | | 71,962,127 | | 72,352,102 | | 78,026,159 |

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Smart & Final Stores, Inc. and Subsidiaries
Consolidated Balance Sheets
(In Thousands, Except Share and Per Share Amounts)

| | <u>December 31, 2017</u> | <u>January 1, 2017</u> |
|---|--------------------------|------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 71,671 | \$ 54,235 |
| Accounts receivable, less allowances of \$177 and \$434 at December 31, 2017 and January 1, 2017, respectively | 33,019 | 31,809 |
| Inventories | 289,712 | 278,718 |
| Prepaid expenses and other current assets | 54,241 | 48,769 |
| Deferred income taxes | - | 22,105 |
| Total current assets | <u>448,643</u> | <u>435,636</u> |
| Property, plant, and equipment: | | |
| Land | 10,076 | 9,106 |
| Buildings and improvements | 53,965 | 17,351 |
| Leasehold improvements | 346,181 | 301,522 |
| Fixtures and equipment | 421,912 | 353,764 |
| Construction in progress | 8,242 | 12,110 |
| | <u>840,376</u> | <u>693,853</u> |
| Less accumulated depreciation and amortization | <u>338,149</u> | <u>249,251</u> |
| | 502,227 | 444,602 |
| Capitalized software, net of accumulated amortization of \$17,325 and \$13,293 at December 31, 2017 and January 1, 2017, respectively | 21,984 | 10,392 |
| Other intangible assets, net | 362,536 | 369,519 |
| Goodwill | 385,918 | 565,918 |
| Equity investment in joint venture | 15,380 | 14,366 |
| Other assets | 73,249 | 66,662 |
| Total assets | <u>\$ 1,809,937</u> | <u>\$ 1,907,095</u> |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 245,009 | \$ 225,227 |
| Accrued salaries and wages | 36,216 | 31,933 |
| Accrued expenses | 100,639 | 82,925 |

| | | |
|---|---------------------|---------------------|
| Current portion of debt, less debt issuance costs | 81,512 | 62,352 |
| Total current liabilities | <u>463,376</u> | <u>402,437</u> |
| Long-term debt, less debt issuance costs | 617,867 | 616,588 |
| Deferred income taxes | 38,095 | 84,578 |
| Postretirement and postemployment benefits | 127,649 | 121,409 |
| Other long-term liabilities | 159,904 | 129,834 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value; Authorized shares – 10,000,000 Issued and outstanding shares – none | – | – |
| Common stock, \$0.001 par value; Authorized shares – 340,000,000 Issued and outstanding shares - 74,120,113 and 72,930,653 at December 31, 2017 and January 1, 2017, respectively | 74 | 73 |
| Additional paid-in capital | 506,098 | 500,666 |
| Retained (deficit) earnings | (78,160) | 65,093 |
| Accumulated other comprehensive loss | <u>(24,966)</u> | <u>(13,583)</u> |
| Total stockholders' equity | <u>403,046</u> | <u>552,249</u> |
| Total liabilities and stockholders' equity | <u>\$ 1,809,937</u> | <u>\$ 1,907,095</u> |

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Smart & Final Stores, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In Thousands)

| | <u>Fiscal Year 2017</u> | <u>Fiscal Year 2016</u> | <u>Fiscal Year 2015</u> |
|--|-----------------------------|-----------------------------|-----------------------------|
| Operating activities | | | |
| Net (loss) income | \$ (138,914) | \$ 12,948 | \$ 38,262 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | |
| Depreciation | 58,589 | 51,385 | 38,585 |
| Amortization | 39,783 | 35,630 | 30,181 |
| Amortization of debt discount and debt issuance costs | 1,908 | 2,511 | 2,780 |
| Share-based compensation | 11,560 | 9,803 | 10,003 |
| Excess tax benefits related to share-based payments | — | — | (358) |
| Deferred income taxes | (20,283) | (1,469) | 3,325 |
| Equity in earnings of joint venture | (923) | (1,525) | (1,378) |
| Loss (gain) on disposal of property, plant, and equipment | (51) | 282 | (40) |
| Asset impairment | 1,796 | 1,323 | 1,413 |
| Goodwill impairment | 180,000 | — | — |
| Loss on early extinguishment of debt | — | 4,978 | 2,192 |
| Dividend from joint venture | 455 | 769 | — |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable, net | (2,988) | (2,726) | (3,637) |
| Inventories | (10,994) | (44,429) | (10,885) |
| Prepaid expenses and other assets | 405 | (23,962) | (1,202) |
| Accounts payable | 19,782 | 31,078 | 9,252 |
| Accrued salaries and wages | 4,283 | (1,926) | 5,277 |
| Other accrued liabilities | 25,087 | 22,423 | 21,621 |
| Net cash provided by operating activities | <u>169,495</u> | <u>97,093</u> | <u>145,391</u> |
| Investing activities | | | |
| Purchases of property, plant, and equipment | (149,347) | (148,043) | (132,738) |
| Proceeds from disposal of property, plant, and equipment | 1,858 | 2,265 | 8,104 |

| | | | |
|---|------------------|------------------|------------------|
| Assets acquired in Hagen Transaction | — | (2,257) | (66,440) |
| Investment in capitalized software | (14,316) | (3,193) | (4,265) |
| Other | (782) | (2,024) | (1,277) |
| Net cash used in investing activities | <u>(162,587)</u> | <u>(153,252)</u> | <u>(196,616)</u> |
| Financing activities | | | |
| Proceeds from exercise of stock options | 4,228 | 4,667 | 719 |
| Payment of minimum withholding taxes on net share settlement of share-based compensation awards | (1,850) | (669) | (694) |
| Fees paid in conjunction with debt financing | (245) | (8,500) | (1,335) |
| Borrowings on bank line of credit | 88,000 | 97,000 | 15,000 |
| Payments on bank line of credit | (71,000) | (38,000) | (10,000) |
| Cash from landlord related to financing lease obligations | 4,268 | — | — |
| Issuance of bank debt, net of issuance costs | — | 30,093 | — |
| Payments of public offering issuance costs | — | — | (214) |
| Excess tax benefits related to share-based payments | — | — | 358 |
| Stock repurchases | (12,873) | (33,524) | (129) |
| Net cash provided by financing activities | <u>10,528</u> | <u>51,067</u> | <u>3,705</u> |
| Net increase (decrease) in cash and cash equivalents | 17,436 | (5,092) | (47,520) |
| Cash and cash equivalents at beginning of period | 54,235 | 59,327 | 106,847 |
| Cash and cash equivalents at end of period | <u>\$ 71,671</u> | <u>\$ 54,235</u> | <u>\$ 59,327</u> |
| Cash paid during the period for: | | | |
| Interest | \$ 33,957 | \$ 29,750 | \$ 29,462 |
| Income taxes | 2 | 10,448 | 23,729 |
| Non-cash investing and financing activities | | | |
| Software development costs incurred but not paid | \$ 1,397 | \$ 24 | \$ 310 |
| Construction in progress costs incurred but not paid | 18,834 | 12,070 | 8,534 |
| Property acquired through financing lease obligations | 7,135 | — | — |

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Smart & Final Stores, Inc. and Subsidiaries
Segment Information
(In Thousands)

| | <u>Smart & Final</u> | <u>Cash & Carry</u> | <u>Corporate / Other</u> | <u>Consolidated</u> |
|---|--------------------------|-------------------------|--------------------------|---------------------|
| <u>Twelve Weeks Ended December 31, 2017</u> | | | | |
| Net sales | \$ 841,354 | \$ 226,554 | \$ - | \$ 1,067,908 |
| Cost of sales, distribution and store occupancy | 708,326 | 193,537 | 1,621 | 903,484 |
| Operating and administrative expenses | 111,834 | 17,212 | 18,011 | 147,057 |
| Goodwill impairment | 180,000 | - | - | 180,000 |
| (Loss) income from operations | <u>\$ (158,806)</u> | <u>\$ 15,805</u> | <u>\$ (19,632)</u> | <u>\$ (162,633)</u> |
| Capital expenditures | <u>\$ 40,814</u> | <u>\$ 1,269</u> | <u>\$ 3,996</u> | <u>\$ 46,079</u> |
| <u>Twelve Weeks Ended January 1, 2017</u> | | | | |
| Net sales | \$ 796,250 | \$ 204,382 | \$ - | \$ 1,000,632 |
| Cost of sales, distribution and store occupancy | 680,210 | 177,324 | 2,188 | 859,722 |
| Operating and administrative expenses | 100,067 | 15,556 | 19,560 | 135,183 |
| Income (loss) from operations | <u>\$ 15,973</u> | <u>\$ 11,502</u> | <u>\$ (21,748)</u> | <u>\$ 5,727</u> |
| Capital expenditures | <u>\$ 30,209</u> | <u>\$ 4,231</u> | <u>\$ 849</u> | <u>\$ 35,289</u> |

Fifty-two Weeks Ended December 31, 2017

| | | | | |
|---|---------------------|------------------|--------------------|---------------------|
| Net sales | \$ 3,557,691 | \$ 1,012,874 | \$ - | \$ 4,570,565 |
| Cost of sales, distribution and store occupancy | 3,020,204 | 868,544 | 8,149 | 3,896,897 |
| Operating and administrative expenses | 468,946 | 74,791 | 77,341 | 621,078 |
| Goodwill impairment | 180,000 | - | - | 180,000 |
| (Loss) income from operations | <u>\$ (111,459)</u> | <u>\$ 69,539</u> | <u>\$ (85,490)</u> | <u>\$ (127,410)</u> |

| | | | | |
|----------------------|-------------------|------------------|------------------|-------------------|
| Capital expenditures | <u>\$ 134,317</u> | <u>\$ 12,844</u> | <u>\$ 16,502</u> | <u>\$ 163,663</u> |
|----------------------|-------------------|------------------|------------------|-------------------|

Fifty-two Weeks Ended January 1, 2017

| | | | | |
|---|------------------|------------------|--------------------|------------------|
| Net sales | \$ 3,400,755 | \$ 941,040 | \$ - | \$ 4,341,795 |
| Cost of sales, distribution and store occupancy | 2,894,222 | 808,258 | 9,811 | 3,712,291 |
| Operating and administrative expenses | 444,318 | 66,688 | 71,480 | 582,486 |
| Income (loss) from operations | <u>\$ 62,215</u> | <u>\$ 66,094</u> | <u>\$ (81,291)</u> | <u>\$ 47,018</u> |

| | | | | |
|----------------------|-------------------|------------------|-----------------|-------------------|
| Capital expenditures | <u>\$ 135,677</u> | <u>\$ 10,074</u> | <u>\$ 5,485</u> | <u>\$ 151,236</u> |
|----------------------|-------------------|------------------|-----------------|-------------------|

9

Non-GAAP Financial Measures

To supplement the Company's financial information presented in accordance with GAAP, the Company uses certain non-GAAP financial measures (namely EBITDA and adjusted EBITDA, adjusted net income, adjusted net income per share, and adjusted net income per diluted share) to evaluate our operating and financial performance and to compare such performance to that of prior periods. We also use these non-GAAP financial measures in making operational and financial decisions and in establishing operational goals. We believe that providing these non-GAAP financial measures to investors, as a supplement to GAAP financial measures, helps investors to (i) evaluate our operating and financial performance and future prospects, (ii) compare financial results across accounting periods, (iii) better understand the long-term performance of our core business and (iv) evaluate trends in our business, all consistent with how management evaluates such performance and movements. The Company defines EBITDA as net income (loss) before depreciation and amortization, interest expense and provision (benefit) for income tax, and adjusted EBITDA as EBITDA adjusted for the items set forth in the table below. The Company defines adjusted net income as net income (loss) adjusted for the items set forth in the table below. The Company defines adjusted net income (loss) per share as adjusted net income divided by the weighted average basic shares outstanding. The Company defines adjusted net income per diluted share as adjusted net income divided by the weighted average diluted shares outstanding.

Use of these non-GAAP measures may differ from similar measures reported by other companies. Each of these non-GAAP measures has its limitations as an analytical tool, and you should not consider them in isolation or as a substitute for analysis of the Company's results as reported under GAAP.

The following tables present reconciliations of net income to EBITDA, adjusted EBITDA and adjusted net income, and net income (loss) per share to adjusted net income per share and adjusted net income per diluted share, for the twelve-week and fifty-two week periods ended December 31, 2017.

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Smart & Final Stores, Inc. and Subsidiaries
Reconciliation of Net Income to Non-GAAP Adjusted Net Income
(Unaudited)
(In Thousands, Except Share and Per Share Amounts)

| | Twelve Weeks Ended December 31, 2017 | Twelve Weeks Ended January 1, 2017 | Fifty-two Weeks Ended December 31, 2017 | Fifty-two Weeks Ended January 1, 2017 |
|----------------------|--|--|---|---|
| Net (loss) income | \$ (146,556) | \$ (253) | \$ (138,914) | \$ 12,948 |
| Income tax (benefit) | (24,462) | (1,650) | (24,043) | (2,037) |
| (Loss) income before | | | | |

| | | | | |
|---|------------------|-----------------|------------------|------------------|
| income taxes | (171,018) | (1,903) | (162,957) | 10,911 |
| Adjustments to net (loss) income | | | | |
| Net loss from closed stores and exit costs (a) | 1,262 | 2,650 | 3,818 | 8,671 |
| Goodwill impairment (b) | 180,000 | - | 180,000 | - |
| Loss from asset dispositions and impairment charges (c) | 369 | 594 | 1,827 | 1,598 |
| Share-based compensation expense (d) | 3,057 | 2,555 | 11,560 | 9,803 |
| Non-cash rent (e) | 1,492 | 1,688 | 6,535 | 7,946 |
| Pre-opening costs (f) | 1,914 | 926 | 5,433 | 17,695 |
| Loss on extinguishment of debt (g) | - | - | - | 4,978 |
| Other items (h) | (45) | 377 | 3,390 | (1,018) |
| Adjusted income tax (benefit) | (5,731) | (1,890) | (15,951) | (18,363) |
| Adjusted net income | <u>\$ 11,300</u> | <u>\$ 4,997</u> | <u>\$ 33,655</u> | <u>\$ 42,221</u> |

Adjusted Net (Loss)
Income Per Share

| | | | | |
|---|----------------|----------------|----------------|----------------|
| Net (loss) income per share - basic | \$ (2.03) | \$ 0.00 | \$ (1.92) | \$ 0.18 |
| Per share impact of net income adjustments | <u>2.19</u> | <u>0.07</u> | <u>2.39</u> | <u>0.40</u> |
| Adjusted net income per share - basic | <u>\$ 0.16</u> | <u>\$ 0.07</u> | <u>\$ 0.47</u> | <u>\$ 0.58</u> |
| Net (loss) income per share - diluted | \$ (1.99) | \$ 0.00 | \$ (1.85) | \$ 0.17 |
| Per share impact of net income adjustments | <u>2.14</u> | <u>0.07</u> | <u>2.30</u> | <u>0.37</u> |
| Adjusted net income per share - diluted | <u>\$ 0.15</u> | <u>\$ 0.07</u> | <u>\$ 0.45</u> | <u>\$ 0.54</u> |

| | | | | |
|--------------------------------------|------------|------------|------------|------------|
| Weighted average shares - basic | 72,068,998 | 71,962,127 | 72,352,102 | 72,727,071 |
| Weighted average shares - diluted | 73,828,639 | 76,552,257 | 75,182,134 | 78,026,159 |

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Smart & Final Stores, Inc. and Subsidiaries
Reconciliation of EBITDA to Adjusted EBITDA
(Unaudited)
(In Thousands)

| | Twelve Weeks Ended December 31, 2017 | Twelve Weeks Ended January 1, 2017 | Fifty-two Weeks Ended December 31, 2017 | Fifty-two Weeks Ended January 1, 2017 |
|----------------------------------|--|--|---|---|
| Net (loss) income | \$ (146,556) | \$ (253) | \$ (138,914) | \$ 12,948 |
| Depreciation and amortization | 23,324 | 22,500 | 98,373 | 87,015 |
| Interest expense, net | 8,732 | 7,925 | 36,470 | 32,654 |
| Income tax (benefit) | (24,462) | (1,650) | (24,043) | (2,037) |
| EBITDA | <u>(138,962)</u> | <u>28,522</u> | <u>(28,114)</u> | <u>130,580</u> |

| | | | | |
|---|------------------|------------------|-------------------|-------------------|
| Adjustments to EBITDA | | | | |
| Net loss from closed stores and exit costs (a) | 1,262 | 2,650 | 3,818 | 8,671 |
| Goodwill impairment (b) | 180,000 | - | 180,000 | - |
| Loss from asset dispositions and impairment charges (c) | 369 | 594 | 1,827 | 1,598 |
| Share-based compensation expense (d) | 3,057 | 2,555 | 11,560 | 9,803 |
| Non-cash rent (e) | 1,492 | 1,688 | 6,535 | 7,946 |
| Pre-opening costs (f) | 1,914 | 926 | 5,433 | 17,695 |
| Loss on extinguishment of debt (g) | - | - | - | 4,978 |
| Other items (h) | (45) | 377 | 3,390 | (1,018) |
| Adjusted EBITDA | <u>\$ 49,087</u> | <u>\$ 37,312</u> | <u>\$ 184,449</u> | <u>\$ 180,253</u> |

- (a) Represents costs associated with store closure and exit costs.
- (b) Represents non-cash charge associated with goodwill impairment.
- (c) Represents non-cash loss associated with asset dispositions and impairment charges.
- (d) Represents expenses associated with the Company's equity-based incentive award program.
- (e) Represents non-cash component of recognized rent expense.
- (f) Represents new store and relocation opening costs consisting primarily of rent, utilities, distribution, store labor and advertising.
- (g) Represents loss on the early extinguishment of debt in the fiscal year ended January 1, 2017 in connection with amendments to the Company's First Lien Term Loan Credit Facility.
- (h) Represents (i) severance costs in the twelve and fifty-two weeks ended December 31, 2017 and the twelve and fifty-two weeks ended January 1, 2017 and (ii) death benefit income from a Company-owned life insurance policy in the fifty-two weeks ended January 1, 2017.

Document Format Files

| Seq | Description | Document | Type | Size |
|-----|-------------------------------|--|---------|--------|
| 1 | 8-K | a18-8148_18k.htm | 8-K | 28208 |
| 2 | EX-99.1 | a18-8148_1ex99d1.htm | EX-99.1 | 612716 |
| 3 | GRAPHIC | g81481mm01i001.jpg | GRAPHIC | 1927 |
| | Complete submission text file | 0001104659-18-017488.txt | | 645004 |