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 July 1, 2023
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 August 3, 2023, the registrant had 98,777,446 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, business and market trends, our objectives for future operations, macroeconomic and geopolitical conditions, 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, and as described in other subsequent reports we file with the United States ("U.S.") Securities and Exchange Commission (the "SEC"), including this report. 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 the 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)

	July 1, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 87,570	$ 102,728
Independent operator receivables and current portion of independent operator notes, net of allowance $5,603 and $2,238	9,300	10,805
Other accounts receivable, net of allowance $51 and $7	5,148	4,368
Merchandise inventories	320,344	334,319
Prepaid expenses and other current assets	17,930	15,137
Total current assets	440,292	467,357
Independent operator notes and receivables, net of allowance $10,792 and $12,509	24,858	22,535
Property and equipment, net	592,322	560,746
Operating lease right-of-use assets	933,614	902,163
Intangible assets, net	73,084	63,993
Goodwill	747,943	747,943
Other assets	10,978	7,667
Total assets	$ 2,823,091	$ 2,772,404
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	$ 147,220	$ 137,631
Accrued and other current liabilities	71,321	53,213
Accrued compensation	24,412	27,194
Current portion of long-term debt	5,625	—
Current lease liabilities	61,053	54,586
Income and other taxes payable	11,376	7,890
Total current liabilities	321,007	280,514
Long-term debt, net	290,660	379,650
Deferred income tax liabilities, net	29,720	19,782
Long-term lease liabilities	1,015,222	980,759
Other long-term liabilities	1,668	1,485
Total liabilities	1,658,277	1,662,190
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, par value $0.001 per share, 500,000,000 shares authorized; 98,773,249 and 97,674,356 shares issued and outstanding, respectively	99	98
Series A preferred stock, par value $0.001 per share, 50,000,000 shares authorized; no shares issued and outstanding	—	—
Additional paid-in capital	863,997	847,589
Retained earnings	300,718	262,527
Total stockholders' equity	1,164,814	1,110,214
Total liabilities and stockholders' equity	$ 2,823,091	$ 2,772,404

See Notes to Condensed Consolidated Financial Statements

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

	13 Weeks Ended		26 Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Net sales	$ 1,010,255	$ 897,659	$ 1,975,722	$ 1,729,086
Cost of sales	683,685	618,248	1,348,609	1,198,786
Gross profit	326,570	279,411	627,113	530,300
Selling, general and administrative expenses	290,089	252,500	557,814	483,961
Operating income	36,481	26,911	69,299	46,339
Other expenses:				
Interest expense, net	4,766	3,875	10,685	7,557
Loss on debt extinguishment and modification	—	1,274	5,340	1,274
Total other expenses	4,766	5,149	16,025	8,831
Income before income taxes	31,715	21,762	53,274	37,508
Income tax expense	7,244	1,668	15,083	5,840
Net income and comprehensive income	$ 24,471	$ 20,094	$ 38,191	$ 31,668
Basic earnings per share	$ 0.25	$ 0.21	$ 0.39	$ 0.33
Diluted earnings per share	$ 0.24	$ 0.20	$ 0.38	$ 0.32
Weighted average shares outstanding:				
Basic	98,515	96,578	98,218	96,358
Diluted	100,639	100,140	100,604	99,788

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	Retained	Stockholders'
	Shares	Amount	Paid-In Capital	Earnings	Equity
Balance as of December 31, 2022	97,674,356	$ 98	$ 847,589	$ 262,527	$ 1,110,214
Exercise and vesting of share-based awards	734,310	—	204	—	204
Share-based compensation expense	—	—	6,676	—	6,676
Repurchase of common stock	(122,862)	—	(3,275)	—	(3,275)
Net income and comprehensive income	—	—	—	13,720	13,720
Balance as of April 1, 2023	98,285,804	$ 98	$ 851,194	$ 276,247	$ 1,127,539
Exercise and vesting of share-based awards, net of shares withheld for employee taxes	487,445	1	1,507	—	1,508
Share-based compensation expense	—	—	11,305	—	11,305
Dividends paid	—	—	(9)	—	(9)
Net income and comprehensive income	—	—	—	24,471	24,471
Balance as of July 1, 2023	98,773,249	$ 99	$ 863,997	$ 300,718	$ 1,164,814

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	Stockholders' Equity
	Shares	Amount			
Balance as of January 1, 2022	96,144,433	$ 96	$ 811,701	$ 197,475	$ 1,009,272
Exercise and vesting of share-based awards	276,473	—	887	—	887
Share-based compensation expense	—	—	5,795	—	5,795
Repurchase of common stock	(139,718)	—	(3,451)	—	(3,451)
Dividends paid	—	—	(7)	—	(7)
Net income and comprehensive income	—	—	—	11,574	11,574
Balance as of April 2, 2022	96,281,188	$ 96	$ 814,925	$ 209,049	$ 1,024,070
Exercise and vesting of share-based awards	565,792	1	3,068	—	3,069
Share-based compensation expense	—	—	9,484	—	9,484
Dividends paid	—	—	(26)	—	(26)
Net income and comprehensive income	—	—	—	20,094	20,094
Balance as of July 2, 2022	96,846,980	$ 97	$ 827,451	$ 229,143	$ 1,056,691

See Notes to Condensed Consolidated Financial Statements

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

	26 Weeks Ended	
	July 1, 2023	July 2, 2022
Cash flows from operating activities:		
Net income	$ 38,191	$ 31,668
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment	36,969	34,813
Amortization of intangible and other assets	4,826	3,731
Amortization of debt issuance costs and debt discounts	628	1,190
Non-cash rent	2,705	3,771
Loss on debt extinguishment and modification	5,340	1,274
Share-based compensation	17,981	15,279
Provision for accounts receivable reserves	2,154	2,052
Deferred income taxes	9,938	5,564
Other	342	546
Changes in operating assets and liabilities:		
Independent operator and other accounts receivable	(3,395)	(2,614)
Merchandise inventories	13,975	(42,922)
Prepaid expenses and other assets	(2,657)	2,248
Income and other taxes payable	3,486	(920)
Trade accounts payable, accrued compensation and other liabilities	20,985	22,358
Operating lease liabilities	5,652	6,689
Net cash provided by operating activities	157,120	84,727
Cash flows from investing activities:		
Advances to independent operators	(3,540)	(4,788)
Repayments of advances from independent operators	3,551	3,691
Purchases of property and equipment	(66,025)	(58,318)
Proceeds from sales of assets	24	29
Investments in intangible assets and licenses	(12,309)	(5,992)
Proceeds from insurance recoveries - property and equipment	215	—
Net cash used in investing activities	(78,084)	(65,378)
Cash flows from financing activities:		
Proceeds from exercise of stock options	1,578	3,956
Tax withholding related to net settlement of employee share-based awards	(449)	—
Proceeds from senior term loan due 2028	300,000	—
Proceeds from revolving credit facility	25,000	—
Principal payments on revolving credit facility	(25,000)	—
Principal payments on senior term loan due 2025	(385,000)	(75,000)
Principal payments on senior term loan due 2028	(1,875)	—
Principal payments on finance leases	(651)	(646)
Repurchase of common stock	(3,275)	(3,451)
Dividends paid	(9)	(33)
Debt issuance costs paid	(4,513)	—
Net cash used in financing activities	(94,194)	(75,174)
Net decrease in cash and cash equivalents	(15,158)	(55,825)
Cash and cash equivalents at beginning of period	102,728	140,085
Cash and cash equivalents at end of period	$ 87,570	$ 84,260

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 through a network of independently operated stores. As of July 1, 2023, we had 447 stores throughout California, Washington, Oregon, Pennsylvania, Idaho, Nevada, Maryland and New Jersey.

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 (the "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 the fiscal year ended December 31, 2022 (the "2022 Form 10-K"). The condensed consolidated balance sheet as of December 31, 2022 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. Beginning with the first quarter of fiscal 2022, certain prior period amounts in the condensed consolidated statements of operations and comprehensive income have been reclassified to conform to the current period presentation. Specifically, in order to enhance the comparability of our results with our peers, depreciation and amortization expenses and share-based compensation expenses are now included in selling, general and administrative expenses. The reclassification of these items had no impact on net income, earnings per share, or retained earnings in the current or prior periods.

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 estimate and judgment.

Segment Reporting — We manage our business as one operating segment. 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.

Merchandise Inventories — Merchandise inventories are valued at the lower of cost or net realizable value. Cost is 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 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 one retail store lease and 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 upon 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 or non-recurring basis as of July 1, 2023 or December 31, 2022. Generally, assets are recorded at fair value on a non-recurring basis as a result of impairment charges. There were no transfers of assets or liabilities between levels within the fair value hierarchy during the 26 weeks ended July 1, 2023.

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 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 receivable (net) — 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):

	July 1, 2023		December 31, 2022	
	Carrying Amount (1)	Estimated Fair Value (2)	Carrying Amount (1)	Estimated Fair Value (3)
Financial Liabilities:				
Senior term loans (Level 2)	$ 296,285	$ 298,125	$ 379,650	$ 383,075

(1) The carrying amounts of our senior term loans as of July 1, 2023 and December 31, 2022 were net of unamortized debt discounts of zero and $0.6 million, respectively, and debt issuance costs of $1.8 million and $4.7 million, respectively.

(2) The estimated fair value of our current senior term loan borrowings under our 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.

(3) The estimated fair value of our prior senior term loan, as defined in Note 3, was determined based on the average quoted bid-ask prices for the prior senior term loan in an over-the-counter market on the last trading day of the periods presented.

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 do 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 July 1, 2023 and December 31, 2022.

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 $2.8 million and $3.6 million as of July 1, 2023 and December 31, 2022, respectively. Breakage amounts were immaterial for the 13 and 26 weeks ended July 1, 2023 and July 2, 2022.

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

	13 Weeks Ended		26 Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Perishable (1)	$ 359,770	$ 325,540	$ 705,609	$ 626,382
Non-perishable (2)	650,485	572,119	1,270,113	1,102,704
Total net sales	$ 1,010,255	$ 897,659	$ 1,975,722	$ 1,729,086

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

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

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 445, 438 and 421 stores operated by IOs as of July 1, 2023, December 31, 2022 and July 2, 2022, 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 $997.2 million and $883.0 million for the 13 weeks ended July 1, 2023 and July 2, 2022, respectively, and $1.95 billion and $1.70 billion for the 26 weeks ended July 1, 2023 and July 2, 2022, 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 SG&A. IO commissions were $158.2 million and $136.5 million for the 13 weeks ended July 1, 2023 and July 2, 2022, respectively, and $303.4 million and $259.2 million for the 26 weeks ended July 1, 2023 and July 2, 2022, respectively. IO commissions of $15.5 million and $6.2 million were included in accrued and other current liabilities as of July 1, 2023 and December 31, 2022, 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, the Company is 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 was $50.6 million and $48.1 million as of July 1, 2023 and December 31, 2022, respectively. See Note 2 for additional information.

Recently Adopted Accounting Standards

Accounting Standards Update ("ASU") No. 2022-02 — In March 2022, the Financial Accounting Standards Board issued ASU No. 2022-02, Troubled Debt Restructurings and Vintage Disclosures ("ASU 2022-02"). ASU 2022-02 eliminates the accounting guidance on troubled debt restructurings for creditors in ASC Topic 310 and amends the guidance on "vintage disclosures" to require disclosure of current-period gross write-offs by year of origination. ASU 2022-02 also updates the requirements related to accounting for credit losses under ASC Topic 326 and adds enhanced disclosures for creditors with respect to loan refinancings and restructurings for borrowers experiencing financial difficulty. We adopted ASU 2022-02 beginning in the first quarter of fiscal 2023. The adoption of ASU 2022-02 had no material impact on our condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

No recently issued accounting pronouncements are expected to have a material effect in our condensed consolidated financial statements.

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 3.00% 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 $1.2 million and $0.9 million as of July 1, 2023 and December 31, 2022, respectively. There were no IO notes that were past due or on a non-accrual status due to delinquency as of July 1, 2023 or December 31, 2022.

Notes and receivables from our IOs participating in our TCAP, as defined 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 Temporary Commission Adjustment Program ("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 July 1, 2023 and December 31, 2022 consisted of the following (amounts in thousands):

		Allowance				
	Gross	Current Portion	Long-term Portion	Net	Current Portion	Long-term Portion
July 1, 2023						
Independent operator notes	$ 37,429	$ (800)	$ (10,027)	$ 26,602	$ 1,744	$ 24,858
Independent operator receivables	13,124	(4,803)	(765)	7,556	7,556	—
Total	$ 50,553	$ (5,603)	$ (10,792)	$ 34,158	$ 9,300	$ 24,858

		Allowance				
	Gross	Current Portion	Long-term Portion	Net	Current Portion	Long-term Portion
December 31, 2022						
Independent operator notes	$ 37,522	$ (700)	$ (12,509)	$ 24,313	$ 1,778	$ 22,535
Independent operator receivables	10,565	(1,538)	—	9,027	9,027	—
Total	$ 48,087	$ (2,238)	$ (12,509)	$ 33,340	$ 10,805	$ 22,535

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

	13 Weeks Ended		26 Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Beginning balance	$ 15,957	$ 12,547	$ 14,747	$ 11,912
Provision for IO notes and IO receivables reserves	762	808	2,110	2,015
Write-off of provision for IO notes and IO receivables	(324)	(258)	(462)	(830)
Ending Balance	$ 16,395	$ 13,097	$ 16,395	$ 13,097

The following table presents the outstanding gross balance of IO notes by fiscal year of origination and credit quality indicator as of July 1, 2023 (amounts in thousands):

	Fiscal Year of Origination						
Credit Quality Indicator	**2023 (YTD)**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Total**
TCAP	$ 1,063	$ 5,477	$ 4,728	$ 2,379	$ 464	$ 915	$ 15,026
Non-TCAP	1,325	3,612	3,946	2,693	1,774	1,768	15,118
New store	2,498	4,787	—	—	—	—	7,285
Total	$ 4,886	$ 13,876	$ 8,674	$ 5,072	$ 2,238	$ 2,683	$ 37,429

TCAP IO Notes

Notes of IOs participating in our TCAP represented 52.0% and 49.7% of total IO notes balances as of July 1, 2023 and December 31, 2022, respectively.

A total of $1.9 million of IO notes were added into our TCAP during the 13 weeks ended July 1, 2023. The weighted average contractual interest rate of such IO notes was reduced from 9.95% to 3.00%. In addition, $1.1 million of IO notes were transferred from TCAP to Non-TCAP during the 13 weeks ended July 1, 2023.

A total of $3.7 million of IO notes were added into our TCAP during the 26 weeks ended July 1, 2023. The weighted average contractual interest rate of such IO notes was reduced from 9.95% to 3.00%. In addition, $2.1 million of IO notes were transferred from TCAP to Non-TCAP during the 26 weeks ended July 1, 2023.

Note 3. Long-term Debt

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

	July 1, 2023	**December 31, 2022**
Senior term loan due 2025	$ —	$ 385,000
Senior term loan due 2028	298,125	—
Long-term debt, gross	298,125	385,000
Less: Unamortized debt issuance costs and debt discounts	(1,840)	(5,350)
Long-term debt, less unamortized debt discounts and debt issuance costs	296,285	379,650
Less: Current portion	(5,625)	—
Long-term debt, net	$ 290,660	$ 379,650

2023 Credit Agreement

On February 21, 2023, we entered into a credit agreement with Bank of America, N.A., as administrative agent and collateral agent, and the other parties party thereto (the "2023 Credit Agreement"). The 2023 Credit Agreement provides for senior secured credit facilities consisting of (i) a senior secured term loan facility (the "senior term loan") in an original aggregate principal amount of $300.0 million and (ii) a senior secured revolving credit facility (the "revolving credit facility" and, together with the senior term loan, the "new 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. The senior term loan was borrowed in full at closing, and $25.0 million of the revolving credit facility was borrowed at closing.

Also on February 21, 2023, we repaid all of the outstanding indebtedness under our Prior First Lien Credit Agreement, defined below, as well as fees and expenses in connection therewith. All obligations of the Company's subsidiaries under the Prior First Lien Credit Agreement were discharged as of such date. In connection with the closing of the 2023 Credit Agreement and repayment of the Prior First Lien Credit Agreement and in accordance with ASC Topic 470-50, Debt-Modifications and Extinguishments, we wrote off $5.1 million of previously unamortized debt issuance costs and debt discounts and incurred $0.2 million in debt modification costs, which were recorded within loss on debt extinguishment and modification for the 26 weeks ended July 1, 2023. Furthermore, a total of $4.6 million of creditor and third-party debt issuance costs were capitalized or carried over from the prior credit facilities, as defined below, and will be amortized over the term of the new credit facilities.

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 July 1, 2023, interest on borrowings under the new credit facilities was based on one-month Term SOFR with an applicable margin of 2.25%.

The new 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 the 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 new 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 all of the Company’s wholly owned direct and indirect restricted subsidiaries, subject to certain exceptions. All obligations under the 2023 Credit Agreement, and the guarantees 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 amortization payments of the senior term loan. We may voluntarily prepay the new 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.

Senior Term Loan due 2028

Our senior term loan under our 2023 Credit Agreement matures on February 21, 2028 and had an interest rate of 7.43% as of July 1, 2023.

Revolving Credit Facility

As of July 1, 2023 we had $4.2 million of outstanding letters of credit and $395.8 million of remaining borrowing capacity available under the revolving credit facility, which matures on February 21, 2028. The interest rate on the revolving credit facility was 7.43% as of July 1, 2023. As discussed above, $25.0 million of the revolving credit facility was borrowed at closing. On April 21, 2023, we repaid the $25.0 million of principal on our revolving credit facility. No amounts were outstanding under the revolving credit facility as of July 1, 2023.

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.

Prior First Lien Credit Agreement

GOBP Holdings, Inc., our wholly owned subsidiary, was the borrower under a first lien credit agreement (the "Prior First Lien Credit Agreement") with a syndicate of lenders that consisted of a $385.0 million senior term loan (the "prior senior term loan") and a revolving credit facility (the "prior revolving credit facility" and, together with the prior senior term loan, the "prior credit facilities") for an amount up to $100.0 million.

Prior Senior Term Loan due 2025

Our prior senior term loan under our Prior First Lien Credit Agreement had a maturity of October 22, 2025 and had an applicable margin of 2.75% for Eurodollar loans and 1.75% for base rate loans.

On April 29, 2022, we prepaid $75.0 million of principal on the prior senior term loan outstanding under our Prior First Lien Credit Agreement. In connection with the payment, we wrote off $1.3 million of previously unamortized debt issuance costs and debt discounts.

As discussed above, on February 21, 2023, in connection with the closing of the 2023 Credit Agreement, we repaid the remaining $385.0 million of principal on the prior senior term loan outstanding under our Prior First Lien Credit Agreement.

Prior Revolving Credit Facility

Our prior revolving credit facility under our Prior First Lien Credit Agreement had a maturity of October 23, 2023. No amounts were outstanding under the prior revolving credit facility as of December 31, 2022 and no amounts were outstanding as of final repayment of the Prior First Lien Credit Agreement.

We were required to pay a quarterly commitment fee ranging from 0.25% to 0.50% on the daily unused amount of the commitment under the prior revolving credit facility based upon the leverage ratio defined in the agreement and certain criteria specified in the agreement. We were also required to pay fronting fees and other customary fees for letters of credit issued under the prior 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 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) no less than 1.75 to 1.00 as of the last day of each test period.

As of July 1, 2023, we were in compliance with all applicable financial covenant requirements for our 2023 Credit Agreement.

Schedule of Principal Maturities

Principal maturities of debt as of July 1, 2023 are as follows (amounts in thousands):

Remainder of fiscal 2023	$ 1,875
Fiscal 2024	7,500
Fiscal 2025	15,000
Fiscal 2026	15,000
Fiscal 2027	15,000
Thereafter	243,750
Total	$ 298,125

Interest Expense, Net

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

	13 Weeks Ended		26 Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Interest on loans	$ 5,867	$ 3,789	$ 12,974	$ 7,320
Amortization of debt issuance costs and debt discounts	227	562	628	1,190
Interest on finance leases	78	94	150	184
Interest income	(1,406)	(570)	(3,067)	(1,137)
Interest expense, net	$ 4,766	$ 3,875	$ 10,685	$ 7,557

Loss on Debt Extinguishment and Modification

Loss on debt extinguishment and modification consisted of the following (amounts in thousands):

	13 Weeks Ended		26 Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Write off of debt issuance costs	$ —	$ 1,127	$ 4,518	$ 1,127
Write off of debt discounts	—	147	578	147
Debt modification costs	—	—	244	—
Loss on debt extinguishment and modification	$ —	$ 1,274	$ 5,340	$ 1,274

Note 4. Stockholders' Equity

Share Repurchase Program

In November 2021, our Board of Directors approved a share repurchase program. This program, 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 repurchases under a Rule 10b5-1 plan (which would permit shares to be repurchased when the Company might otherwise be precluded from doing so under securities laws). Any repurchased shares are constructively retired and returned to an unissued status.

During the 13 weeks ended July 1, 2023, we did not repurchase any shares of common stock under the share repurchase program. During the 26 weeks ended July 1, 2023, we repurchased 122,862 shares of common stock under the share repurchase program totaling $3.3 million at an average price of $26.66 per share in open-market transactions pursuant to a Rule 10b5-1 plan.

During the 13 weeks ended July 2, 2022, we did not repurchase any shares of common stock under the share repurchase program. During the 26 weeks ended July 2, 2022, we repurchased 139,718 shares of common stock under the share repurchase program totaling $3.5 million at an average price of $24.70 per share in open-market transactions pursuant to a Rule 10b5-1 plan.

As of July 1, 2023, we had $93.3 million of repurchase authority remaining under the share repurchase program.

Note 5. Share-based Awards

For a discussion of our share-based incentive plans, refer to Note 8 of our 2022 Form 10-K.

Share-based Award Activity

The following table summarizes stock option activity under all equity incentive plans during the 26 weeks ended July 1, 2023:

	Time-Based Stock Options		Performance-Based Stock Options	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Options outstanding as of December 31, 2022	2,562,774	$ 12.13	801,635	$ 4.68
Exercised	(83,907)	8.68	(376,030)	3.81
Forfeitures	(8,239)	22.00	—	—
Options outstanding as of July 1, 2023	2,470,628	$ 12.22	425,605	$ 5.44
Options vested and exercisable as of July 1, 2023	2,433,916	$ 12.21	425,605	$ 5.44

The following table summarizes restricted stock unit ("RSU") activity under all equity incentive plans during the 26 weeks ended July 1, 2023:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested balance as of December 31, 2022	690,354	$ 31.79
Granted	525,467	27.51
Vested	(340,516)	32.46
Forfeitures	(26,914)	30.31
Unvested balance as of July 1, 2023	848,391	$ 28.91

The following table summarizes performance-based restricted stock unit ("PSU") activity under the Grocery Outlet Holding Corp. 2019 Incentive Plan during the 26 weeks ended July 1, 2023:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested balance as of December 31, 2022	1,331,803	$ 32.89
Granted (1)	445,809	27.34
Adjustment for expected performance achievement (2)	383,785	30.79
Vested	(436,522)	36.90
Forfeitures	(11,991)	30.80
Unvested balance as of July 1, 2023 (3)	1,712,884	$ 29.97

(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 July 1, 2023.

(3) An additional 476,582 PSUs could potentially be included if the maximum performance level of 200% is reached for all PSUs outstanding as of July 1, 2023.

Share-based Compensation Expense

We recognize compensation expense 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 vesting of the grant is probable. We recognize share-based award forfeitures in the period such forfeitures occur.

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

	13 Weeks Ended		26 Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Time-based stock options	$ 314	$ 559	$ 722	$ 1,017
RSUs	2,695	4,197	5,190	7,522
PSUs	8,287	4,702	12,060	6,707
Dividends (1)	9	26	9	33
Share-based compensation expense	$ 11,305	$ 9,484	$ 17,981	$ 15,279

(1) Represents cash dividends paid upon vesting of share-based awards as a result of dividends declared in connection with a recapitalization that occurred in fiscal 2018.

Note 6. Income Taxes

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

	13 Weeks Ended		26 Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Income tax expense	$ 7,244	$ 1,668	$ 15,083	$ 5,840
Effective income tax rate	22.8 %	7.7 %	28.3 %	15.6 %

The Company's tax provision for interim periods is determined using an estimated annual effective tax rate, adjusted for discrete events arising in each respective quarter. During each interim period, the Company updates the estimated annual effective tax rate. Our effective income tax rate for the 13 weeks ended July 1, 2023 was lower than the combined U.S. federal and state statutory income tax rate primarily due to excess tax benefits related to the exercise of stock options. Our effective income tax rate for the 26 weeks ended July 1, 2023 was higher than the combined U.S. federal and state statutory income tax rate primarily due to non-deductible executive compensation under Internal Revenue Code Section 162(m). The increase in our effective income tax rate for the 13 and 26 weeks ended July 1, 2023 compared to the 13 and 26 weeks ended July 2, 2022 was primarily driven by lower excess tax benefits related to the exercise of stock options as well as non-deductible executive compensation under Internal Revenue Code Section 162(m) during the 13 and 26 weeks ended July 1, 2023, which was not applicable during the 13 and 26 weeks ended July 2, 2022.

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 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 July 1, 2023 and December 31, 2022, respectively, and do not anticipate any changes to our uncertain tax positions within the next 12 months.

Note 7. Related Party Transactions

Related Party Leases

As of July 1, 2023 and July 2, 2022, we leased 14 and 15 store locations, respectively, and one warehouse location from entities in which Eric Lindberg, Jr., Chairman of our Board of Directors (and formerly our Chief Executive Officer until December 31, 2022), and MacGregor Read, Jr., who served as Vice Chairman of our Board of Directors until September 1, 2022, or their respective families, had a direct or indirect financial interest. As of July 1, 2023, the right-of-use assets and lease liabilities related to these properties was $36.4 million and $41.3 million, respectively. As of December 31, 2022, the right-of-use assets and lease liabilities related to these properties was $40.5 million and $45.5 million, respectively. These related parties received aggregate lease payments from us of $1.7 million and $1.8 million for the 13 weeks ended July 1, 2023 and July 2, 2022, respectively, and $3.4 million for each of the 26 weeks ended July 1, 2023 and July 2, 2022.

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 $50.6 million and $48.1 million as of July 1, 2023 and December 31, 2022, respectively. See Note 2 for additional information.

Note 8. Commitments and Contingencies

We are involved from time to time in claims, proceedings and litigation arising in the normal course of business. 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 will make the loss contingency both probable and reasonably estimable. If it is at least a reasonable possibility that a material loss will occur, the Company will provide disclosure regarding the contingency. Management believes that we do not have any pending litigation that, separately or in the aggregate, would have a material adverse effect on our results of operations, financial condition or cash flows.

Note 9. Earnings Per Share

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

	13 Weeks Ended		26 Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Numerator				
Net income and comprehensive income	$ 24,471	$ 20,094	$ 38,191	$ 31,668
Denominator				
Weighted-average shares outstanding – basic	98,515	96,578	98,218	96,358
Effect of dilutive options	1,991	3,140	2,056	3,091
Effect of dilutive RSUs and PSUs (1)	133	422	330	339
Weighted-average shares outstanding – diluted	100,639	100,140	100,604	99,788
Earnings per share:				
Basic	$ 0.25	$ 0.21	$ 0.39	$ 0.33
Diluted	$ 0.24	$ 0.20	$ 0.38	$ 0.32

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

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

	13 Weeks Ended		26 Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
RSUs	21	—	58	173

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 report, 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2022 ("2022 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.

We operate on a fiscal year that ends on the Saturday closest to December 31st each year. References to the second quarter of fiscal 2023 and the second quarter of fiscal 2022 refer to the 13 weeks ended July 1, 2023 and July 2, 2022, respectively.

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 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. Entrepreneurial independent operators ("IOs") run our stores and create a neighborhood feel through personalized customer service and a localized product offering. As of July 1, 2023, we had 447 stores in California, Washington, Oregon, Pennsylvania, Idaho, Nevada, Maryland and New Jersey.

Macroeconomic Conditions

Over the past several years, and to a lesser extent recently, our business has been and continues to be impacted by current macroeconomic conditions including supply chain and labor challenges, inflation, and changes in consumer behavior, and our IOs have been impacted by staffing challenges and increased labor costs and utility costs within their businesses. The extent of the continuing impact of these factors on our operational and financial performance will depend on many factors, including certain factors outside of our control.

We continue to utilize our unique buying model, our strong vendor relationships and our agile approach to inventory management to offer customers a compelling assortment at a deep value. While product costs have largely stabilized for us during the recent fiscal quarter, we continue to incur greater selling, general and administrative expenses ("SG&A") related to personnel, travel, and other third party and operational costs due to the aforementioned factors. Further, 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 as well as higher construction and development related costs.

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 generally accepted accounting principles ("GAAP") financial measures we use are net sales, gross profit and gross margin, SG&A and operating income. 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.

Second Quarter of Fiscal 2023 Overview

Key financial and operating performance results for the second quarter of fiscal 2023 compared to the second quarter of fiscal 2022 were as follows:

- Net sales increased 12.5% to $1.01 billion from $897.7 million in the second quarter of fiscal 2022; comparable store sales increased by 9.2%.
- We opened four new stores and closed one store, ending the second quarter of fiscal 2023 with 447 stores in eight states.
- Net income increased 21.8% to $24.5 million, or $0.24 per diluted share, compared to net income of $20.1 million, or $0.20 per diluted share, in the second quarter of fiscal 2022.
- Adjusted EBITDA(1) increased 22.7% to $70.5 million compared to $57.5 million in the second quarter of fiscal 2022.

- Adjusted net income[(1)] increased 18.5% to $31.9 million, or $0.32 per adjusted diluted share[(1)], compared to $26.9 million, or $0.27 per adjusted diluted share, in the second quarter of fiscal 2022.

(1) Adjusted EBITDA, adjusted net income and adjusted diluted earnings per share 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. Beginning with the fourth quarter of fiscal 2022, we updated our definitions of adjusted EBITDA, adjusted net income and adjusted earnings per share to no longer exclude the impact of non-cash rent expense and the provision for accounts receivable reserves. The presentation for adjusted EBITDA, adjusted net income and adjusted earnings per share for the 13 and 26 weeks ended July 2, 2022 have been recast to reflect these changes. See the "Operating Metrics and Non-GAAP Financial Measures" section of our 2022 Form 10-K, for additional information. Furthermore, see the "Operating Metrics and Non-GAAP Financial Measures" section below for additional information about these items, including their definitions, how the non-GAAP measures provide useful information to investors and how management utilizes them, and reconciliations of the non-GAAP measures and the most directly comparable GAAP 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 "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, 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, historically our business has benefited from periods of economic uncertainty.

Cost of Sales, Gross Profit and Gross Margin

Cost of sales includes, among other things, merchandise costs, inventory markdowns, inventory losses, transportation costs and distribution and warehousing costs, including depreciation. Gross profit is equal to our net sales less our cost of sales. 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 like we experienced and continue to experience as a result of the current 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 and the cost of opening new IO stores. 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 profits. The components of our SG&A may not be comparable to the components of similar measures of our competitors and other retailers.

In the first quarter of fiscal 2023, in order to enhance the comparability of our results with our peers, we updated our presentation of the condensed consolidated statements of operations and comprehensive income to include depreciation and amortization expenses and share-based compensation expenses within selling, general and administrative expenses. Prior period amounts have been reclassified to conform to current period presentation. The reclassification of these items had no impact on net income, earnings per share, or retained earnings in the current or prior periods.

Operating Income

Operating income is gross profit less SG&A. Operating income excludes interest expense, net, loss on debt extinguishment and modification 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 tables summarize 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		26 Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Net sales	$ 1,010,255	$ 897,659	$ 1,975,722	$ 1,729,086
Cost of sales	683,685	618,248	1,348,609	1,198,786
Gross profit	326,570	279,411	627,113	530,300
Selling, general and administrative expenses	290,089	252,500	557,814	483,961
Operating income	36,481	26,911	69,299	46,339
Other expenses:				
Interest expense, net	4,766	3,875	10,685	7,557
Loss on debt extinguishment and modification	—	1,274	5,340	1,274
Total other expenses	4,766	5,149	16,025	8,831
Income before income taxes	31,715	21,762	53,274	37,508
Income tax expense	7,244	1,668	15,083	5,840
Net income and comprehensive income	$ 24,471	$ 20,094	$ 38,191	$ 31,668

	13 Weeks Ended		26 Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Percentage of net sales (1)				
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	67.7 %	68.9 %	68.3 %	69.3 %
Gross profit	32.3 %	31.1 %	31.7 %	30.7 %
Selling, general and administrative expenses	28.7 %	28.1 %	28.2 %	28.0 %
Operating income	3.6 %	3.0 %	3.5 %	2.7 %
Other expenses:				
Interest expense, net	0.5 %	0.4 %	0.5 %	0.4 %
Loss on debt extinguishment and modification	— %	0.1 %	0.3 %	0.1 %
Total other expenses	0.5 %	0.6 %	0.8 %	0.5 %
Income before income taxes	3.1 %	2.4 %	2.7 %	2.2 %
Income tax expense	0.7 %	0.2 %	0.8 %	0.3 %
Net income and comprehensive income	2.4 %	2.2 %	1.9 %	1.8 %

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

Operating Metrics and Non-GAAP Financial Measures

Number of New Stores

The number of new stores reflects the number of stores opened during a particular reporting period. New 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.

We expect new store growth to be the primary 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 consists 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. 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 closed for an extended period as well as any planned store closures or dispositions. When applicable, as was the case with fiscal 2020 and will be 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.

Opening 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 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 measures on the same basis as management uses to evaluate our operating results. We use EBITDA, adjusted EBITDA, adjusted net income and adjusted earnings per share to supplement GAAP 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 measures of performance to evaluate our performance in connection with compensation decisions. We believe that excluding items from operating income, net income and net income 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 before net interest expense, income taxes and depreciation and amortization expenses. Adjusted EBITDA represents EBITDA adjusted to exclude share-based compensation expense, loss on debt extinguishment and modification, asset impairment and gain or loss on disposition 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 adjusted for the previously mentioned adjusted EBITDA adjustments, further adjusted for costs related to amortization of purchase accounting assets 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. EBITDA, adjusted EBITDA, adjusted net income and adjusted earnings per share are non-GAAP measures and may not be comparable to similar measures reported by other companies. EBITDA, adjusted EBITDA, adjusted net income and adjusted earnings per share 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 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 EBITDA, adjusted EBITDA, adjusted net income and adjusted earnings per share should not be construed as an inference that our future results will be unaffected by the adjustments we have used to derive our non-GAAP measures.

Beginning with the fourth quarter of fiscal 2022, we updated our definitions of adjusted EBITDA, adjusted net income and adjusted earnings per share to no longer exclude the impact of non-cash rent expense and the provision for accounts receivable reserves. The presentation for adjusted EBITDA, adjusted net income and adjusted earnings per share for the 13 and 26 weeks ended July 2, 2022 has been recast to reflect these changes.

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		26 Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Other Financial and Operations Data				
Number of new stores	4	7	7	11
Number of stores open at end of period	447	425	447	425
Comparable store sales increase [1]	9.2 %	11.2 %	10.6 %	8.2 %
EBITDA [2]	$ 57,601	$ 45,191	$ 105,754	$ 83,609
Adjusted EBITDA [2]	$ 70,519	$ 57,483	$ 133,597	$ 103,564
Adjusted net income [2]	$ 31,919	$ 26,929	$ 58,943	$ 46,139

(1) 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.

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

GAAP to Non-GAAP Reconciliations

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

	13 Weeks Ended		26 Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Net income	$ 24,471	$ 20,094	$ 38,191	$ 31,668
Interest expense, net	4,766	3,875	10,685	7,557
Income tax expense	7,244	1,668	15,083	5,840
Depreciation and amortization expenses	21,120	19,554	41,795	38,544
EBITDA	57,601	45,191	105,754	83,609
Share-based compensation expenses (1)	11,305	9,484	17,981	15,279
Loss on debt extinguishment and modification (2)	—	1,274	5,340	1,274
Asset impairment and gain or loss on disposition (3)	236	182	343	545
Other (4)	1,377	1,352	4,179	2,857
Adjusted EBITDA	$ 70,519	$ 57,483	$ 133,597	$ 103,564

	13 Weeks Ended		26 Weeks Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Net income	$ 24,471	$ 20,094	$ 38,191	$ 31,668
Share-based compensation expenses (1)	11,305	9,484	17,981	15,279
Loss on debt extinguishment and modification (2)	—	1,274	5,340	1,274
Asset impairment and gain or loss on disposition (3)	236	182	343	545
Other (4)	1,377	1,352	4,179	2,857
Amortization of purchase accounting assets and deferred financing costs (5)	1,424	3,055	2,991	6,167
Tax adjustment to normalize effective tax rate (6)	(2,448)	(4,295)	(856)	(4,471)
Tax effect of total adjustments (7)	(4,446)	(4,217)	(9,226)	(7,180)
Adjusted net income	$ 31,919	$ 26,929	$ 58,943	$ 46,139
GAAP earnings per share				
Basic	$ 0.25	$ 0.21	$ 0.39	$ 0.33
Diluted	$ 0.24	$ 0.20	$ 0.38	$ 0.32
Adjusted earnings per share				
Basic	$ 0.32	$ 0.28	$ 0.60	$ 0.48
Diluted	$ 0.32	$ 0.27	$ 0.59	$ 0.46
Weighted average shares outstanding				
Basic	98,515	96,578	98,218	96,358
Diluted	100,639	100,140	100,604	99,788

(1) Includes non-cash share-based compensation expense and cash dividends paid on vested share-based awards as a result of dividends declared in connection with a recapitalization that occurred in fiscal 2018. See "Share-based Compensation Expense" in the "Comparison of the 13 and 26 weeks ended July 1, 2023 and July 2, 2022" section below for additional information.

(2) Represents the write-off of debt issuance costs and debt discounts as well as debt modification costs related to refinancing and/or repayment of our credit facilities. See Note 3 to the condensed consolidated financial statements for additional information.

(3) Represents asset impairment charges and gains or losses on dispositions of assets.

(4) Represents other non-recurring, non-cash or non-operational items, such as technology upgrade implementation costs, costs related to employer payroll taxes associated with equity awards, legal settlements and other legal expenses, certain personnel-related costs, store closing costs and miscellaneous costs.

(5) Represents the amortization of debt issuance costs as well as 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, which included trademarks, customer lists, and below-market leases.

(6) 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 expenses or benefits related to stock option exercises and vesting of restricted stock units ("RSUs") that are recorded in earnings as discrete items in the reporting period in which they occur.

(7) 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.

Comparison of the 13 and 26 weeks ended July 1, 2023 and July 2, 2022 (amounts in thousands, except percentages)

Net Sales

	13 Weeks Ended				26 Weeks Ended			
	July 1, 2023	July 2, 2022	$ Change	% Change	July 1, 2023	July 2, 2022	$ Change	% Change
Net sales	$ 1,010,255	$ 897,659	$ 112,596	12.5 %	$ 1,975,722	$ 1,729,086	$ 246,636	14.3 %

The increase in net sales for the 13 and 26 weeks ended July 1, 2023 compared to the same periods in fiscal 2022 was primarily attributable to an increase in comparable store sales as well as non-comparable store net sales growth primarily from the 22 net new stores opened over the last 12 months.

Comparable store sales increased 9.2% for the 13 weeks ended July 1, 2023 and 10.6% for the 26 weeks ended July 1, 2023 compared to the same periods in fiscal 2022. The increase in comparable store sales for the 13 weeks ended July 1, 2023 was driven by a 9.1% increase in the number of transactions while average transaction size was flat. The increase in comparable store sales for the 26 weeks ended July 1, 2023 was driven by an 8.6% increase in the number of transactions and a 1.9% increase in average transaction size.

Cost of Sales

	13 Weeks Ended				26 Weeks Ended			
	July 1, 2023	July 2, 2022	$ Change	% Change	July 1, 2023	July 2, 2022	$ Change	% Change
Cost of sales	$ 683,685	$ 618,248	$ 65,437	10.6 %	$ 1,348,609	$ 1,198,786	$ 149,823	12.5 %
% of net sales	67.7 %	68.9 %			68.3 %	69.3 %		

The increase in cost of sales for the 13 and 26 weeks ended July 1, 2023 compared to the same periods in fiscal 2022 was primarily the result of an increase in comparable store sales combined with non-comparable net sales from 22 net new stores opened over the last 12 months.

Cost as a percentage of net sales decreased for the 13 and 26 weeks ended July 1, 2023 compared to the same periods in fiscal 2022 primarily due to our changing assortment along with strong purchasing and inventory management.

Gross Profit and Gross Margin

	13 Weeks Ended				26 Weeks Ended			
	July 1, 2023	July 2, 2022	$ Change	% Change	July 1, 2023	July 2, 2022	$ Change	% Change
Gross profit	$ 326,570	$ 279,411	$ 47,159	16.9 %	$ 627,113	$ 530,300	$ 96,813	18.3 %
Gross margin	32.3 %	31.1 %			31.7 %	30.7 %		

The increase in gross profit for the 13 and 26 weeks ended July 1, 2023 compared to the same periods in fiscal 2022 was primarily the result of an increase in comparable store sales combined with non-comparable sales from 22 net new stores opened over the last 12 months.

Gross margin increased for the 13 and 26 weeks ended July 1, 2023 compared to the same periods in fiscal 2022 primarily due to our changing assortment along with strong purchasing and inventory management.

Selling, General and Administrative Expenses

	13 Weeks Ended				26 Weeks Ended			
	July 1, 2023	July 2, 2022	$ Change	% Change	July 1, 2023	July 2, 2022	$ Change	% Change
SG&A	$ 290,089	$ 252,500	$ 37,589	14.9 %	$ 557,814	$ 483,961	$ 73,853	15.3 %
% of net sales	28.7 %	28.1 %			28.2 %	28.0 %		

The increase in SG&A for the 13 weeks ended July 1, 2023 compared to the same period in fiscal 2022 was driven by $26.5 million in higher store-related expenses and $11.1 million in higher corporate-related expenses. Store-related expenses primarily increased as a result of higher commission payments to IOs, reflecting gross profit growth, as well as higher store occupancy costs due to 22 net new stores opened over the last 12 months. Corporate-related expenses increased largely due to increased personnel costs primarily related to higher incentive compensation expense, reflecting strong performance for the 13 weeks ended July 1, 2023.

The increase in SG&A for the 26 weeks ended July 1, 2023 compared to the same period in fiscal 2022 was driven by $53.7 million in higher store-related expenses and $20.1 million in higher corporate-related expenses. Store-related expenses primarily increased as a result of higher commission payments to IOs, reflecting gross profit growth, as well as higher store occupancy costs due to 22 net new stores opened over the last 12 months. Corporate-related expenses increased largely due to increased personnel costs primarily related to higher incentive compensation expense, reflecting strong performance performance for the period.

As a percentage of net sales, SG&A increased for the 13 and 26 weeks ended July 1, 2023 compared to the same periods in fiscal 2022 primarily due to variable IO commission expense resulting from higher gross margin rates as well as higher incentive compensation expense due to strong performance during the 13 and 26 weeks ended July 1, 2023.

Interest Expense, Net

	13 Weeks Ended				26 Weeks Ended			
	July 1, 2023	July 2, 2022	$ Change	% Change	July 1, 2023	July 2, 2022	$ Change	% Change
Interest expense, net	$ 4,766	$ 3,875	$ 891	23.0 %	$ 10,685	$ 7,557	$ 3,128	41.4 %
% of net sales	0.5 %	0.4 %			0.5 %	0.4 %		

The increase in net interest expense for the 13 and 26 weeks ended July 1, 2023 compared to the same periods in fiscal 2022 was primarily driven by increases in the effective borrowing rate, partially offset by a decrease in principal debt outstanding over the last 12 months combined with increased interest income from IO notes and cash and cash equivalents. See Note 3 to the condensed consolidated financial statements for additional information.

Loss on Debt Extinguishment and Modification

	13 Weeks Ended				26 Weeks Ended			
	July 1, 2023	July 2, 2022	$ Change	% Change	July 1, 2023	July 2, 2022	$ Change	% Change
Loss on debt extinguishment and modification	$ —	$ 1,274	$ (1,274)	(100.0)%	$ 5,340	$ 1,274	$ 4,066	319.2 %
% of net sales	— %	0.1 %			0.3 %	0.1 %		

During the 26 weeks ended July 1, 2023, we recorded a $5.3 million loss on debt extinguishment related to the payoff of $385.0 million of principal on the senior term loan outstanding under our prior credit facilities. During the 26 weeks ended July 2, 2022, we recorded a $1.3 million loss on debt extinguishment related to the prepayment of $75.0 million of principal on the senior term loan outstanding under our prior credit facilities. See Note 3 to the condensed consolidated financial statements for additional information.

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Income Tax Expense

	13 Weeks Ended				26 Weeks Ended			
	July 1, 2023	July 2, 2022	$ Change	% Change	July 1, 2023	July 2, 2022	$ Change	% Change
Income tax expense	$ 7,244	$ 1,668	$ 5,576	334.3 %	$ 15,083	$ 5,840	$ 9,243	158.3 %
% of net sales	0.7 %	0.2 %			0.8 %	0.3 %		
Effective tax rate	22.8 %	7.7 %			28.3 %	15.6 %		

The increase in income tax expense for the 13 and 26 weeks ended July 1, 2023 compared to the same periods in fiscal 2022 was primarily due to higher pretax income combined with lower excess tax benefits from the exercise of stock options compared to the same periods in fiscal 2022.

The increase in our effective income tax rate for the 13 and 26 weeks ended July 1, 2023 compared to the 13 and 26 weeks ended July 2, 2022 was primarily driven by lower excess tax benefits related to the exercise of stock options as well as non-deductible executive compensation under Internal Revenue Code Section 162(m) during the 13 and 26 weeks ended July 1, 2023, which was not applicable during the 13 and 26 weeks ended July 2, 2022.

Net Income

	13 Weeks Ended				26 Weeks Ended			
	July 1, 2023	July 2, 2022	$ Change	% Change	July 1, 2023	July 2, 2022	$ Change	% Change
Net income	$ 24,471	$ 20,094	$ 4,377	21.8 %	$ 38,191	$ 31,668	$ 6,523	20.6 %
% of net sales	2.4 %	2.2 %			1.9 %	1.8 %		

As a result of the foregoing factors, net income increased for the 13 and 26 weeks ended July 1, 2023 compared to the same periods in fiscal 2022.

Adjusted EBITDA

	13 Weeks Ended				26 Weeks Ended			
	July 1, 2023	July 2, 2022	$ Change	% Change	July 1, 2023	July 2, 2022	$ Change	% Change
Adjusted EBITDA	$ 70,519	$ 57,483	$ 13,036	22.7 %	$ 133,597	$ 103,564	$ 30,033	29.0 %

The increase in adjusted EBITDA for the 13 and 26 weeks ended July 1, 2023 compared to the same periods in fiscal 2022 was primarily due to an increase in comparable store sales of 9.2% for the 13 weeks ended July 1, 2023 and 10.6% for the 26 weeks ended July 1, 2023, as well as higher net sales resulting from new store growth, combined with increased gross margin.

Adjusted Net Income

	13 Weeks Ended				26 Weeks Ended			
	July 1, 2023	July 2, 2022	$ Change	% Change	July 1, 2023	July 2, 2022	$ Change	% Change
Adjusted net income	$ 31,919	$ 26,929	$ 4,990	18.5 %	$ 58,943	$ 46,139	$ 12,804	27.8 %

The increase in adjusted net income for the 13 and 26 weeks ended July 1, 2023 compared to the same periods in fiscal 2022 was primarily due to an increase in comparable store sales of 9.2% for the 13 weeks ended July 1, 2023 and 10.6% for the 26 weeks ended July 1, 2023, as well as higher net sales resulting from new store growth, combined with increased gross margin.

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 as of February 21, 2023 (the "2023 Credit Agreement"). If cash generated from our operations and borrowings under our 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 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 July 1, 2023, we had cash and cash equivalents of $87.6 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 our 2023 Credit Agreement. As of July 1, 2023, we had no borrowings outstanding under the revolving credit facility and $4.2 million of outstanding standby letters of credit, resulting in $395.8 million of remaining borrowing capacity available under this revolving credit facility.

On February 21, 2023, we entered into the 2023 Credit Agreement, which provides for senior secured credit facilities consisting of (i) a senior secured term loan facility (the "senior term loan") in an original aggregate principal amount of $300.0 million and (ii) a senior secured revolving credit facility (the "revolving credit facility" and, together with the senior term loan, the "new credit facilities") in an aggregate principal amount of $400.0 million. The senior term loan was borrowed in full on such date, and $25.0 million of the revolving credit facility was borrowed on such date. See Note 3 to our condensed consolidated financial statements for additional information.

We may also, from time to time, at our sole discretion, prepay or retire all or a portion of our outstanding debt. On April 21, 2023, we repaid the $25.0 million of principal on our 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 the 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.

Material Cash Requirements

Other than the update to debt obligation payments noted below, there has been no material change in our material cash requirements since the end of fiscal 2022. See our 2022 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 26 weeks ended July 1, 2023, before the impact of tenant improvement allowances, were $78.3 million, and, net of tenant improvement allowances, were $73.9 million. We continue to expect total capital expenditures, net of tenant improvement allowances, to be approximately $155.0 million for fiscal 2023.

Debt Obligations

The 2023 Credit Agreement requires us to make scheduled quarterly amortization payments of the senior term loan. Such payments total $54.4 million over the remaining term of the senior term loan, with $1.9 million payable over the remainder of fiscal 2023. The remaining senior term loan principal balance will become due in February 2028 at maturity. See Note 3 to our condensed consolidated financial statements for additional information.

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 the 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 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) no less than 1.75 to 1.00 as of the last day of each test period.

As of July 1, 2023, we were in compliance with all applicable financial covenant requirements for our 2023 Credit Agreement.

Cash Flows

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

	26 Weeks Ended			
	July 1, 2023	July 2, 2022	$ Change	% Change
Net cash provided by operating activities	$ 157,120	$ 84,727	$ 72,393	85.4 %
Net cash used in investing activities	(78,084)	(65,378)	(12,706)	19.4 %
Net cash used in financing activities	(94,194)	(75,174)	(19,020)	25.3 %
Net decrease in cash and cash equivalents	$ (15,158)	$ (55,825)	$ 40,667	(72.8)%

Cash Provided by Operating Activities

Net cash provided by operating activities was $157.1 million for the 26 weeks ended July 1, 2023 compared to $84.7 million for the same period in fiscal 2022. The increase in net cash provided by operating activities of $72.4 million for the 26 weeks ended July 1, 2023 compared to the same period in fiscal 2022 was primarily driven by changes in merchandise inventory levels combined with increased net sales driven by comparable stores sales and new store growth.

Cash Used in Investing Activities

Net cash used in investing activities for the 26 weeks ended July 1, 2023 and July 2, 2022 was primarily for capital expenditures and loans to IOs.

Net cash used in investing activities was $78.1 million for the 26 weeks ended July 1, 2023 compared to $65.4 million for the same period in fiscal 2022. The increase in net cash used in investing activities of $12.7 million for the 26 weeks ended July 1, 2023 compared to the same period in fiscal 2022 was primarily due to increased spending on property and equipment due to higher store count as well as increased investments in computer software intangible assets, partially offset by a decrease in loans made to IOs.

Cash Used in Financing Activities

Net cash used in financing activities of $94.2 million for the 26 weeks ended July 1, 2023 was primarily due to the payoff of $385.0 million of principal on the prior senior term loan outstanding under our prior credit facilities, repayment of the $25.0 million of principal on our revolving credit facility, $4.5 million in debt issuance costs paid and the repurchase of $3.3 million worth of common stock, partially offset by $325.0 million in proceeds from the new credit facilities. Net cash used in financing activities of $75.2 million for the 26 weeks ended July 2, 2022 was primarily due to the prepayment of $75.0 million of principal on the senior term loan outstanding under our prior credit facilities as well as the repurchase of $3.5 million worth of common stock, partially offset by $4.0 million in proceeds from the exercise of stock options.

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 26 weeks ended July 1, 2023 from those disclosed in our 2022 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 July 1, 2023, our outstanding borrowings included $298.1 million from our senior term loan under the 2023 Credit Agreement. As of July 1, 2023, the interest rate on the senior term loan was 7.43% (See Note 3 to our condensed consolidated financial statements for additional information). Based on the outstanding balance and interest rate of our senior term loan as of July 1, 2023, a hypothetical 10% relative increase or decrease in the interest rate would cause an increase or decrease in interest expense of approximately $2.2 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, resulting in part from various supply disruptions, increased shipping and transportation costs, increased commodity costs, increased labor costs in the supply chain, increased SG&A related to personnel, travel, and other operational costs and other disruptions caused by the current 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 Chief Executive Officer and Chief 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 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 Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of July 1, 2023.

Changes in Internal Control over Financial Reporting

During the quarter ended July 1, 2023, there was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act 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 litigation that arises in the ordinary course of our business. Management believes that we do not have any pending litigation that, separately or in the aggregate, would have a material adverse effect on our results of operations, financial condition or cash flows, and no material legal proceedings were terminated, settled or otherwise resolved during the 13 weeks ended July 1, 2023.

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 Quarterly Report on 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 2022 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 2022 Form 10-K.

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

During the the 13 weeks ended July 1, 2023, we did not repurchase any shares of 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 - Directors and Section 16 Officers

During the 13 weeks ended July 1, 2023, 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 or any "non-Rule 10b5-1 trading arrangement."

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Item 6. Exhibits

		Incorporated by Reference			
Exhibit No.	**Exhibit**	**Form**	**File No.**	**Filing Date**	**Exhibit No.**
3.1	Restated Certificate of Incorporation of Grocery Outlet Holding Corp.	8-K	001-38950	6/10/2022	3.1
3.2	Amended and Restated Bylaws of Grocery Outlet Holding Corp.	8-K	001-38950	4/8/2022	3.1
10.1†*	Form of Restricted Stock Unit Grant and Agreement for Non-Employee Directors (Grocery Outlet Holding Corp. 2019 Stock Incentive Plan) (effective June 2023)				
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 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 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.				

† Management contract or compensatory plan or arrangement.

* Filed herewith.

** Furnished herewith. The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Grocery Outlet Holding Corp. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

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 thereunto duly authorized.

			Grocery Outlet Holding Corp.
Date:	August 9, 2023	By:	/s/ Charles C. Bracher
			Charles C. Bracher Chief Financial Officer (Principal Financial Officer)
Date:	August 9, 2023	By:	/s/ Lindsay E. Gray
			Lindsay E. Gray Senior Vice President, Accounting (Principal Accounting Officer)

Exhibit 10.1

RESTRICTED STOCK UNIT GRANT NOTICE
UNDER THE
GROCERY OUTLET HOLDING CORP.
2019 INCENTIVE PLAN

Grocery Outlet Holding Corp. (the "Company"), pursuant to its 2019 Incentive Plan, as it may be amended and restated from time to time (the "Plan"), hereby grants to the Participant set forth below the number of Restricted Stock Units set forth below. The Restricted Stock Units are subject to all of the terms and conditions as set forth herein, in the Restricted Stock Unit Agreement (attached hereto or previously provided to the Participant in connection with a prior grant), and in the Plan, all of which are incorporated herein in their entirety. Capitalized terms not otherwise defined herein shall have the meaning set forth in the Plan.

Participant:	*[Participant Name]*
Date of Grant:	*[Date of Grant]*
Vesting Commencement Date:	*[Vesting Commencement Date]*
Number of Restricted Stock Units:	*[Number of RSUs]*
Vesting Schedule:	Provided the Participant has not undergone a Termination prior to the vesting date (or event), 100% of the Restricted Stock Units will vest on the earlier to occur of (i) the date of the next annual meeting of the shareholders of the Company following the Date of Grant, or (ii) the first anniversary of the Vesting Commencement Date; provided, however, that the Restricted Stock Units will, to the extent not vested, become fully vested if the Participant undergoes a Termination by the Service Recipient without Cause following a Change in Control.
Dividend Equivalents:	The Restricted Stock Units shall be credited with dividend equivalent payments, as provided in Section 13(c)(iii) of the Plan.

***

GROCERY OUTLET HOLDING CORP.

____
By:
Title:

THE UNDERSIGNED PARTICIPANT ACKNOWLEDGES RECEIPT OF THIS RESTRICTED STOCK UNIT GRANT NOTICE, THE RESTRICTED STOCK UNIT AGREEMENT AND THE PLAN, AND, AS AN EXPRESS CONDITION TO THE GRANT OF RESTRICTED STOCK UNITS HEREUNDER, AGREES TO BE BOUND BY THE TERMS OF THIS RESTRICTED STOCK UNIT GRANT NOTICE, THE RESTRICTED STOCK UNIT AGREEMENT AND THE PLAN.

PARTICIPANT[1]

____

1 To the extent that the Company has established, either itself or through a third-party plan administrator, the ability to accept this award electronically, such acceptance shall constitute the Participant's signature hereto.

RESTRICTED STOCK UNIT AGREEMENT
UNDER THE
GROCERY OUTLET HOLDING CORP.
2019 INCENTIVE PLAN

Pursuant to the Restricted Stock Unit Grant Notice (the "Grant Notice") delivered to the Participant (as defined in the Grant Notice), and subject to the terms of this Restricted Stock Unit Agreement (this "Restricted Stock Unit Agreement") and the Grocery Outlet Holding Corp. 2019 Incentive Plan, as it may be amended and restated from time to time (the "Plan"), Grocery Outlet Holding Corp. (the "Company") and the Participant agree as follows. Capitalized terms not otherwise defined herein shall have the same meaning as set forth in the Plan.

1. **Grant of Restricted Stock Units**. Subject to the terms and conditions set forth herein and in the Plan, the Company hereby grants to the Participant the number of Restricted Stock Units provided in the Grant Notice (with each Restricted Stock Unit representing an unfunded, unsecured right to receive one share of Common Stock). The Company may make one or more additional grants of Restricted Stock Units to the Participant under this Restricted Stock Unit Agreement by providing the Participant with a new Grant Notice, which may also include any terms and conditions differing from this Restricted Stock Unit Agreement to the extent provided therein. The Company reserves all rights with respect to the granting of additional Restricted Stock Units hereunder and makes no implied promise to grant additional Restricted Stock Units.

2. **Vesting**. Subject to the conditions contained herein and in the Plan, the Restricted Stock Units shall vest as provided in the Grant Notice.

3. **Settlement of Restricted Stock Units**. Subject to any election by the Committee pursuant to Section 8(d)(ii) of the Plan, and any effective election under the Company's Directors Deferral Plan, as may be amended from time to time (the "Deferral Plan Election"), the Company will deliver to the Participant, without charge, as soon as reasonably practicable (and, in any event, within two and one-half months) following the applicable vesting date, one share of Common Stock for each Restricted Stock Unit (as adjusted under the Plan, as applicable) which becomes vested hereunder and such vested Restricted Stock Unit shall be cancelled upon such delivery. The Company shall either (a) deliver, or cause to be delivered, to the Participant a certificate or certificates therefor, registered in the Participant's name or (b) cause such shares of Common Stock to be credited to the Participant's account at the third party plan administrator. To the extent a Deferral Plan Election is in place, settlement of the Restricted Stock Units shall be governed by the Deferral Plan Election. Notwithstanding anything in this Restricted Stock Unit Agreement to the contrary, the Company shall have no obligation to issue or transfer any shares of Common Stock as contemplated by this Restricted Stock Unit Agreement unless and until such issuance or transfer complies with all relevant provisions of law and the requirements of any stock exchange on which the Company's shares of Common Stock are listed for trading.

4. **Treatment of Restricted Stock Units Upon Termination**. The provisions of Section 8(c)(ii) of the Plan are incorporated herein by reference and made a part hereof.

5. **Company; Participant**.

(a) The term "Company" as used in this Restricted Stock Unit Agreement with reference to service shall include the Company and its Subsidiaries.

(b) Whenever the word "Participant" is used in any provision of this Restricted Stock Unit Agreement under circumstances where the provision should logically be construed to apply to the executors, the administrators, or the person or persons to whom the Restricted Stock Units may be transferred in accordance with Section 13(b) of the Plan, the word "Participant" shall be deemed to include such person or persons.

6. **Non-Transferability**. The Restricted Stock Units are not transferable by the Participant except to Permitted Transferees in accordance with Section 13(b) of the Plan. Except as otherwise provided herein, no assignment or transfer of the Restricted Stock Units, or of the rights represented thereby, whether voluntary or involuntary, by operation of law or otherwise, shall vest in the assignee or transferee any interest or right herein whatsoever, but immediately upon such assignment or transfer the Restricted Stock Units shall terminate and become of no further effect.

7. **Rights as Shareholder**. The Participant or a Permitted Transferee of the Restricted Stock Units shall have no rights as a shareholder with respect to any share of Common Stock underlying a Restricted Stock Unit unless and until the Participant shall have become the holder of record or the beneficial owner of such share of Common Stock, and no adjustment shall be made for dividends or distributions or other rights in respect of such share of Common Stock for which the record date is prior to the date upon which the Participant shall become the holder of record or the beneficial owner thereof.

8. **Tax Withholding**. The provisions of Section 13(d) of the Plan are incorporated herein by reference and made a part hereof. The Participant shall satisfy such Participant's withholding liability, if any, referred to in Section 13(d) of the Plan by having the Company withhold from the number of shares of Common Stock otherwise deliverable pursuant to the settlement of the Restricted Stock Units a number of shares of Common Stock with a fair market value, on the date that the Restricted Stock Units are settled, equal to such withholding liability; provided that the number of such shares may not have a fair market value greater than the minimum required statutory withholding liability unless determined by the Committee not to result in adverse accounting consequences. Notwithstanding the foregoing, the Participant acknowledges and agrees that to the extent consistent with applicable law and the Participant's status as an independent consultant for U.S. federal income tax purposes, the Company does not intend to withhold any amounts as federal income tax withholdings under any other state or federal laws, and the Participant hereby agrees to make adequate provision for any sums required to satisfy all applicable federal, state, local and foreign tax withholding obligations of the Company which may arise in connection with the grant of Restricted Stock Units.

9. **Notice**. Every notice or other communication relating to this Restricted Stock Unit Agreement between the Company and the Participant shall be in writing, which may include by electronic mail, and shall be mailed to or delivered to the party for whom it is intended at such address as may from time to time be designated by such party in a notice mailed or delivered to the other party as herein provided; provided that, unless and until some other address be so designated, all notices or communications by the Participant to the Company shall be mailed or delivered to the Company at its principal executive office, to the attention of the Company's General Counsel or its designee, and all notices or communications by the Company to the Participant may be given to the Participant personally or may be mailed to the Participant at the Participant's last known address, as reflected in the Company's records. Notwithstanding the above, all notices and communications between the Participant and any third-party plan administrator shall be mailed, delivered, transmitted or sent in accordance with the procedures established by such third-party plan administrator and communicated to the Participant from time to time.

10. **No Right to Continued Service**. This Restricted Stock Unit Agreement does not confer upon the Participant any right to continue as a director or other service provider to the Company.

11. **Binding Effect**. This Restricted Stock Unit Agreement shall be binding upon the heirs, executors, administrators and successors of the parties hereto.

12. **Waiver and Amendments**. Except as otherwise set forth in Section 12 of the Plan, any waiver, alteration, amendment or modification of any of the terms of this Restricted Stock Unit Agreement shall be valid only if made in writing and signed by the parties hereto; provided, however, that any such waiver, alteration, amendment or modification is consented to on the Company's behalf by the Committee. No waiver by either of the parties hereto of their rights hereunder shall be deemed to constitute a waiver with respect to

any subsequent occurrences or transactions hereunder unless such waiver specifically states that it is to be construed as a continuing waiver.

13. **Governing Law**. This Restricted Stock Unit Agreement shall be construed and interpreted in accordance with the laws of the State of Delaware, without regard to the principles of conflicts of law thereof. Notwithstanding anything contained in this Restricted Stock Unit Agreement, the Grant Notice or the Plan to the contrary, if any suit or claim is instituted by the Participant or the Company relating to this Restricted Stock Unit Agreement, the Grant Notice or the Plan, the Participant hereby submits to the exclusive jurisdiction of and venue in the courts of Delaware.

14. **Plan**. The terms and provisions of the Plan are incorporated herein by reference. In the event of a conflict or inconsistency between the terms and provisions of the Plan and the provisions of this Restricted Stock Unit Agreement (including the Grant Notice), the Plan shall govern and control.

15. **Section 409A**. It is intended that the Restricted Stock Units granted hereunder shall be exempt from Section 409A of the Code pursuant to the "short-term deferral" rule applicable to such section, as set forth in the regulations or other guidance published by the Internal Revenue Service thereunder.

16. **Imposition of Other Requirements**. The Company reserves the right to impose other requirements on the Participant's participation in the Plan, on the Restricted Stock Units and on any shares of Common Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

17. **Electronic Delivery and Acceptance**. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

18. **Entire Agreement**. This Restricted Stock Unit Agreement, the Grant Notice and the Plan constitute the entire agreement of the parties hereto in respect of the subject matter contained herein and supersede all prior agreements and understandings of the parties, oral and written, with respect to such subject matter.

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert J. Sheedy, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Grocery Outlet Holding Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2023

By: /s/ Robert J. Sheedy, Jr.
Robert J. Sheedy, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Charles C. Bracher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Grocery Outlet Holding Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2023

By: /s/ Charles C. Bracher
Charles C. Bracher
Chief Financial Officer
(Principal Financial Officer)

Exhibit 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**

In connection with the Quarterly Report of Grocery Outlet Holding Corp. (the "Company") on Form 10-Q for the period ended July 1, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert J. Sheedy, Jr., certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2023

By: /s/ Robert J. Sheedy, Jr.
Robert J. Sheedy, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Grocery Outlet Holding Corp. (the "Company") on Form 10-Q for the period ended July 1, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles C. Bracher, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2023

By: /s/ Charles C. Bracher
Charles C. Bracher
Chief Financial Officer
(Principal Financial Officer)