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**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA**

____, Individually and on behalf of all others
similarly situated,

Plaintiff,

v.

GROCERY OUTLET HOLDING CORP,
ROBERT JOSEPH SHEEDY, and CHARLES
C. BRACHER,

Defendants.

Case No:

**CLASS ACTION COMPLAINT FOR
VIOLATIONS OF THE FEDERAL
SECURITIES LAWS**

JURY TRIAL DEMANDED

Plaintiff ____ (“Plaintiff”), individually and on behalf of all other persons similarly situated, by Plaintiff’s undersigned attorneys, for Plaintiff’s complaint against Defendants (defined below), alleges the following based upon personal knowledge as to Plaintiff and Plaintiff’s own acts, and information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by and through Plaintiff’s attorneys, which included, among other things, a review of the defendants’ public documents, conference calls and announcements made by defendants, United States Securities and Exchange Commission (“SEC”) filings, wire and press releases published by and regarding Grocery Outlet Holding Corp. (“Grocery Outlet” or the “Company”), analysts’ reports and advisories about the Company, and other information readily obtainable on the Internet.

1 Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein
2 after a reasonable opportunity for discovery.

3 **NATURE OF THE ACTION**

4 1. This is a federal securities class action on behalf of a class consisting of all persons
5 and entities other than Defendants who purchased or otherwise Grocery Outlet securities between
6 August 9, 2023 through October 29, 2024, both dates inclusive (the “Class Period”). Plaintiff seeks
7 to recover compensable damages caused by Defendants’ violations of the federal securities laws and
8 to pursue remedies under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the
9 “Exchange Act”) and Rule 10b-5 promulgated thereunder.
10

11 2. Defendants provided investors with material information concerning Grocery
12 Outlet’s expected profit for fiscal year 2024. Defendants’ statements included, among other things,
13 confidence in the Grocery Outlet’s ability to successfully upgrade and transition the Company’s
14 internal systems in a timely and effective manner, while minimizing the risks associated with the
15 ongoing setbacks the Company was experiencing with regard to the transition.

16 3. Defendants provided these overwhelmingly positive statements to investors while, at
17 the same time, disseminating materially false and misleading statements and/or concealing material
18 adverse facts concerning the true state of Grocery Outlet’s transition to new and upgraded systems;
19 notably, that the Company was either not truly equipped to timely and effectively execute on the
20 transition or otherwise failed to disclose the potential for significant setbacks to Grocery Outlet’s
21 profitability as a result of delays and implementation issues which impacted the Company’s
22 visibility and performance. Such statements absent these material facts caused Plaintiff and other
23 shareholders to purchase Grocery Outlet’s securities at artificially inflated prices.

24 4. After the market closed on May 7, 2024, Grocery Outlet announced its financial
25 results for the first quarter of fiscal 2024, published below expected guidance for the second quarter,
26 and further reduced its guidance for the full fiscal year 2024. The Company attributed its results and
27 lowered guidance on “unforeseen systems transition costs that surfaced at the end of the quarter”
28

1 and the resulting “residual expense from our commission support program as we finish store
2 physical inventory counts in the second quarter.”

3 5. On this news, the price of Grocery Outlet stock fell 19.38% on May 8, 2024.

4 6. Then, on October 30, 2024, before the market opened, the Company announced that
5 Defendant Sheedy had “agreed to step down as the Company’s President and Chief Executive
6 Officer and resign as a member of the Board, effective immediately.”

7 7. On this news, the price of Grocery Outlet stock fell 16.3% on October 30, 2024.

8 8. Subsequent to the Class Period, the interim CEO of the Company confirmed that
9 Defendant Sheedy had essentially been fired, and spoke to challenges facing the Company as a
10 result of ongoing issues with the Systems Transition.

11 **JURISDICTION AND VENUE**

12 9. The claims asserted herein arise under and pursuant to §§10(b) and 20(a) of the
13 Exchange Act (15 U.S.C. §§78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC
14 (17 C.F.R. §240.10b-5).

15 10. This Court has jurisdiction over the subject matter of this action under 28 U.S.C.
16 §1331 and §27 of the Exchange Act.

17 11. Venue is proper in this District pursuant to §27 of the Exchange Act (15 U.S.C.
18 §78aa) and 28 U.S.C. §1391(b) as the alleged misstatements entered and the subsequent damages
19 took place in this judicial district. Further, Grocery Outlet is headquartered in this district.

20 12. In connection with the acts, conduct and other wrongs alleged in this Complaint,
21 Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce,
22 including but not limited to, the United States mail, interstate telephone communications and the
23 facilities of the national securities exchange.

24 **PARTIES**

1 13. Plaintiff, as set forth in the accompanying Certification, purchased the Company's
2 securities at artificially inflated prices during the Class Period and was damaged upon the revelation
3 of the alleged corrective disclosure.

4 14. Defendant Grocery Outlet is a California corporation with its principal executive
5 offices located at 5650 Hollis Street, Emeryville, CA 94608. During the Class Period, the
6 Company's common stock traded on the NASDAQ Stock Market (the "NASDAQ") under the
7 symbol "GO."

8 15. Grocery Outlet is a value retailer of consumables and fresh products sold via a
9 network of independently operated stores across the United States.

10 16. Defendant Robert Joseph Sheedy ("Sheedy") was the President, CEO, and a
11 Company Director at all relevant times.

12 17. Defendant Charles C. Bracher ("Bracher") was the Company's Chief Financial
13 Officer until March 1, 2024.

14 18. Defendants Sheedy and Bracher are sometimes referred to herein as the "Individual
15 Defendants."

16 19. Each of the Individual Defendants:

- 17 (a) directly participated in the management of the Company;
18 (b) was directly involved in the day-to-day operations of the Company at the highest
19 levels;
20 (c) was privy to confidential proprietary information concerning the Company and its
21 business and operations;
22 (d) was directly or indirectly involved in drafting, producing, reviewing and/or
23 disseminating the false and misleading statements and information alleged herein;
24 (e) was directly or indirectly involved in the oversight or implementation of the
25 Company's internal controls;
26 (f) was aware of or recklessly disregarded the fact that the false and misleading
27 statements were being issued concerning the Company; and/or
28

1 (g) approved or ratified these statements in violation of the federal securities laws.

2 20. The Company is liable for the acts of the Individual Defendants and its employees
3 under the doctrine of *respondeat superior* and common law principles of agency because all of the
4 wrongful acts complained of herein were carried out within the scope of their employment.

5 21. The scienter of the Individual Defendants and other employees and agents of the
6 Company is similarly imputed to the Company under *respondeat superior* and agency principles.

7 22. The Company and the Individual Defendants are referred to herein, collectively, as
8 the “Defendants.”

9
10 **SUBSTANTIVE ALLEGATIONS**
11 **Materially False and Misleading Statements**
12 **Issued During the Class Period**

13 23. On August 8, 2023, after the market closed, the Company held its earnings call for
14 the second quarter of 2023 (the “Q2 2023 Call”). On the Q2 2023 Call, Defendant Sheedy
15 discussed how the Company was working on through a technology upgrade for a new portal (the
16 “Systems Transition”). Defendant Sheedy described the portal as follows:

17 [Our forthcoming store portal is] a new platform that will provide operators with better
18 analytics and easier access to information to make smarter business decisions. We look
19 forward to delivering this new application to operators this quarter.

20 24. The Q2 2023 Call included the following exchange between an analyst and
21 Defendant Sheedy:

22 **Analyst:** [. . .] [W]hen is the portal going to be out there? And what do you think—if you
23 had to pick 2 elements of that, that will be the most impactful for the IOs. What would that
24 be? I'm sort of curious in terms of so many items, elasticity. Is that one of the that would
25 allow the IOs to price more opportunistic if they haven't to date?

26 **Defendant Sheedy:** Yes. We're really excited about the portal, together with some other
27 system enhancements that we will be implementing this quarter. So it's here being
28 implemented very soon. And then yes, in terms of benefits for the operator, gosh, so many.
I think, John, the first thing that comes to mind is just easier access to information and
access to new information that they've not seen before, at least not in the format that it will
be available. And then with that, comes better decision-making, faster, better decision-
making around inventory, around ordering, around managing the mix, really in all aspects
for how they manage their business, which is a huge benefit, so which to grow sales and
improve margin. And then the other benefit that I would mention is just efficiencies. So

1 certainly, you've talked about rise in costs, operating expenses, labor, et cetera, challenges
2 that we, together with operators, have managed through for a long time now, but this new
3 platform portal will allow them to operate even more efficiently, better use of their time,
4 reallocate it to spend time with customers, or operate the P&L more efficiently to help them
5 with their income growth.

6 25. The above statements made by Defendant Sheedy in ¶¶ 23-24 were materially false
7 and misleading when made because he overstated the likelihood of success of the new portal, given
8 that, upon information and belief, the Company was woefully unprepared to implement the
9 Systems Transition, or did not have personnel that was sufficiently competent to handle the
10 Systems Transition.

11 26. On November 7, 2023, the Company held its earnings call for the third quarter of
12 2023 (the "Q3 2023 Call"). During the Q3 2023 Call, Defendant Sheedy discussed the Systems
13 Transition, saying the following, in pertinent part:

14 While pleased with our third quarter performance, ***we experienced operational disruptions
15 as we transition to upgraded systems.*** On prior calls, we have discussed our approach and
16 history of investing in modernizing systems to improve capabilities and drive efficiency.
17 ***We began to implement our most recent enhancements in late August, which include
18 upgrades to product, inventory, financial and reporting platforms.*** One important
19 component of this upgrade is a new store portal that will provide operators with improved
20 data to make better purchasing, merchandising and marketing decisions. We are excited for
21 the improved functionality, scalability and data analytics that this and other enhancements
22 will provide. ***The transition to these new systems has resulted in ordering and inventory
23 disruptions that have impacted third and fourth quarter results.***

24 ***We have been partnering closely with our independent operators to minimize the impact
25 to customers and sales. We have also elected to provide commission support to our
26 operators as we continue to make steady progress adapting to the new systems. We
27 anticipate the transitional impact to be largely behind us by the end of the year.*** Charles
28 will provide more details in his commentary.

(Emphasis added).

29 27. CFO Bracher spoke further as to the negative financial impact caused by the
30 Systems Transition, stating, in pertinent part, the following:

31 Our third quarter results reflect the continued momentum we are seeing in our business,
32 which drove strong comparable store sales growth and margin expansion. For the quarter,
33 net sales increased 9.3% to \$1 billion, primarily due to a 6.4% increase in comparable store
34 sales and the impact of new stores opened over the past 12 months. ***Our system upgrades***

1 *impacted comparable store sales by an estimated 150 basis points as comps were running*
2 *in the high single digits before the transition.*

3 * * *

4 While our underlying business remains strong, *we do expect the system transition to*
5 *significantly impact financial results in the fourth quarter and to a greater degree than*
6 *the third quarter, given the additional months affected.*

7 (Emphasis added).

8 28. The question-and-answer portion of the call followed, during which Defendants
9 spoke further as to the duration and materiality of the impact on the Company's finances from the
10 Systems Transition, pertinently engaging in the following exchanges:

11 **Analyst:** I just wanted to start off with a couple of questions around the new platforms you
12 implemented this quarter. What has been the biggest challenge related to the ordering? Is it
13 just learning the new program? Is there anything specific about the functionality that
14 surprised you?

15 *And then you also said the disruption would be largely behind us by year-end. But how*
16 *should we think about any impact into the first half of next year, especially any cost that*
17 *we should think about annualizing?* And then also, you mentioned that would bring better
18 data analytics. Just curious, how quickly you think you can implement those learnings? Or
19 have you any insights to share in just the first few months?

20 **Defendant Sheedy:** Leah, I'll take the first couple of parts of that question, and then I'll turn
21 it over to Charles to address your question around impact into 2024. First, just some more
22 information on what I shared in my comments. *We did upgrade a number of systems at the*
23 *end of August, inclusive of product inventory, financial and reporting platforms. These*
24 *upgrades include replacement of our AS400 system, which is our legacy ERP system with*
25 *SAP, along with other third-party plus some new proprietary applications for buying, in-*
26 *store operations. So that was the enhancement that was implemented back a couple of*
27 *months ago.*

28 * * *

29 *In terms of the challenges and the disruption that we face as we transition to the new*
30 *systems, we were challenged with inventory visibility, and the impact here was on ordering*
31 *and inventory management in general.* And unfortunately, this disruption did have an
32 impact throughout the business and the P&L. And notably, as mentioned in our comments,
33 top line sales were impacted by lighter inventory levels, slightly lower variety. We had some
34 pressure on margin as it relates to inventory inefficiencies. And then SG&A was higher as
35 well as we elected to provide operators with support.

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I'll say that we did expect some disruption during this transition. It was factored into our previous guidance, just not to the degree that we've been experiencing it. And of course, we're very disappointed with the magnitude of it and we own it. We own where we are. And at this point, we have addressed the inventory visibility issues, along with other issues we experienced earlier on. So we've made very good progress there. We've also recently returned to more normalized store ordering practices. We have much healthier warehouse inventory levels and flow throughout the system. So we're feeling good about all of that.

I'll also say that we are still adapting to other parts of the new systems. We were working through some of these new processes and working our way back to what I would describe as more optimal inventory levels and margin management and therefore, the impact that we anticipate throughout the fourth quarter here. *Nevertheless, we are making good daily progress. And as I mentioned, we do anticipate the transitional impacts to be largely behind us as we get to the end of the year.* And I'll kick it over to Charles now to comment on 2024.

Defendant Bracher: Yes. Leah, this is Charles. Just a bit more color on cost and sort of the cadence as you think about the quarterly impact going into next year. So as it relates to the third quarter, again, think of this as being 1 month of impact to the fiscal quarter. *And so as RJ mentioned, we felt both the top line and a margin impact in Q3, along with elective commission support. You see the same impacts in the fourth quarter, just to a greater degree as we're feeling the kind of full 3-month impact, if you will, in the fourth quarter.*

We do expect that as we -- over the course of the fourth quarter, all of those impacts moderate. And as disappointed as we are with the magnitude of the impact in the fourth quarter, we do expect and believe that it will be largely behind us by the end of the year. And so our view at this point is we will enter the new year without any lingering cost impacts or otherwise related to the transition.

* * *

Analyst: Charles, regarding your comp guidance, is your expectation that traffic continues to be very positive, offset by average unit retail? What should we think about in terms of average unit retails near and longer term? And as we appreciate a lot of the good changes on the new store portal. *The issues you had, just what gives you confidence that they'll be largely behind by end of year?*

* * *

Defendant Bracher: As it relates to the comp headwind as a result of the systems transition, that really did impact ticket. So [Ring], as you saw, was down a little less than 2% for the quarter, really coming from lower units. And that's both as a result of higher trip frequency. But yes, lighter inventory levels and variety is a result of the system transition.

* * *

1 **Defendant Sheedy:** And on the -- your question around the systems upgrades, Oliver, as I
2 mentioned before, *we have addressed the bigger issues that we faced earlier on around*
3 *inventory issue -- around inventory visibility issues as well as product flow challenges,*
4 *both into the warehouse and also from the warehouse to the stores.* So that progress feels
5 really good. And as a result, we have returned to more, I'll call them, more normalized store
6 ordering practices. And then together with that, healthier warehouse and store inventory
7 levels at a really important time. So feeling good about the progress that we've made in
8 support of the holiday shopping period that we're in the middle of right now.

6 We are still adapting to other parts of the new systems. There are a lot of new processes,
7 new functionality that comes with these new systems. And then together with that, working
8 our way back to what we would consider to be optimized inventory levels along with how
9 we manage the business and total margin and operations included. *Given the progress that*
10 *we've made and the daily progress that we continue to make, we do feel confident in being*
11 *able to resolve these outstanding issues to the point where the impact is then largely*
12 *behind us by the end of the year.*

11 * * *

12 **Analyst:** So RJ, I just wanted to follow up on the system upgrades. I mean, it does sound
13 like you anticipated some disruption but then it has actually come in well ahead of that.
14 Like, one, is that a fair characterization? And then two, is it fair to say that this doesn't alter
15 any of the margin structure into next year or the long term? And you'll essentially be able to
16 fully recapture all of the margin pressures once you lap the third and the fourth quarters?

16 **Defendant Sheedy:** The -- yes, for your first question, that is a fair characterization. We did
17 expect -- this is a big transition from a legacy platform that we've been operating on for the
18 past several decades. So -- and it's something that we've been working on for a couple of
19 years now. *So we've always known how large it was and complex. We did expect as a*
20 *result, some disruption, certainly not to this degree or this magnitude.* So I think you
21 characterized it well.

20 And then in terms of impact looking forward, and I think similar to the earlier question, we -
21 - as I said, *we do the transitional impact to be contained to this year, from what we've*
22 *already experienced in the third quarter. And then largely behind us at the end of the*
23 *year.* So you should think about us reverting back to previous performance and all the things
24 that we've always talked about related to consumer trends, top line sales and how we've
25 managed for both gross margin and bottom-line profit.

24 (Emphasis added).

26 29. On February 27, 2024, Defendants issued a press release entitled "Grocery Outlet
27 Holding Corp. Announces Fourth Quarter and Fiscal 2023 Financial Results." In pertinent part, the
28 release highlighted the issues related to the Systems Transition as follows:

1 **Highlights for the Fourth Quarter Fiscal 2023 as compared to Fourth Quarter Fiscal**
2 **2022:**

3 * * *

- 4 • As previously disclosed, the Company experienced disruptions as a result of the
5 implementation of new technological platforms in late August 2023. Such
6 disruptions are estimated to have negatively impacted store sales by approximately
7 200 basis points and gross margin by 130 basis points in the fourth quarter

8 * * *

9 **Highlights for Fiscal 2023 as compared to Fiscal 2022:**

10 * * *

- 11 • Disruptions as a result of the implementation of the new technology platforms in late
12 August 2023 are estimated to have negatively impacted comparable store sales by
13 approximately 90 basis points and gross margin by 50 basis points in fiscal 2023.

14 30. On the same day, the Company held its Full-Year 2023 Earnings Call (the “2023
15 Call”). During this Call, Defendants spoke to the progress surrounding the Systems Transition,
16 pertinently stating as follows:

17 *We have made steady progress with our systems implementation work, though data
18 integration efforts are taking longer than expected and are still impacting our business
19 results. The largest remaining issues are related to warehouse product expiry data and
20 store level reporting for IOs. We expect these to be resolved soon, after which the P&L
21 impact will be behind. Charles will provide more details in his comments.*

22 * * *

23 We estimate the system transition impacted comp sales by approximately 200 basis points
24 for the quarter. We opened 13 new stores during the quarter, including 7 in the East and 1 in
25 Southern California, ending the year with 468 locations. We remain pleased with the
26 performance of our new stores, which are ramping in line with our expectations.

27 Gross profit increased 6.3% to \$298.9 million, representing a 30.2% gross margin rate,
28 slightly better than our expectations. We continue to experience healthy deal flow, which
helped offset the margin impact of our system integration which we estimate was
approximately 130 basis points in the quarter.

* * *

Now let me provide you with some commentary on our fiscal 2024 guidance, which
includes the impact of the United Grocery Outlet acquisition and the system transition . . .
With respect to our system transition, while we have made progress, the data integration

1 *efforts have taken longer than anticipated. Because of this, we expect we'll continue to*
2 *experience P&L impacts during the first quarter.*

3 With that as background, let me provide you with our expectations for fiscal 2024. For the
4 full year, we are projecting comp sales growth in the range of 3% to 4%. *We expect comp*
5 *growth in the first quarter to be approximately 2%, which includes an estimated 50-basis-*
6 *point impact from the system transition.*

7 * * *

8 *We expect gross margin for the quarter of approximately 30.4%, which includes an*
9 *estimated 100-basis-point impact from the system transition.*

10 (Emphasis added).

11 31. During the question-and-answer portion of the call, Defendant Bracher directly
12 addressed an inquiry regarding the Company's effectiveness in handling the Systems Transition
13 during the following pertinent exchange:

14 **ANALYST:** I just wanted to touch on the 4Q comp a little bit. It looks like the headwind
15 from the systems change came in about 100 basis points better than you initially guided, but
16 less than that flowed through to the total comp. So I guess what surprised you versus your
17 internal expectations for the core business? And can you talk about just the dynamics in
18 ticket overall and how volumes trended as the ERP rollout improved.

19 **DEFENDANT BRACHER:** Yes. So let me start first in terms of overall comp for -- again
20 2.7% for us in the quarter, a bit better than we guided. It was a combination of slightly
21 higher *basket. So think about that as being the inventory recovery coming out -- working*
22 *through the system implementation was a bit faster than we thought so that helped basket.*
23 And supplementing that traffic was a little bit better. In terms of cadence throughout the
24 quarter, we saw comps improve modestly as we progressed. More importantly, we're
25 tracking very closely the prior year comparisons get a little bit noisy now. We're looking at
26 average weekly sales into some nice improvement through the fourth quarter, that has
27 continued into the first quarter. *So I feel like the underlying trends in the business are*
28 *healthy and improving as we again work our way through the system transition.*

(Emphasis added).

32. On February 28, 2024, Grocery Outlet filed with the SEC its annual report on Form
10-K for the fiscal year ended December 30, 2023 (the "2023 Annual Report").

33. The 2023 Annual Report contained the following statements about the Systems
Transition as follows:

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The ongoing modernization, enhancement and maintenance of our information systems have allowed us to support the growth in our business and store base. We have modernized and added several systems that provide us additional functionality and scalability in order to better support operational decision-making, including enhanced point of sale, warehouse management, human resource planning, business intelligence, vendor tracking and lead management, store communications, real estate lease management and financial planning and analysis systems.

We modify, update and replace our systems and infrastructure from time to time, including by adding new hardware, software and applications; maintaining, updating or replacing legacy programs; converting to enhanced systems; integrating new service providers; and adding enhanced new functionality, such as cloud computing technologies. *In addition, we have a customized enterprise resource planning system, components of which have been replaced over the past several years, including our financial ledger, inventory management platform and product data warehouse system, which were replaced in late August 2023. As previously disclosed, the implementation of these system upgrades resulted in ordering and inventory disruptions, which impacted our results of operations during the remainder of fiscal 2023.* We also will continue to identify and implement productivity improvements through both operational initiatives and system enhancements, such as category assortment optimization, improved inventory management tools and greater purchasing specialization.

* * *

We rely on our distribution, transportation and technology network and systems to provide goods to our distribution centers and stores in a timely and cost-effective manner. Our stores are highly dependent on the successful operations of our distribution, transportation and technology networks, as IOs use these systems to order multiple deliveries per week and many of our products have a limited shelf life from the time of purchase, particularly opportunistic buys and fresh foods. Deliveries to our stores occur from our distribution centers or directly from our suppliers. We use three primary leased distribution centers that we operate and five primary distribution centers operated by third-parties. Any disruption, unanticipated or unusual expense or operational failure related to these processes and systems could affect store operations negatively. For example, *during fiscal 2023 we replaced components of our enterprise resource planning system, including our financial ledger, inventory management platform and product data warehouse system. The implementation of these system upgrades resulted in ordering and inventory disruptions beginning in late August 2023, which resulted in reduced net sales and gross margin.*

* * *

We modify, update and replace our systems and infrastructure from time to time, including by adding new hardware, software and applications; maintaining, updating or replacing legacy programs; converting to global systems; integrating new service providers; and adding enhanced or new functionality, such as cloud computing technologies. *In late August 2023, we replaced components of our enterprise resource planning system,*

1 *including our financial ledger, inventory management platform and product data*
2 *warehouse system. The implementation of these system upgrades resulted in more than*
3 *anticipated ordering and inventory disruptions during the remainder of fiscal 2023. These*
4 *disruptions are estimated to have negatively impacted comparable store sales by*
5 *approximately 90 basis points and gross margin by 50 basis points in fiscal 2023.*

6 * * *

7 Further, the time and resources required to implement or optimize the benefits of new
8 technology initiatives, or potential issues that arise in implementing such initiatives, could
9 reduce the efficiency of our operations in the short term. *The efficient operation and*
10 *successful growth of our business depends upon our information systems, including our*
11 *ability to operate, maintain and develop them effectively. A failure of those systems could*
12 *disrupt our business, subject us to liability, damage our reputation, or otherwise impact*
13 *our financial results.*

14 * * *

15 The Company's management conducted an assessment of the Company's internal control
16 over financial reporting based on the framework established by the Committee of
17 Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated
18 Framework (2013). In connection with this assessment, the Company's management
19 identified deficiencies in the design and operating effectiveness of controls in its internal
20 control over financial reporting related to certain information technology general computer
21 controls ("ITGC's"). *The replacement of components of our enterprise resource planning*
22 *system in late August 2023 led to a significant increase in the volume of transactions*
23 *across user access, program change management, and IT operations for which our*
24 *existing controls were not designed to address. As a result, certain of the Company's*
25 *related business controls that are dependent upon the affected ITGC's were also deemed*
26 *ineffective.* We did not identify any misstatements to the consolidated financial statements
27 as of and for the year ended December 30, 2023 because of these control deficiencies.
28 However, *the pervasive impact of these control deficiencies to the Company's internal*
control over financial reporting created a reasonable possibility that a material
misstatement to the consolidated financial statements would not be prevented or detected
on a timely basis. Therefore, we concluded that the deficiencies represent a material
weakness in our internal control over financial reporting and, as such, our internal
control over financial reporting was not effective as of December 30, 2023.

(Emphasis added).

34. The statements referenced in ¶¶ 23, 24, 26-31, and 33 were false and/or materially misleading. Defendants created the false impression that they possessed reliable information pertaining to the completion of Grocery Outlet's System Transition and any potential negative impact resulting therefrom, while also minimizing the risks associated with potential and perceived

1 setbacks to the Company's finances as a result of implementation errors and other issues
2 surrounding the System Transition. In truth, Defendants' repeated indications as to both when the
3 Systems Transition would be completed and how significantly it would impact Grocery Outlet's
4 sales and margins fell short of reality as the Defendants relied far too heavily on their ability to
5 implement these new or otherwise upgraded systems without significant setbacks to the Company's
6 finances. Grocery Outlet was simply not equipped to properly execute on the transition as planned
7 and communicated to investors, despite repeated assurances that the issues would be resolved and
8 the transition completed with each coming quarter.

9 **THE TRUTH BEGINS TO EMERGE**

10 35. On December 11, 2023, before the market opened, Grocery Outlet issued a press
11 release entitled "Grocery Outlet Holding Corp. Announces CFO Transition and Reaffirms Fourth
12 Quarter Outlook and Fiscal 2023 Guidance." Upon information and belief, Defendant Bracher
13 chose to leave the Company due to the extent of issues with the Systems Transition. This press
14 release stated the following:

15 [Charles Bracher] has informed the Company of his intention to step down as Chief
16 Financial Officer, effective as of March 1, 2024, to pursue another opportunity. Mr. Bracher
17 will continue in his role through the expected filing of the Company's annual report on Form
18 10-K for fiscal 2023. The Company will commence a search to identify its next CFO with
19 the assistance of a leading executive search firm. Mr. Bracher will work closely with
20 Lindsay Gray, who currently serves as SVP, Accounting (Principal Accounting Officer),
21 through his transition.

22 36. On this news, the price of Grocery Outlet stock fell \$1.83, or 6.15%, to close at
23 \$27.91 on December 12, 2023.

24 37. On May 7, 2024, Defendants released their financial results for the first quarter of
25 2024, revealing that challenges from the Systems Transition had had a larger-than-expected impact
26 on the Company's results than had been expected. Defendants' press release stated provided the
27 following, in pertinent part:

- 28 • Gross margin decreased 180 basis points to 29.3%. As previously disclosed, the Company experienced disruptions as a result of the implementation of new technology platforms in late August 2023. Such disruptions are estimated to have negatively impacted gross margin by 210 basis points in the first quarter.

- Selling, general and administrative expenses increased by 13.3% to \$303.4 million, or 29.3% of net sales. This includes \$12.4 million of commission support we elected to provide our operators in connection with our system upgrades.

38. During the corresponding earnings call, Defendants outlined the setbacks and reduced guidance, in pertinent part, as follows:

Our low first quarter margins were the result of ***both expected and unexpected impacts from our systems transition***. We've made good progress since our last call, resolving known issues and have ended the IO commission support program as planned. ***However, our results were incrementally impacted by unforeseen systems transition costs that surfaced at the end of the quarter. We are all very disappointed with our poor Q1 results, and we are committed to getting these system impacts behind us very soon.***

* * *

First quarter gross margin of 29.3% was ***110 basis points below our expectations and includes approximately 210 basis points of impact from our systems transition issues***. In late August, we upgraded our product, inventory, financial and reporting platforms. ***This transition has disrupted our business operationally and financially over the past 8 months as we discussed on our last 2 calls. In February, there were 2 large remaining system issues impacting profit. One was related to warehouse product expiry data and the other related to store level reporting. We have since resolved both of these and the negative impact to first quarter gross margin came in as expected at about 100 basis points.***

We've reduced warehouse shrink close to normal levels with better data visibility and accurate store-level reporting enabled us to end the commission support program in March. Lindsay will speak later about some residual expense from the commission support program that will extend through the end of the second quarter. ***While we are encouraged by this progress, we are disappointed that we did not foresee the additional 110 basis points of margin impact. This was quantified during catch-up invoice processing and final margin reconciliation at the end of the quarter. Delayed payment processes during Q1, combined with poor data visibility, contributed to this miss versus guidance. We are disappointed by this as it is below our performance and forecasting standards.***

We have recently improved our payables process in the new system and have also increased our data visibility. Both of these improvements will enable us to manage the business back to historical margin levels and forecast with the same consistency as we did before.

* * *

Now on to guidance. Forecasting has been difficult during the system transition as we have not had good visibility to our normal business reporting and tools. Compounding this have been data integration issues and new processes that we and our operators are adapting to within new applications. Our guidance takes us into consideration as we complete final stages of our stabilization work.

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Our fiscal 2024 guidance continues to assume incremental sales of approximately \$125 million, adjusted EBITDA of \$7 million and a modest benefit to adjusted EPS from the acquisition of UGO. For the full year, we are now projecting comp sales growth in the range of 3.5% to 4.5%, up from 3% to 4% to reflect better-than-expected first quarter sales. We expect comp growth in the second quarter to be approximately 3.2%, which reflects a 100 basis points Easter shift out of Q2 into Q1. We now expect to add a total of 58 to 62 net new stores this year, up from 55 to 60. This includes the 40 newly acquired United Grocery Outlet stores as well as 18 to 22 new Grocery Outlet stores. In total, we continue to project fiscal 2024 net sales of \$4.3 billion to \$4.35 billion.

For the full fiscal year, we now project gross margin of approximately 30.5%. *We expect gross margin for the second quarter of approximately 30.0%, which includes an estimated 100 basis point impact from the systems transition. This is due to residual expense from our commission support program as we finish store physical inventory counts in the second quarter.* We expect gross margins to increase sequentially in the back half of the year.

(Emphasis added).

39. The aforementioned press releases and statements made by the Individual Defendants are in direct contrast to statements they made during the alleged false and/or materially misleading statements identified above. In those statements, Defendants continually praised their efforts to upgrade and transition the Company’s internal systems and touted the benefits of such new and upgraded systems, while continually minimizing the risks associated with potential and perceived issues surrounding the implementation of its Systems Transition.

40. On this news, Grocery Outlet stock fell \$5.02 per share, or 19.38%, to close at \$20.88 on May 8, 2024.

41. A number of well-known analysts who had been following Grocery Outlet lowered their price targets in response to Grocery Outlet’s disclosures. For example, Guggenheim, while remaining “neutral” despite cutting estimates, highlighted that “[t]he ERP-related operational/financial disruption, which has dominated the narrative over the past six months, reached a crescendo with the largest ‘miss and guide-down’ to date driving the shares ~15% lower after-hours.” Speaking to Grocery Outlet’s overall performance for the quarter and disappointing second quarter guide, the analyst further noted the following:

However, adjusted EBITDA missed by \$14 million with margin declining a greater-than-we-modeled 270 basis points. Reported gross margin eroded by 182 basis points, *a shortfall*

1 *of more than 100 basis points which was attributed to a lack of visibility into margin*
2 *dynamics. GO's unique, treasure hunt-oriented procurement model requires informed*
3 *buying and pricing decisions and this was lacking, in our view.*

4 * * *

5 The 2Q guide was even more surprising *since we assumed that the transitory costs were*
6 *behind us*. Instead, as detailed in Exhibit 4, management guided to gross and EBITDA
7 margins of 30.0% and 5.4%, respectively, *150-200 basis points below our estimates*.

8 (Emphasis added).

9 42. Additionally, Telsey Advisory Group, while cutting their price target, summarized
10 the issues surrounding the Systems Transition in detail, stating in pertinent part:

11 In August 2023, Grocery Outlet started to upgrade its inventory, financial, and reporting
12 systems, but the implementation has taken longer to execute, creating product and data
13 visibility issues as well as operating challenges. In February 2024, the company finally
14 completed the upgrade of its last two remaining systems —warehouse product expiry data
15 and store level reporting. However, execution challenges, physical inventory counting, and
16 invoicing issues caused pressure on the gross margin. Furthermore, Grocery Outlet provided
17 commission support to its independent operators (IOs) during this disruption, which further
18 elevated expenses. Overall, the system transition issue created profit pressure of ~\$65MM
19 over the past year, with half of it being IO commission support[.]

20 43. Similarly, Jefferies, while also cutting their price target, highlighted the impact
21 resulting from Systems Transition in the current quarter as follows:

22 GM came in at ~29.3%, below cons of ~30.4%, due to the new systems integration
23 headwinds. The co. estimated the systems disruption equated to a ~210bps drag on GM in
24 Q1, or ~110bps higher than mgmt's expectations. Looking ahead, GO expects the disruption
25 to continue through Q2; however, noted that critical reporting and visibility functions have
26 been restored, and anticipate a reversion to a more normalized margin level in 2H.

27 44. The fact that these analysts, and others, discussed Grocery Outlet's shortfall and
28 below-expectation projections suggests the public placed significant weight on Grocery Outlet's
prior revenue, sales, and margin estimates. The frequent, in-depth discussion of Grocery Outlet's
Systems Transition issues confirms that Defendants' statements during the Class Period were
material.

45. The truth was not fully known to the market because the Company continued to
downplay technological issues relating to the Systems Transition. On August 6, 2024, the Company
held its earnings call for the second quarter of 2024 (the "Q2 2024 Call"). On this Call, Defendant
Sheedy stated the following:

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We made good progress with our systems transition work over the past three months and the material P&L impact from this is now behind us. We are executing new store openings very well and ahead of schedule.

* * *

We continue to make good progress with ongoing systems transition work. Our effort is currently focused on improving visibility to additional operating data, increasing system speed, enhancing functionality and optimizing the system for efficiencies.

While these enhancements will improve aspects of our new systems that are still challenging to employees and operators, none of what remains should have a negative material impact to our future financial results.

46. On October 30, 2024, before the market opened, the Company filed with the SEC a current report on Form 8-K. This current report stated the following, in pertinent part:

After discussion with the Board of Directors of the Company (the "Board"), on October 29, 2024, Robert J. Sheedy, Jr. agreed to step down as the Company's President and Chief Executive Officer and resign as a member of the Board, effective immediately. Mr. Sheedy's decision to resign as a director was not due to any disagreement with the Company's operations, policies or practices. Mr. Sheedy will receive separation benefits of a termination without cause as set forth in the employment agreement with the Company he entered into on November 2, 2022, subject to execution and non-revocation of a general release of claims in favor of the Company, and the award agreements governing his outstanding equity awards.

47. On this news, the price of Grocery Outlet common stock fell \$2.71 per share, or 16.3%, to close at \$13.90 per share on October 30, 2024.

48. Subsequent to the Class Period, on November 5, 2024, during the Q3 2024 Earnings Call, it was confirmed that Defendant Sheedy had been asked to resign as a result of material issues with the Systems Upgrade. Specifically, the Q3 2024 Earnings Call included the following exchange between an analyst and Eric Lindberg, the interim CEO and Chairman of the Board, who confirmed that Defendant Sheedy had essentially been terminated as a result of the issues discussed herein, and who spoke to the continuing challenges facing the Company as a result of how poorly handled the Systems Transition was:

Analyst: [. . .] My question is, I was hoping we could just get more color on RJ's departure and also what type of CEO you're looking to replace him with. And maybe related to that, just to clarify the systems, where is the system's disruption right now? Is it behind you or is there still risk to the first half of next year related to that?

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Lindberg: Yeah. Hey Robbie. Good to talk to you again. Thanks for the question. So let me start first with the CEO transition. *You all know, this last year has been really difficult it's been an operational challenge year from the systems transition.* We have not executed like we want like our expectations and like our history. And that's been super challenging.

I'd say because of the relationship that we've all enjoyed, working with RJ for many, many years, we were patient. We felt like that was the right thing to do to be patient. And but I can tell you the same way that you all might be feeling about our performance we were feeling that internally as well. *So, we finally got to a point after the last Board Meeting where, we sat down.*

We had a frank conversation and we had an agreement to move forward. So, I really want to make sure everyone knows that, we didn't have any major disagreement. There's no new finding that you guys have learned about later there is no shoot or drop.

This is just a little bit of inconvenient timing. And sort of a function of how things played out nothing more. The question on systems kind of where are we today? I'll repeat a little bit of what I've said. I'm still digging into it, still getting up to speed. Let me say this the system is fully functional. We're still working on enhancements.

We're still working on efficiency which are words that just say it's not quite working to the speed that we expect. I would say full stabilization has been a bigger undertaking than we originally anticipated internally that just translates, it's been more resources, it's taken more time.

But I would say that we're making a lot of progress. I'll give you a couple of examples of things that I'm looking for that may address sort of your timing. The biggest thing to be is for the operators, is having their real-time order guide and their new arrival order guide back.

There it sounds like tactical things. But as a merchant being able to order off of our system and be able to look at a live inventory be able to tap into the system and pick what you want in your store, that's kind of nirvana in a in an opportunistic model.

And so, we have not had that tool. It's not back yet and we get that back I think we've sort of rounded towards home and the system will be finished. It's working, the tool is working, but it's not doing for us what we need it to do completely. So, really look forward to getting it, again as I said sort of in the rear-view mirror.

(Emphasis added).

49. Lindberg further stated the following about issues with the Systems Transition: Let me start with where we are today. First on systems. In August of 2023, we transitioned to SAP from our legacy systems and experienced significant issues, including poor data visibility, slow system speeds, and a loss of tools and functionality. These issues hurt our buyers' ability to write purchase orders efficiently, our inventory planning and supply chain

1 teams' ability to accurately manage inventory and our operators' ability to see real time
2 inventory in their order guide to bring product into their stores. The impact in the business
3 has been significant. And we have made substantial progress over the last year including
4 ending operator commission support.

5 While the new system is fully functional, work remains to improve visibility into additional
6 operating data to increase speed and to refine the tools that we and our operators use to
7 manage the business. This work is critical to executing our dynamic business effectively.

8 50. As a result of Defendants' wrongful acts and omissions, and the precipitous decline
9 in the market value of the Company's common shares, Plaintiff and other Class members have
10 suffered significant losses and damages.

11 **PLAINTIFF'S CLASS ACTION ALLEGATIONS**

12 51. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil
13 Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise
14 acquired the publicly traded securities of the Company during the Class Period (the "Class"); and
15 were damaged upon the revelation of the alleged corrective disclosures. Excluded from the Class
16 are Defendants herein, the officers and directors of the Company, at all relevant times, members of
17 their immediate families and their legal representatives, heirs, successors or assigns and any entity
18 in which Defendants have or had a controlling interest.

19 52. The members of the Class are so numerous that joinder of all members is
20 impracticable. Throughout the Class Period, the Company's securities were actively traded on the
21 NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can
22 be ascertained only through appropriate discovery, Plaintiff believes that there are hundreds or
23 thousands of members in the proposed Class. Record owners and other members of the Class may
24 be identified from records maintained by the Company or its transfer agent and may be notified of
25 the pendency of this action by mail, using the form of notice similar to that customarily used in
26 securities class actions.

27 53. Plaintiff's claims are typical of the claims of the members of the Class as all
28 members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal
law that is complained of herein.

1 54. Plaintiff will fairly and adequately protect the interests of the members of the Class
2 and has retained counsel competent and experienced in class and securities litigation. Plaintiff has
3 no interests antagonistic to or in conflict with those of the Class.

4 55. Common questions of law and fact exist as to all members of the Class and
5 predominate over any questions solely affecting individual members of the Class. Among the
6 questions of law and fact common to the Class are:

- 7 • whether the federal securities laws were violated by Defendants' acts as alleged
8 herein;
- 9 • whether statements made by Defendants to the investing public during the Class
10 Period misrepresented material facts about the financial condition, business,
11 operations, and management of the Company;
- 12 • whether Defendants' public statements to the investing public during the Class
13 Period omitted material facts necessary to make the statements made, in light of the
14 circumstances under which they were made, not misleading;
- 15 • whether the Individual Defendants caused the Company to issue false and misleading
16 SEC filings and public statements during the Class Period;
- 17 • whether Defendants acted knowingly or recklessly in issuing false and misleading
18 SEC filings and public statements during the Class Period;
- 19 • whether the prices of the Company's securities during the Class Period were
20 artificially inflated because of the Defendants' conduct complained of herein; and
- 21 • whether the members of the Class have sustained damages and, if so, what is the
22 proper measure of damages.

23 56. A class action is superior to all other available methods for the fair and efficient
24 adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the
25 damages suffered by individual Class members may be relatively small, the expense and burden of
26 individual litigation make it impossible for members of the Class to individually redress the wrongs
27 done to them. There will be no difficulty in the management of this action as a class action.

28

1 62. During the Class Period, the Company and the Individual Defendants, individually
2 and in concert, directly or indirectly, disseminated or approved the false statements specified above,
3 which they knew or deliberately disregarded were misleading in that they contained
4 misrepresentations and failed to disclose material facts necessary in order to make the statements
5 made, in light of the circumstances under which they were made, not misleading.

6 63. The Company and the Individual Defendants violated §10(b) of the 1934 Act and
7 Rule 10b-5 in that they:

- 8 • employed devices, schemes and artifices to defraud;
- 9 • made untrue statements of material facts or omitted to state material facts necessary
10 in order to make the statements made, in light of the circumstances under which they
11 were made, not misleading; or
- 12 • engaged in acts, practices and a course of business that operated as a fraud or deceit
13 upon plaintiff and others similarly situated in connection with their purchases of the
14 Company's securities during the Class Period.

15 64. The Company and the Individual Defendants acted with scienter in that they knew
16 that the public documents and statements issued or disseminated in the name of the Company were
17 materially false and misleading; knew that such statements or documents would be issued or
18 disseminated to the investing public; and knowingly and substantially participated, or acquiesced in
19 the issuance or dissemination of such statements or documents as primary violations of the
20 securities laws. These defendants by virtue of their receipt of information reflecting the true facts of
21 the Company, their control over, and/or receipt and/or modification of the Company's allegedly
22 materially misleading statements, and/or their associations with the Company which made them
23 privy to confidential proprietary information concerning the Company, participated in the
24 fraudulent scheme alleged herein.

25 65. Individual Defendants, who are the senior officers and/or directors of the Company,
26 had actual knowledge of the material omissions and/or the falsity of the material statements set forth
27 above, and intended to deceive Plaintiff and the other members of the Class, or, in the alternative,
28 acted with reckless disregard for the truth when they failed to ascertain and disclose the true facts in

1 the statements made by them or other personnel of the Company to members of the investing
2 public, including Plaintiff and the Class.

3 66. As a result of the foregoing, the market price of the Company's securities was
4 artificially inflated during the Class Period. In ignorance of the falsity of the Company's and the
5 Individual Defendants' statements, Plaintiff and the other members of the Class relied on the
6 statements described above and/or the integrity of the market price of the Company's securities
7 during the Class Period in purchasing the Company's securities at prices that were artificially
8 inflated as a result of the Company's and the Individual Defendants' false and misleading
9 statements.

10 67. Had Plaintiff and the other members of the Class been aware that the market price of
11 the Company's securities had been artificially and falsely inflated by the Company's and the
12 Individual Defendants' misleading statements and by the material adverse information which the
13 Company's and the Individual Defendants did not disclose, they would not have purchased the
14 Company's securities at the artificially inflated prices that they did, or at all.

15 68. As a result of the wrongful conduct alleged herein, Plaintiff and other members of
16 the Class have suffered damages in an amount to be established at trial.

17 69. By reason of the foregoing, the Company and the Individual Defendants have
18 violated Section 10(b) of the 1934 Act and Rule 10b-5 promulgated thereunder and are liable to the
19 Plaintiff and the other members of the Class for substantial damages which they suffered in
20 connection with their purchases of the Company's securities during the Class Period.

21 **COUNT II**

22 **Violation of Section 20(a) of The Exchange Act** 23 **Against The Individual Defendants**

24 70. Plaintiff repeats and realleges each and every allegation contained in the foregoing
25 paragraphs as if fully set forth herein.

26 71. During the Class Period, the Individual Defendants participated in the operation and
27 management of the Company, and conducted and participated, directly and indirectly, in the
28 conduct of the Company's business affairs. Because of their senior positions, they knew the adverse
non-public information regarding the Company's business practices.

1 C. Awarding Plaintiff and the other members of the Class prejudgment and post-
2 judgment interest, as well as their reasonable attorneys' fees, expert fees and other costs; and

3 D. Awarding such other and further relief as this Court may deem just and proper.

4 **DEMAND FOR TRIAL BY JURY**

5 Plaintiff hereby demands a trial by jury.

6 Date:
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