

THE RETURN TO WHOLE

THE SEARCH FOR REVITALIZATION IN AN EVER-CHANGING LANDSCAPE

BEST IDEA: LONG WHOLE FOODS MARKET (WFM)

September 15, 2016

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HEDGEYE CONSUMER STAPLES IDEAS LIST

LONG LIST

1) WFM Whole Foods Market				
		-	✓	✓

LONG BENCH				
GIS	General Mills			
PEP	PepsiCo			
CAG	ConAgra Foods			
THS	Treehouse Foods			
SJM	J.M. Smucker Co.			

LONG BENCH

GIS	General Mills
PEP	PepsiCo
CAG	ConAgra Foods
THS	Treehouse Foods
SJM	J.M. Smucker Co.

SHORT LIST

1) FLO	Flowers Foods	X	X	X
2) KR	Kroger	X	X	X
3) BUFF	Blue Buffalo Pet Products	X	X	X
4) CPB	Campbell Soup Co.	X	X	X
5) SVU	SUPERVALU	X	X	X
SHORT BENCH				
NUS	Nu Skin			
HAIN	Hain Celestial			

SHORT BENCH

NUS	Nu Skin
HAIN	Hain Celestial

Bench = timing is not right, or research is in progress.

KEY POINTS

1

INITIATIVES TO OFFSET SOME OF THE MACRO ISSUES

Unlike other companies in the supermarket space, WFM is taking on the macro challenges head on. Until recently, the company never really had to refine their business much because of their industry leading business model. Now the competition is coming from a number of different sources, forcing them to improve their business model. Ultimately, this will prove to be a winning strategy. To that end, WFM is currently working through a \$300 million cost savings program and has a number of initiatives underway across the enterprise to refine and improve their operating performance.

2

THE ORIGINAL NATURAL & ORGANIC STORE IS HERE TO STAY

WFM was the first mover in its category and still has an industry leading position, but as others have come in, they have been forced to pivot to stay relevant. Gone are the times of charging consistently higher prices to capture industry leading margins. As natural & organic has gone mainstream, WFM's advantage of being the only place to get those products drifted away. They are now faced with intense competition from both direct competitors and more conventional food retailers which they are not used to, forcing them to rework their business to remain competitive. WFM's brand is still one of the best in the business and we are confident given the initiatives underway they will re-accelerate market share growth in their segment.

3

PLAYING THE DEFLATION CYCLE

We have a tendency to be early with some of our calls as we like to think of stocks over a longer duration. WFM will likely be one of those calls. Currently the street hates WFM and the sector in general. Depending on your investment style, that is usually the best time to build a long position. Over the past 50 years, looking at food at home inflation there have been 6 periods of deflation (excluding the current) lasting approximately 7.2 months. The current deflationary cycle has lasted 8 months so we are past an average downturn. As we approach calendar 4Q16, it looks like early 2017 could be the inflection point in the turn from deflation to inflation and also the sentiment on WFM.

COMPANY OVERVIEW

Company Overview

- Whole Foods Market is the leading natural foods supermarket and the first national “Certified Organic” grocer
- The Company incorporated in 1978, opened the first Whole Foods Market store in 1980, and is based in Austin, Texas
 - Operates 454 stores: 434 stores in the U.S. and the District of Columbia; 11 stores in Canada; and 9 stores in the U.K.
 - Owns three distribution centers and acquired Wild Oats Market in August 2007, in a deal valued at \$671 million (110 stores)
- The largest natural and organic foods supermarket United States, the fifth largest public food retailer, and the tenth largest food retailer based on 2014 sales rankings
- Differentiates itself by offering the broadest selection of high-quality natural and organic products; an average store carries approximately 34,000 SKUs, with a strong emphasis on perishable foods, which comprises 67% of total sales
- Sales reached \$15.4bn in fiscal year 2015, an 8.4% increase YoY, on 431 total units

Management Team

- **Co-CEO, John Mackey:** Co-founder of the Company, has served as Chief Executive Officer since 1980. John also served as President from June 2001 to October 2004, and as Chairman of the Board from 1978 to December 2009
- **Co-CEO, Walter Robb:** Joined the Company in 1991. He operated the Mill Valley, CA store until he became president of the Northern Pacific Region in 1993, where he grew the region from two to 17 stores. He became Executive Vice-President of Operations in 2000, Chief Operating Officer in 2001 and Co-President in 2004. As Co-CEO, Walter oversees six regions and is on the Whole Planet Foundation Board of Directors
- **President & COO, A.C. Gallo:** Has served as President and Chief Operating Officer of the Company since May 2010. Prior to that, he was co-President and co-Chief Operating Officer since September 2004.
- **Executive VP & CFO, Glenda Flanagan:** Joined Whole Foods Market as Chief Financial Officer in 1988. Glenda has played a major role in the development of the company, helping it grow from six stores in the late 1980's to 431 stores and more than \$15bn in sales today

BOLSTERING THE ROSTER

**Tien Ho – Global VP of
Culinary and Hospitality**



**Sonya Gafsi Oblisk –
Global VP of Marketing**



**Martin Tracey – Global VP
of Team Member Services**



**Brooke Buchanan – Global Vice
President of Communications**



**Don J. Clark – Global VP for
Non-Perishables**



- With Tien leading the charge, Whole Foods will continue to push ahead with its prepared foods segment; a segment that remains a key differentiator for the company, generating nearly 20% of the company's sales
- With an eye toward partnering with more local chefs to bring their cuisine into stores, Whole Foods plans to use its prepared foods as a way to distance itself from competitors, who have entered the natural and organic food realm
- Competitors such as Sprouts and Kroger have increased their prepared foods segments, but Whole Foods is determined to hold its ground
- Sonya, Martin, Brooke and Don will be key factors in assisting Tien, as marketing and company-wide buy-in will be crucial to WFM's success
- Don Clark joined WFM in November of 2015 as the global vice president of non-perishables and will lead the category management initiative

WFM 5 YEAR VALUATION TREND

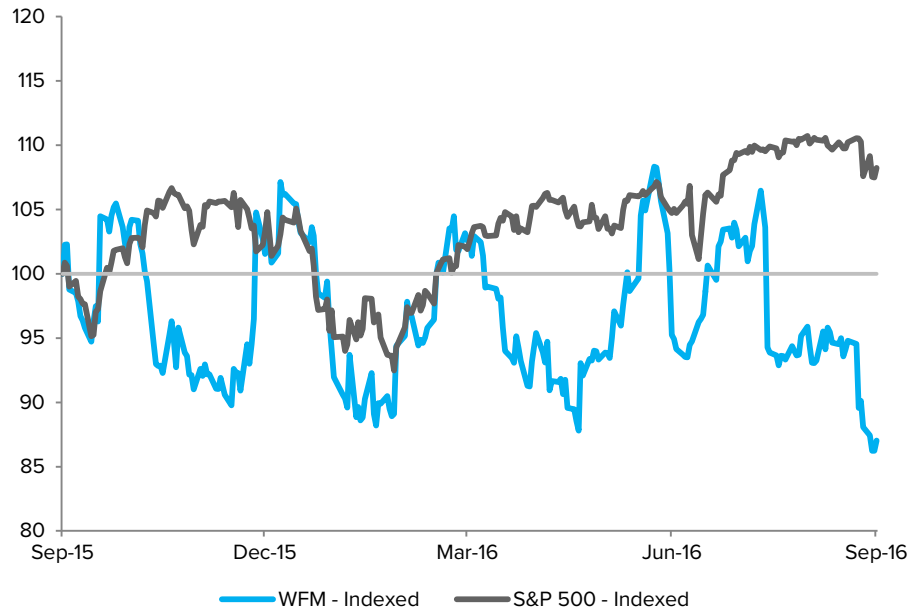
WELL BELOW LONG TERM AVERAGE

EV / NTM EBITDA

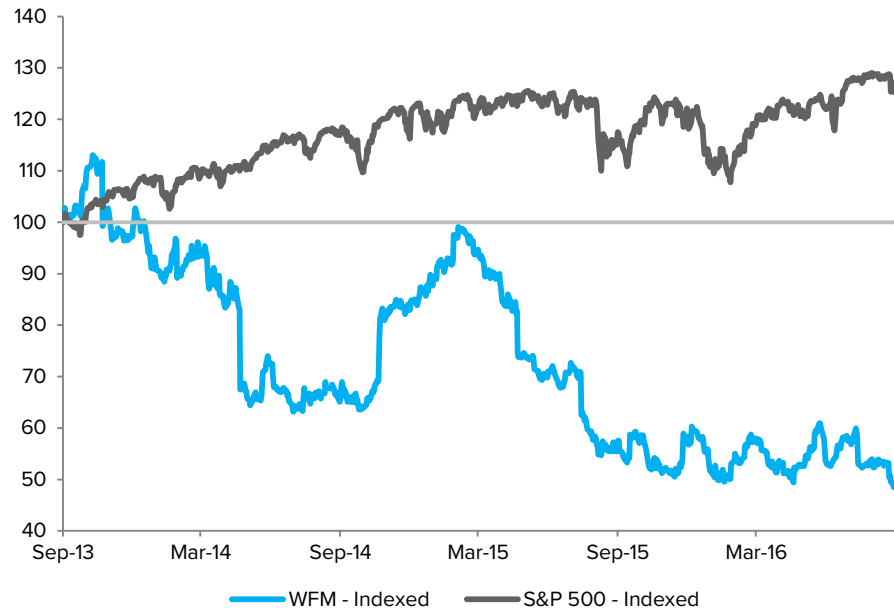


WFM PRICE PERFORMANCE

1 Year



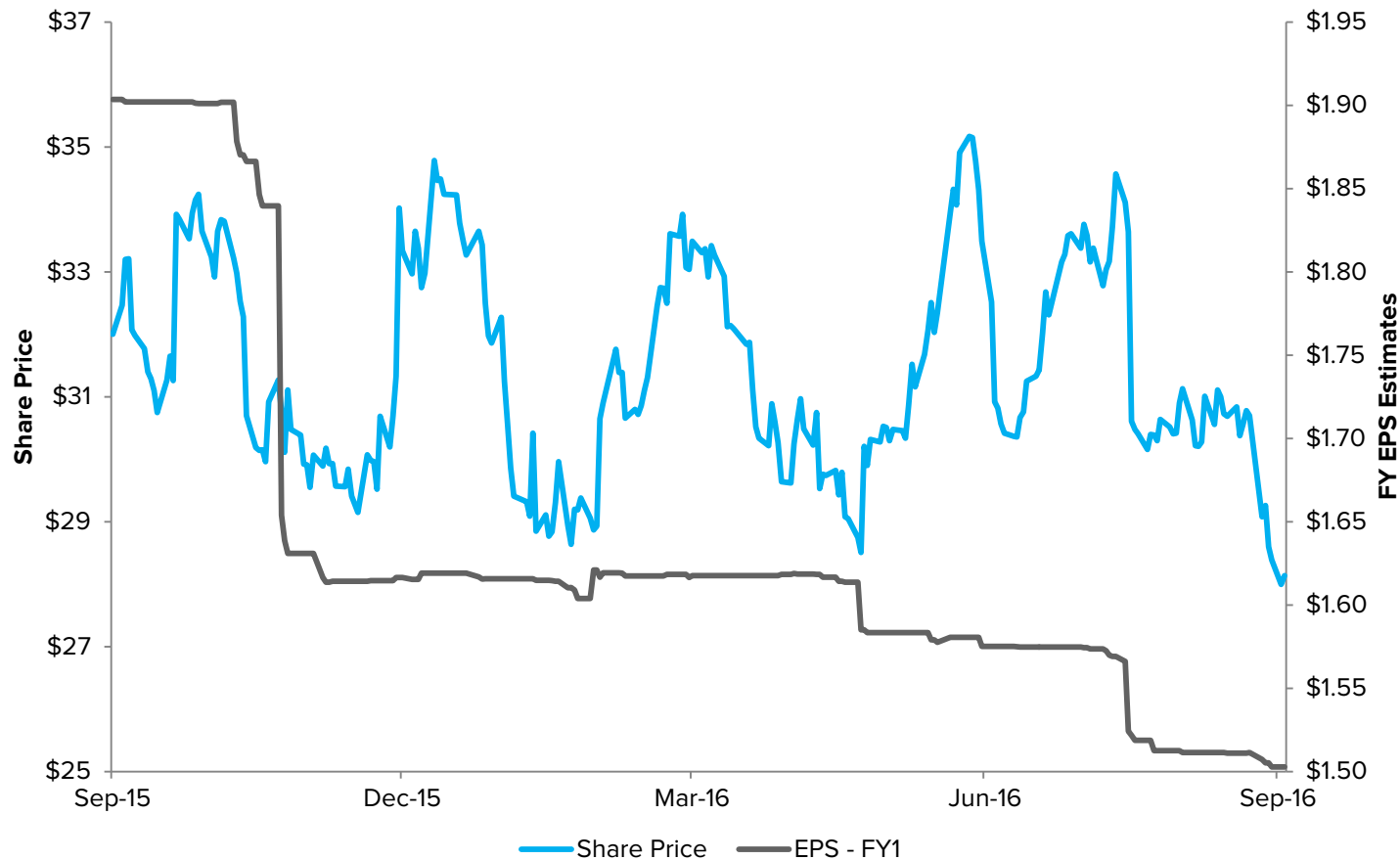
3 Year



WFM HAS BEEN AN UNDERPERFORMER

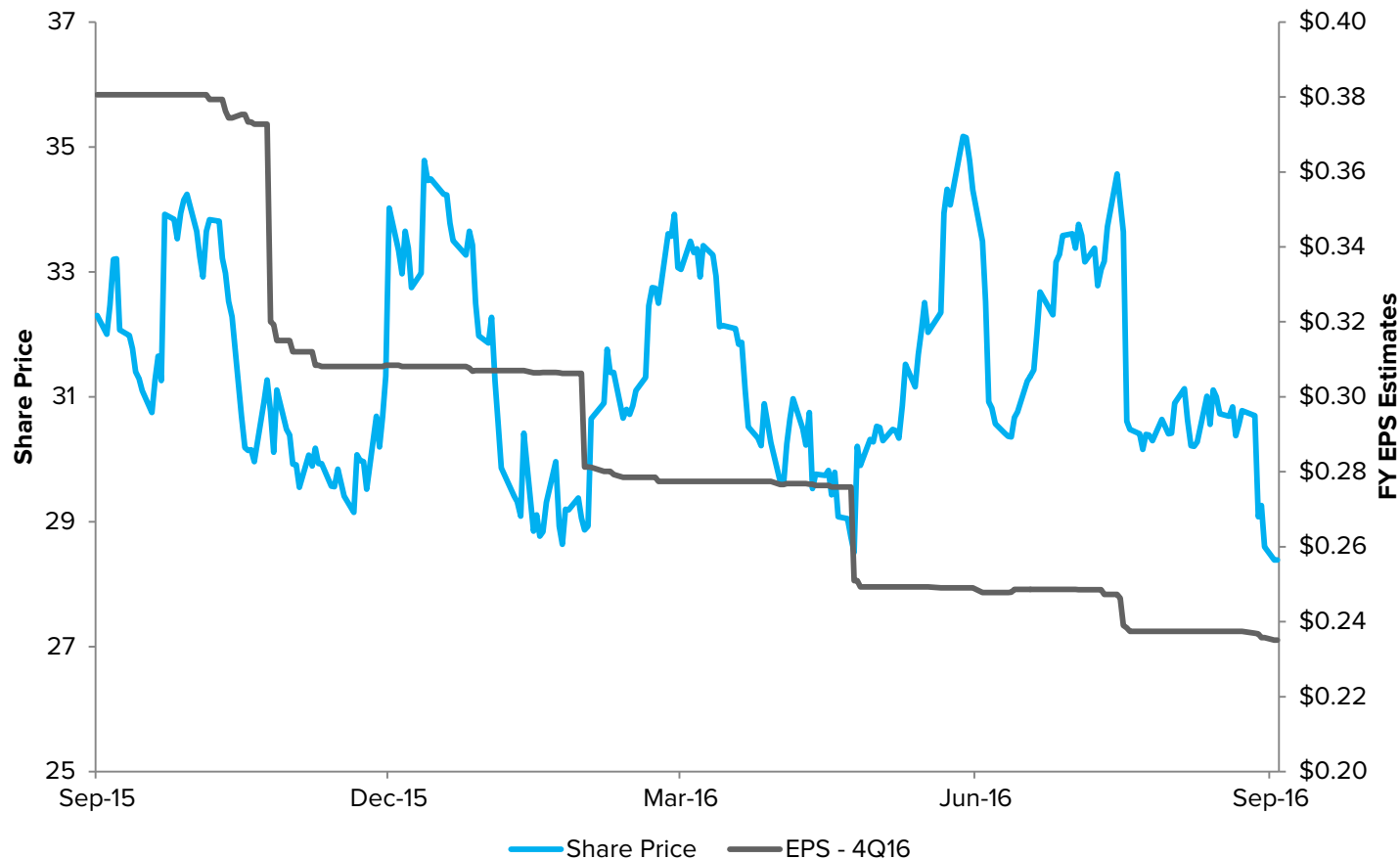
WFM is down ~14.0% in the last twelve months, and ~16.5% in the YTD period. Versus the S&P 500 up ~7.5% in the last twelve months and ~4.0% in the YTD period.

FY 2017 EPS REVISIONS VS. STOCK PRICE



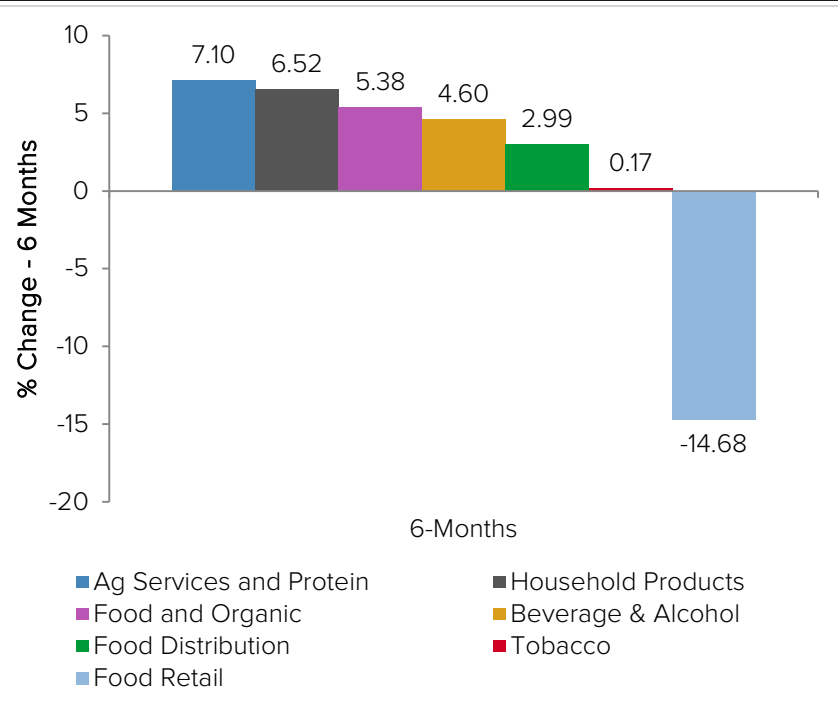
- FY 2017 estimates have been coming down
- There may be one additional small step down before everyone comes to grips with the changing landscape

4Q16 EPS REVISION TRENDS VS. STOCK PRICE



- Is the bottom in?
- Management's guidance coming out of their last call was the following: "If comps are in line with the negative 2.4% we have reported quarter to date and healthcare costs continue –the trends continue, we would expect sales growth of approximately 2% and diluted earnings per share of \$0.23 to \$0.24 for the quarter."
- The negative commentary in the food retail universe over the last week has hammered the group, and WFM was not immune to the beating.
- The possibility of there being one more quarter of negativity is high, given continued deflation and competition, but as we lay out in the deck, we believe we are closer to a bottom in deflation and the tide will begin to turn for the grocers that best position themselves to steal market share.

CONSUMER STAPLES MACRO TRACKER



Price Momentum	Price Change						
	Daily	Weekly	Month	3-Months	6-Months	YTD	1-Year
Ag Services and Protein	0.34	-3.87	-2.61	6.93	7.10	5.89	10.41
Household Products	0.20	-3.62	-5.29	-2.06	6.52	10.45	16.96
Food and Organic	0.24	-2.98	-4.99	0.42	5.38	8.20	9.46
Beverage & Alcohol	0.43	-2.93	-3.64	1.96	4.60	0.15	15.32
Food Distribution	0.34	-4.18	-4.81	-25.77	2.99	9.78	23.77
Tobacco	-0.35	-5.08	-5.11	-3.02	0.17	2.43	12.60
Food Retail	0.29	-3.77	-6.86	-5.22	-14.68	-16.96	-16.26
SP50	0.32	-2.39	-2.30	2.82	5.66	4.40	9.26

	NTM Earnings Revision Trends			
	1 Week	1 Month	3 Month	6 Month
Ag Services and Protein	0.12	1.08	3.49	6.91
Household Products	0.19	0.81	3.31	6.57
Food and Organic	0.18	0.76	2.71	6.49
Beverage & Alcohol	0.26	0.98	2.81	5.90
Tobacco	0.10	0.68	1.90	5.17
Food Distribution	0.00	0.00	0.00	4.69
Food Retail	-0.53	-2.51	-2.54	-2.37

FOOD RETAIL IS A MASSIVE OUTLIER IN THE SPACE

Food retail is getting run over by deflation, while ag services is benefiting during these times.

3Q16 QUARTERLY PERFORMANCE

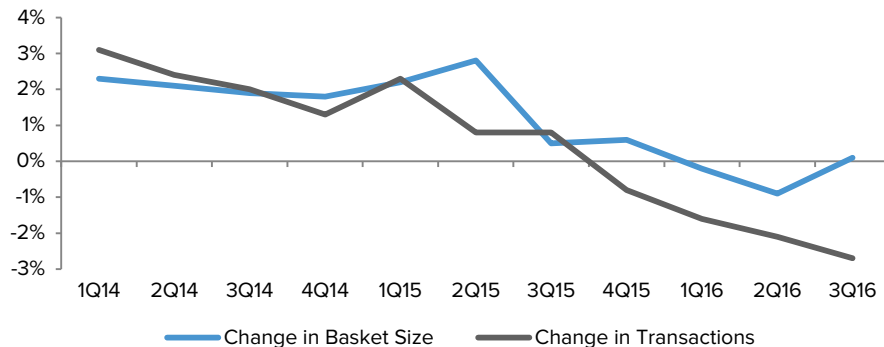
3Q16 Highlights

- WFM delivered sales of \$3.7 billion, vs. consensus estimates of \$3.5 billion
- WFM reported SSS of -2.6% versus consensus estimates of -2.3%
- \$0.37 in diluted EPS, matching consensus estimates, \$189 million of operating cash flow, and 8.8% EBITDA margin
- Returned \$239 million to shareholders through dividends and share repurchases
- Opened 12 new stores, including their first 365 by Whole Foods Market
- Comps improved sequentially by 40bps but the, 2-year average fell by 100bps, 2nd quarter in a row of ~100bps decline in the sequential 2-year avg.

Outlook

- Expect to open five flagship (27 total) Whole Foods Markets in FY16
- Hopeful that sequential improvements in comps will continue, but positive two year trends are still roughly a year away
- Expect deflation to be an ongoing headwind moving forward, but predict that sales growth of approximately two percent and diluted EPS of \$0.23 to \$0.24 for the quarter

Basket Size and Transactions



Management Commentary

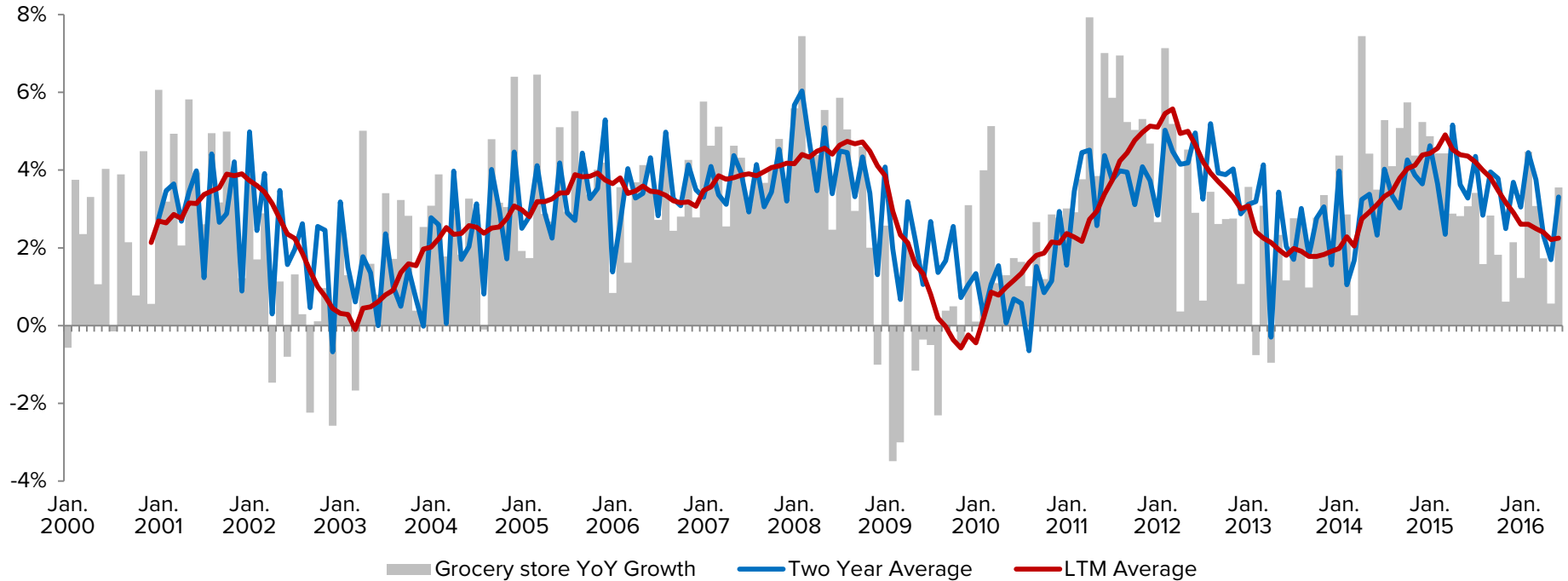
- Goal to reduce cost structure by \$300 million is still intact, despite current challenges in the market
- **Plan to grow square footage at a more moderate pace next year to lessen the impact of cannibalization on existing stores and allow for increased focus on key initiatives**
- Seeing a broad-based lift in items per basket and are encouraged with improving traffic trends in certain key departments, such as produce



INDUSTRY OVERVIEW



GROCERY SALES ARE IN A SLUMP

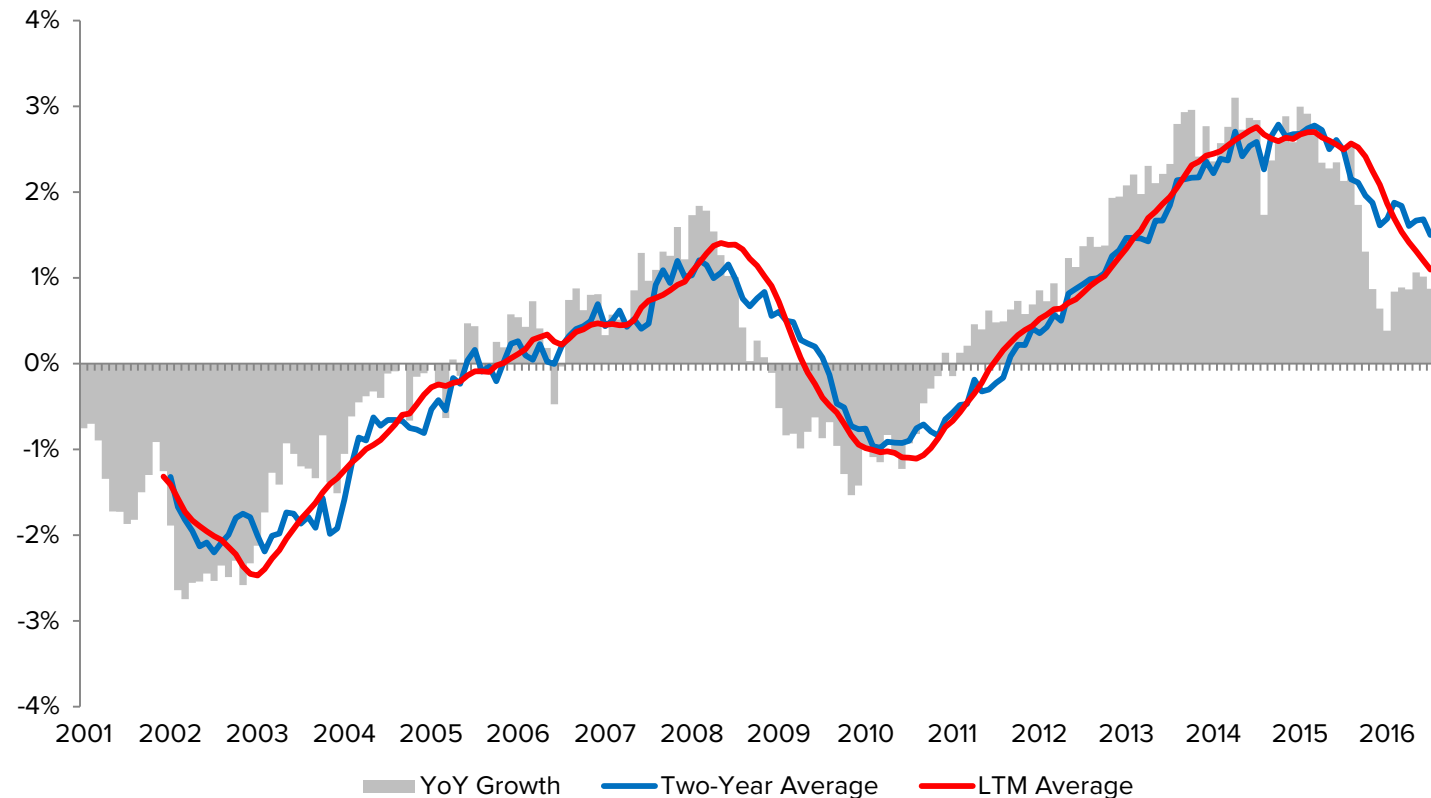


SINCE THE BEGINNING OF 2015 CONSUMER FOOD SPEND IS SLOWING OVERALL

The grocery spend slowdown seems to be forming a bottom. The beginning of the slowdown in early 2015 coincides with restaurant industry sales slowing.

GROCERY STORE EMPLOYMENT

GROWTH SLOWING AFTER MAJOR EXPANSION PERIOD

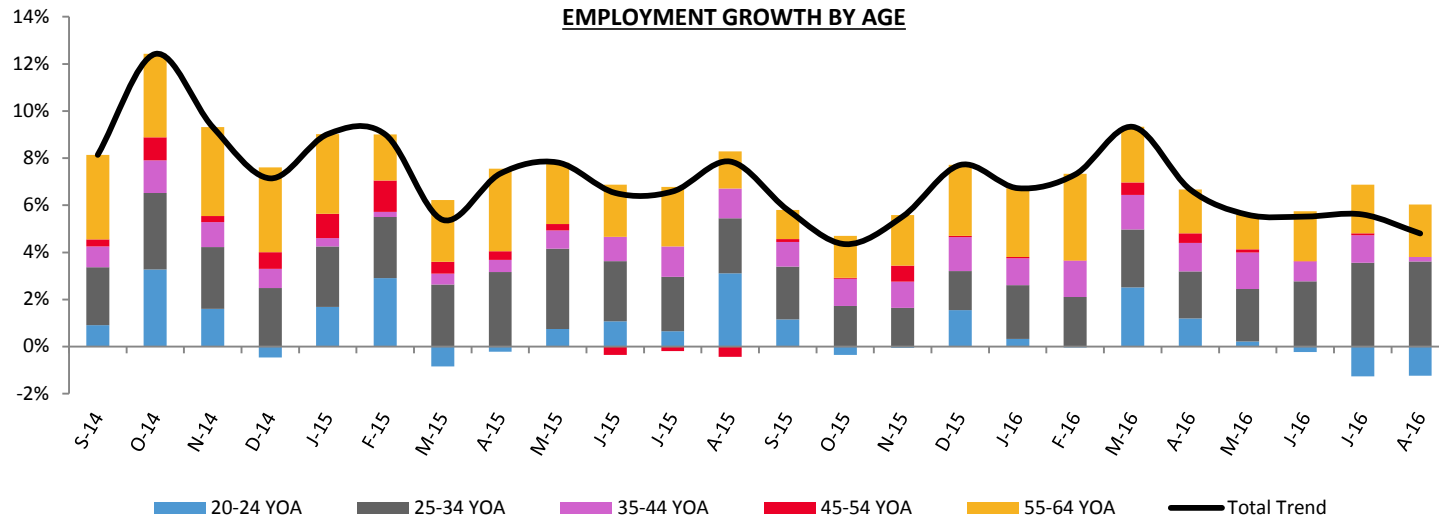


- The last negative growth period for Grocery store employment was January 2011.
- Since then, employment growth has averaged 1.7% per month
- Growth hit a peak of 3.1% in April 2014
- As of July 2016, YoY growth has decelerated for 11 months in a row, by an average of 160bps.
- Going back 24 months YoY bps change is negative for 19 of the 24 months
- The peak growth period is in the past, and grocers are working aggressively to improve labor spending partly with scheduling software, and to a greater extent, technology

GROWTH OF WFM CORE DEMOGRAPHIC

		High School Graduate or More	Some College or More	Associate's Degree or More	Bachelor's Degree or More	Advanced Degree
Characteristic	Total	Percent	Percent	Percent	Percent	Percent
Percent 25 and older	212,123	88.4%	58.9%	42.3%	32.5%	12.0%
Age						
25 to 34	43,006	90.5%	65.0%	46.5%	36.1%	10.9%
35 to 44	39,919	88.7%	62.8%	46.7%	36.3%	13.8%
45 to 64	83,213	89.4%	59.0%	42.6%	32.0%	12.1%
65 and older	45,994	84.3%	49.7%	34.1%	26.7%	11.3%

- With regard to their target demographic, WFM focuses on college-educated, professionals with mid to high-level incomes
- The assumption is that these individuals are more likely to be health and/or fitness conscious, and concerned about environment and sustainability issues
- Median income for those with a college education is approximately \$50k
- Growth of the 25-34 YOA cohort continues to outpace the rest, with YoY growth of 3.61% in August 2016

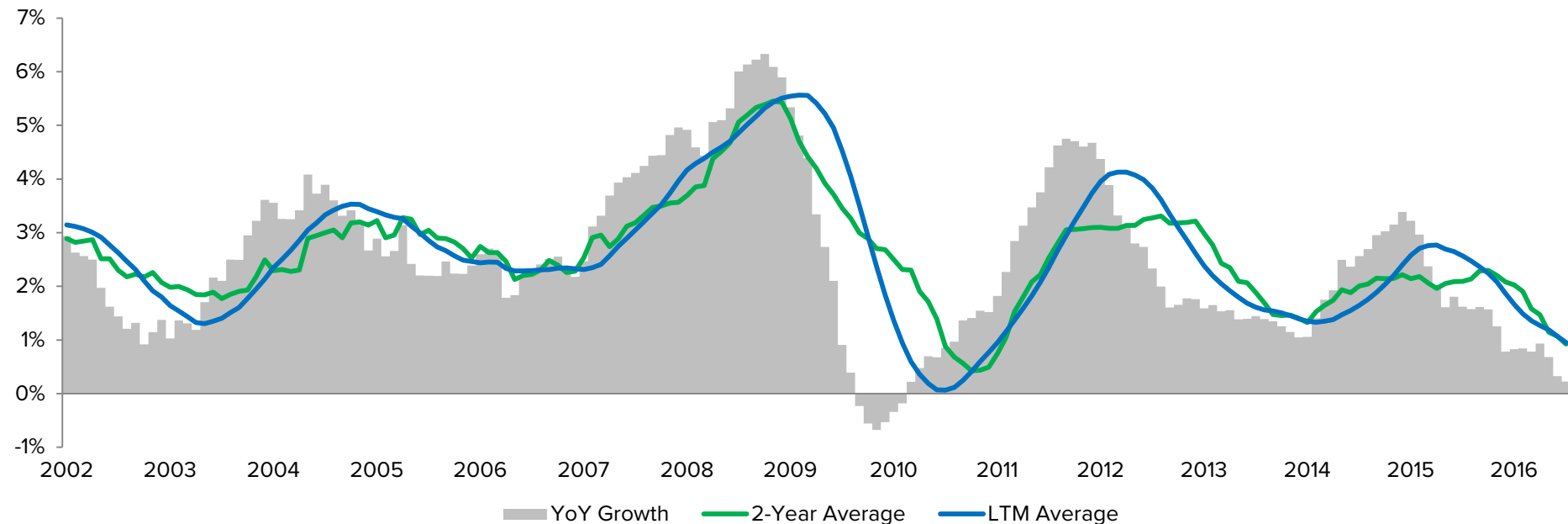




COMMODITIES = DEFLATIONARY

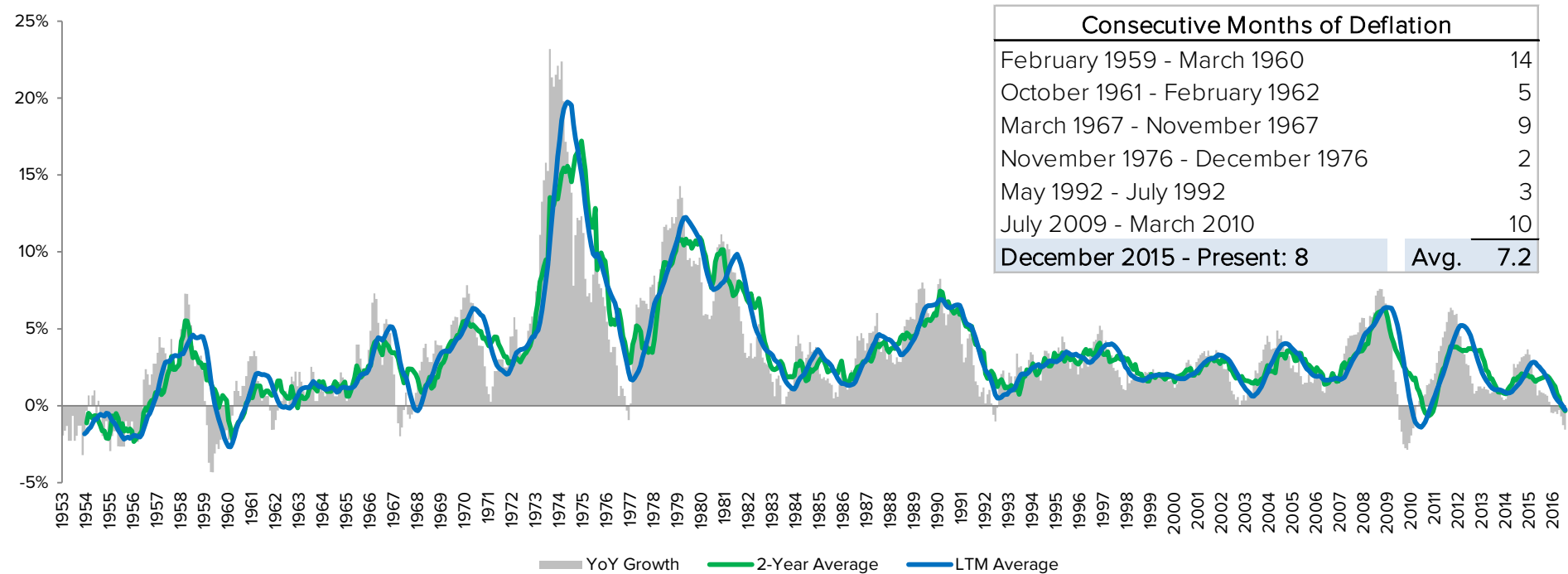
FOOD DEFLATION IS REAL

CPI - Food



THE BROADER FOOD CATEGORY HAS BEEN HEADING LOWER SINCE THE BEGINNING OF 2015

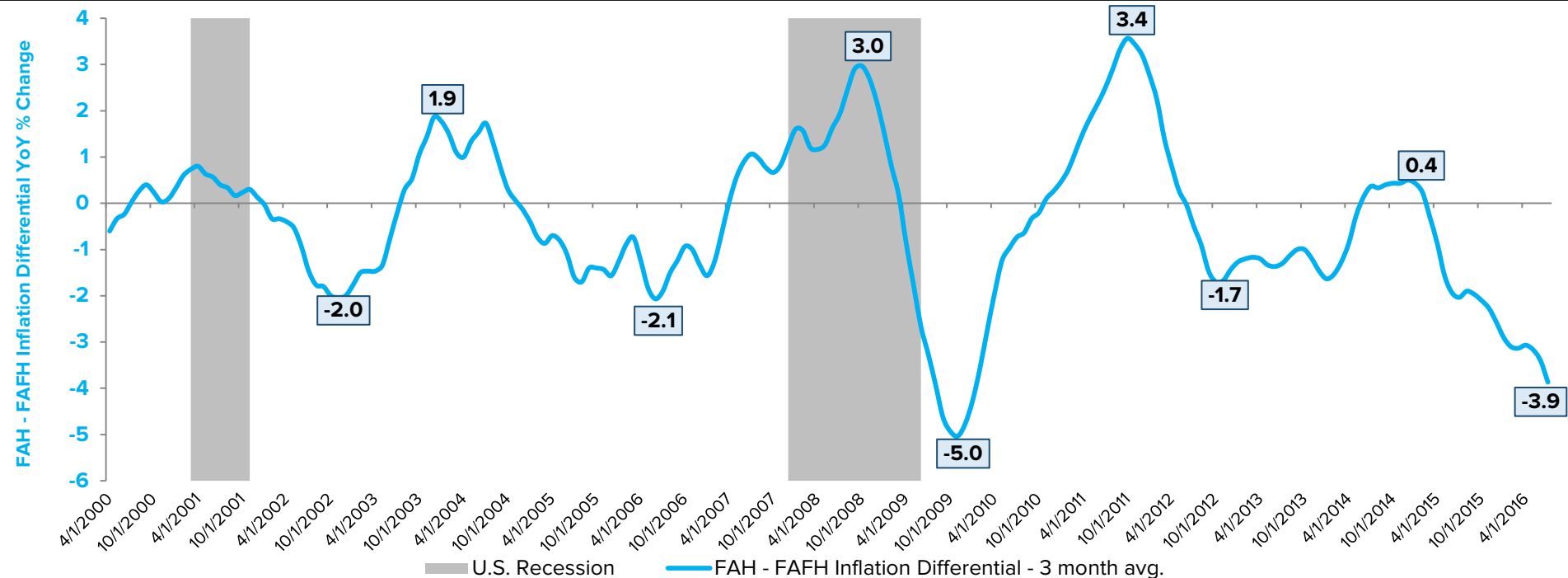
CPI - FOOD AT HOME 1953 - PRESENT



ALL CYCLES ARE DIFFERENT, BUT EVERYTHING IS A CYCLE

Going back to the late 50's excluding the extremely deflationary time in the early to mid-50's timeframe, there have been six instances of consecutive months of deflation excluding the current streak. The average months of deflation in a row in those instances is 7.2 (with a high of 14 months from February 1959-March 1960, and a low of two months from November 1976-December 1976). Right now we are currently at 8 months of consecutive deflation. Is this trend bottoming?

FOOD AT HOME VS. FOOD AWAY FROM HOME INFLATION DIFFERENTIAL

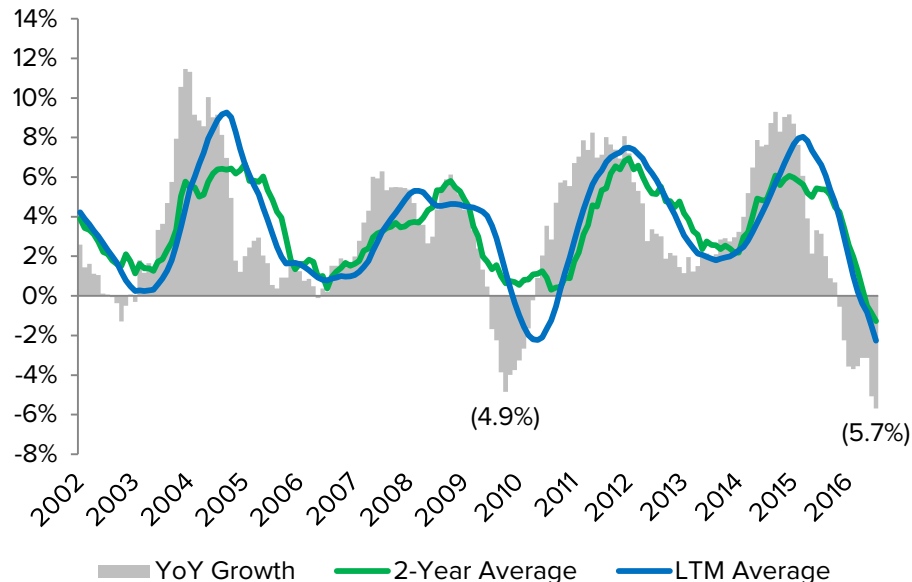


INFLATION DIFFERENTIAL BETWEEN FAH AND FAFH WIDENING

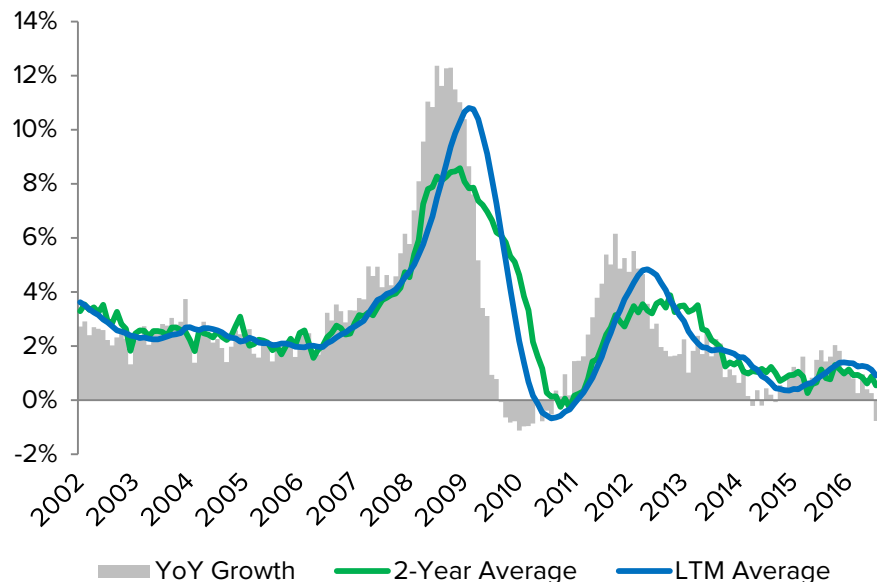
Going back to July 2015, the 3 month average differential has declined 190bps. On a one month basis the differential is widening going from -3.3% in May, -3.9% in June and -4.4% in July.

MEATS & BAKERY PRODUCTS CPI

CPI - Meats, Poultry, Fish and Eggs



CPI - Bakery Products

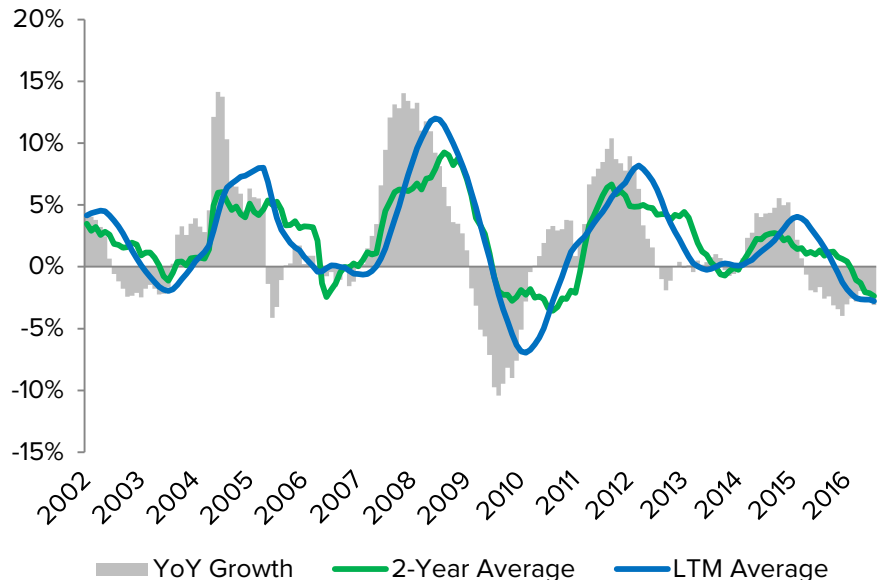


BAKERY HEADED LOWER, WHILE MEAT IS WORKING ON FINDING A BOTTOM

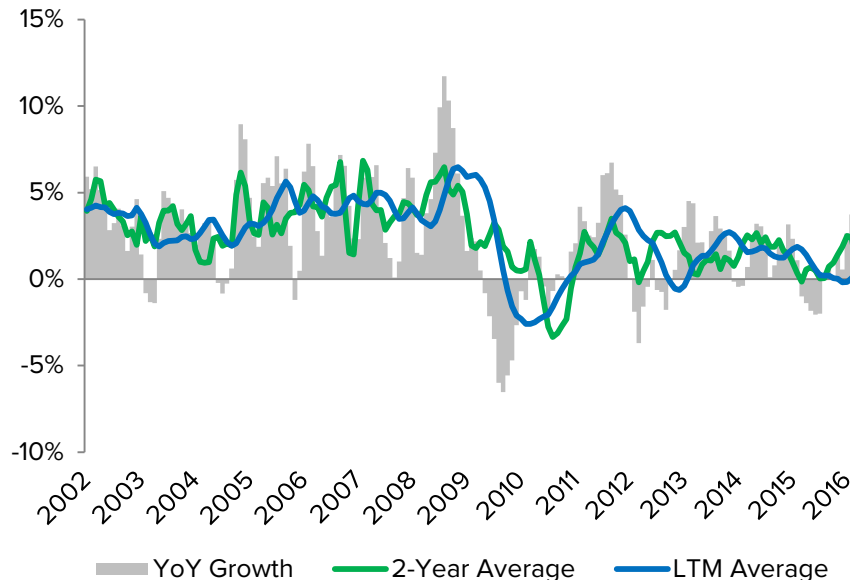
The deflation in the bakery aisle could put pressure on FLO's business.

DAIRY AND PRODUCE CPI

CPI - Dairy and Related Products



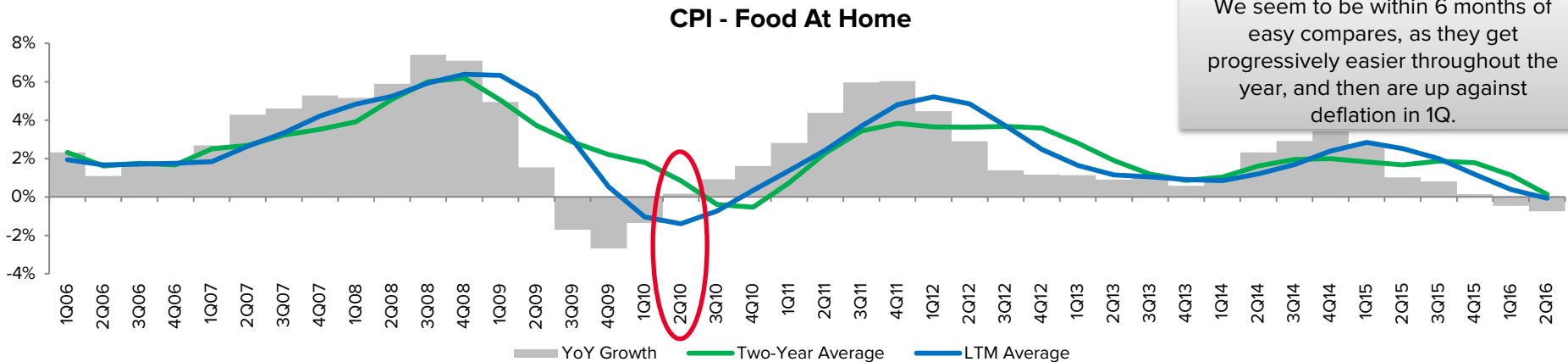
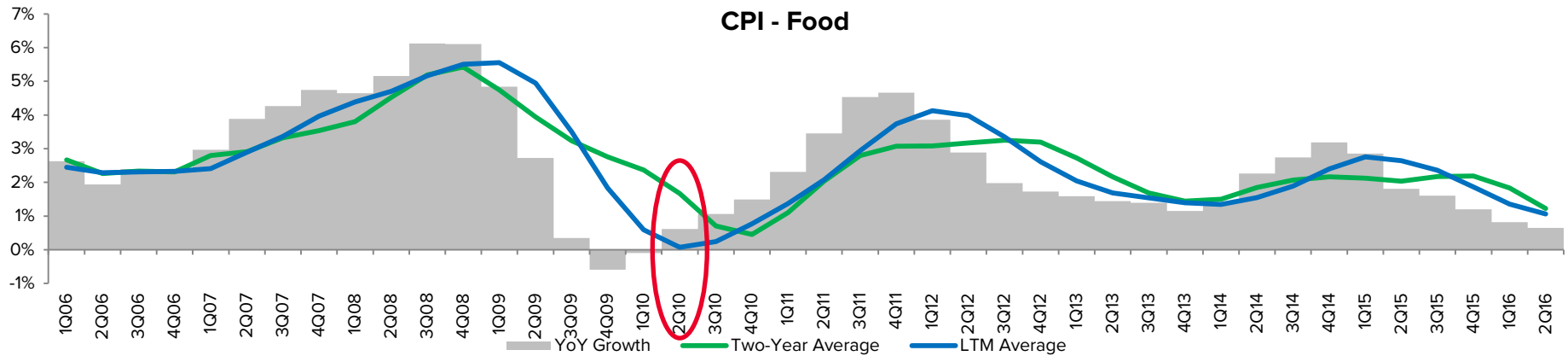
CPI - Fruits and Vegetables



DAIRY IS IN AN EXTENDED DEFLATIONARY PERIOD

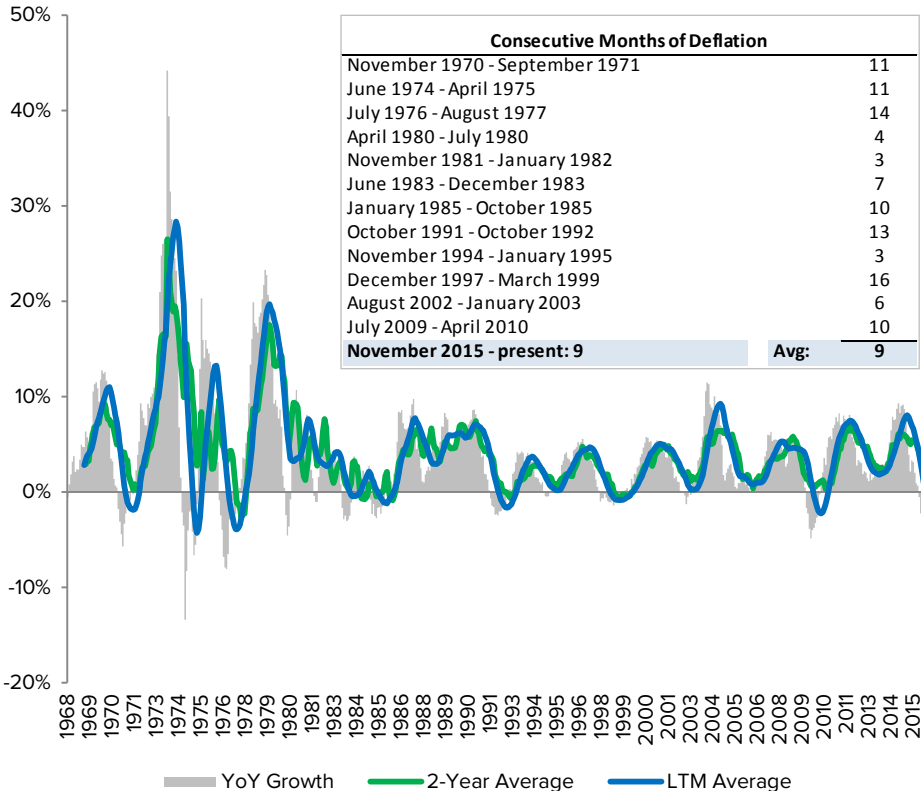
Going back to 1990 (as far back as we have seasonally adj. numbers) Dairy prices have had consecutive deflationary periods on 12 different occasions. With a minimum amount of months of 2 and a maximum of 14, excluding the current, which is currently running at 16 months. This is compared to an average number of consecutive months of deflation of 6.6, this number only topped 5 months in 4 of the 11 periods, again excluding the current. This deflationary time period in dairy seems to be bottoming.

LOOKING FOR THE TURN



LOOKING FOR THE TURN (CONT'D)

CPI - Meats, Poultry, Fish and Eggs



Management Commentary on Deflation

From the SFM GS conference transcript:

- “And our experience from the past has been when deflation sort of dissipates and you get back into a flat or positive environment, things tend to turn pretty quickly the other way.”
- “And the last time we witnessed this deep as this was in 2009, and we were in the same situation where traffic was softer, pricing was much deeper than cost deflation, so it was deep into retail deflation. And it lasted about six months in 2009, 2010. But the consumer was in a very different place at that time, as we all recollect the environment at that point in time.”

From the KR 2Q16 Earnings Call:

- “In 2009 we transitioned from inflation to deflation in a very similar way. Of course, in 2009 we also had a much more difficult macroeconomic back drop.”
- “While we expect continued deflation and tough year-over-year comparisons for the remainder of the year, and even into early next year, as we know from past experience, the environment won't be deflationary forever.”

From the SVU GS conference transcript:

- “The deflation in certain proteins has been sustained in a way I have not seen before.”
- “Cattle producers who were able to significantly grow their herds this year, plus their troubles, so you had an increase in supply and with the strong U.S. dollar, some decline in demand has created price deflation in higher fat content ground beef markets.”



ISSUES THEY FACE

SUMMARY OF ISSUES THEY FACE

IMPROVEMENTS NEED TO BE MADE TO TURN THE BUSINESS

- 1 Top line is struggling – deflation/competition/slowing consumer
- 2 Competitive environment – food retail is an arms race
- 3 Where will gross margins land – investment in lower prices
- 4 Unit growth prospects – what is the right number of units?
- 5 “Whole paycheck” image – will take time to shed but they are on their way
- 6 Brand differentiation – customer experience is key, price is not everything

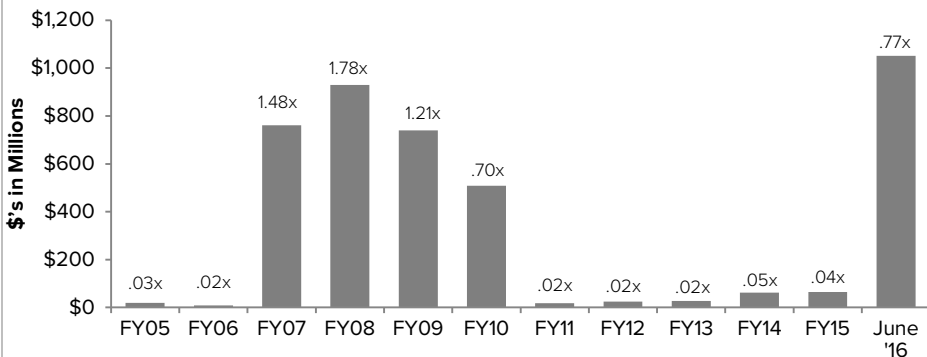


LONG: WHOLE FOODS MARKET (WFM)

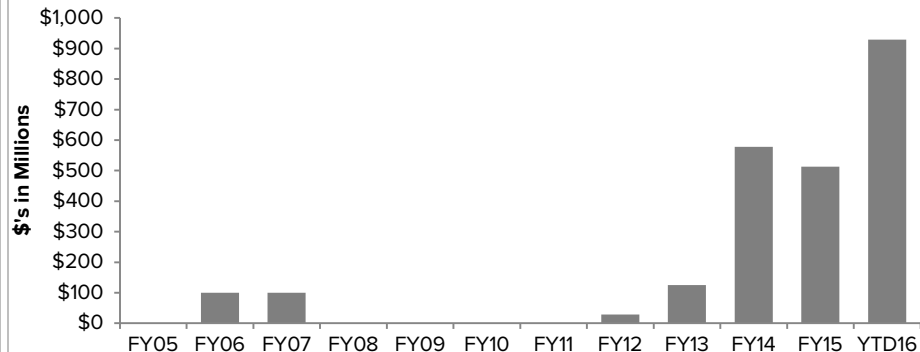
THE NEW WAY FORWARD

- Going forward, the Company's strategy will be centered around adjusting their operating model to a lower margin and cost structure to better compete in the food retail environment
- On November 4, 2015, WFM announced a new capital allocation strategy, reflecting confidence in the Company's future growth and cash flow generation
 - Authorized a new \$1 billion share repurchase program, bringing the Company's total share buyback authorization to \$1.3 billion
 - Entered into a \$500 million five-year revolving credit facility
 - Took on additional long-term debt of approximately \$1 billion, the company intends to use the proceeds for general corporate purposes, including stock repurchases and the repayment of debt
- An increased focus on cutting costs, with a goal of reducing their cost structure by \$300 million by the end of FY17
 - Eliminated 2,000 positions in an effort to transform their purchasing operations. They also have various labor management tools being implemented to streamline operations in the stores and improve efficiencies
- A reduction in prices is a way to compete with other grocers, an initiative illustrated by their new 365 by Whole Foods Market stores and the launch of digital coupons. They are also investing roughly 200bps of gross margin to come more in line with the competition on price

WFM Long-Term Debt



WFM Share Repurchase



9-POINT RECOVERY PLAN (PROPOSED NOV 4, 2015)

Committed to a foundational restructuring of the cost side of the business

- Have a plan to reduce expenses by a \$300million run rate by the end of FY2017

Support differentiation and value strategies through enhanced external marketing efforts

- Will use media to support their pricing efforts across all major markets

Launch second growth vehicle, 365 by Whole Foods Market

- Currently have twenty 365 leases signed; representing 19% of total signed leases

Innovate faster to further differentiate the Whole Foods shopping experience, with a focus on exclusive brands and prepared foods

- Seeking to partner with suppliers to widen competitive advantage

Invest in digital strategies to convert the strong traffic it generates into sales

- Integrated Instacart into their app and will continue to find more ways to streamline customers' digital experience

Increase total square footage at a more moderate pace this year

- Scale back historically aggressive unit growth in order to focus on other areas of importance

Continue to improve value perception through increased promotional activity and selective and strategic price reductions

- Will utilize new talent, tools, and systems to better track customer reaction to promotions

Invest in technology platforms to provide a better shopping experience, enabling them to run their business more efficiently

- Will replace their disparate core legacy platforms with unified scalable solutions

Continue to affirm culture by investing in the development and growth of team members

- Will actively look to create thousands of new jobs over the coming year

- After a sluggish 2015, Whole Foods Market decided to re-focus and rededicate itself in order to build a solid foundation for its long-term sustainable growth
- The nine-point plan touches on nearly every aspect of the business, including investments in technology as a way to increase efficiency, drive online sales and personalize promotional offers to customers
- This effort is WFM's attempt at moving faster and going deeper to rebuild traffic, sales, and create a solid foundation for the long-term



**IMPROVING THE MIDDLE OF THE P&L
TO ENABLE TOP AND BOTTOM LINE GROWTH**

COST SAVINGS PROGRAM UNDERWAY

KEY INITIATIVES

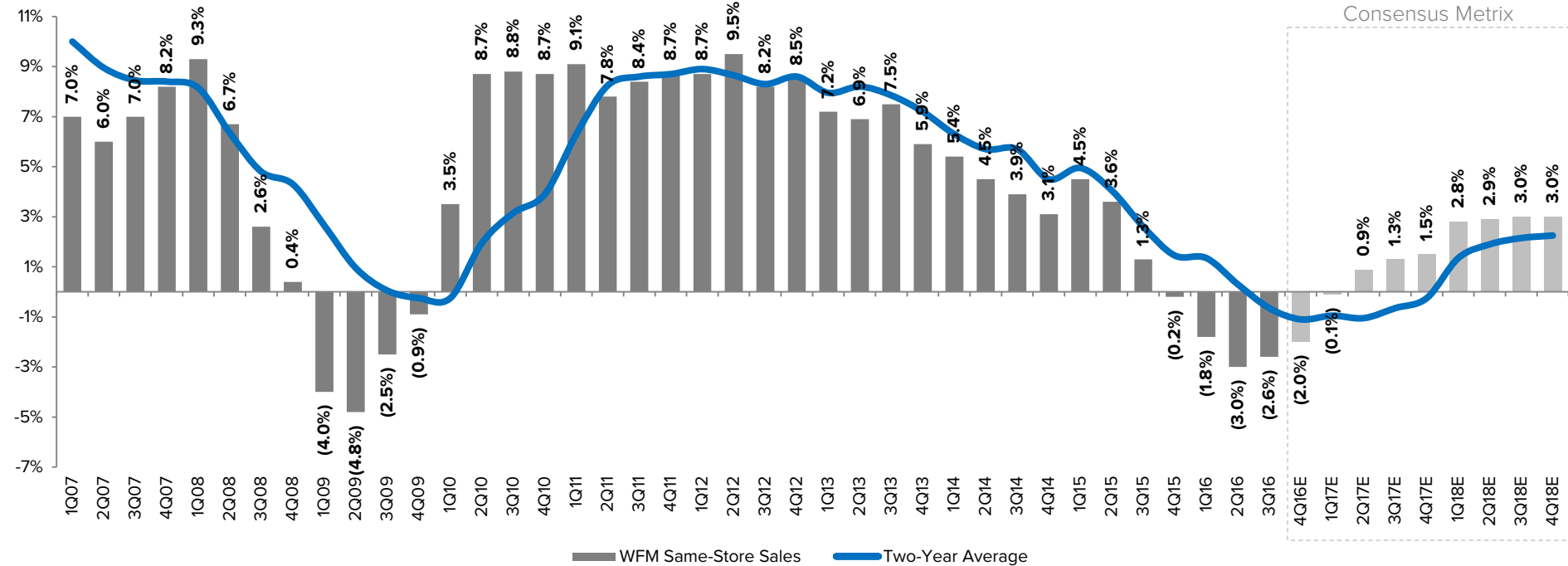
“We want to evolve the structure in such a way that we take out redundancy and waste, and at the same time though, we’re not diminishing the culture, the empowerment efforts that make Whole Foods Market special,” John Mackey (WFM Co-CEO)

- Announced last November a goal to reduce their cost structure by a \$300 million run rate by the end of FY17
 - This goal remains intact, despite headwinds in the form of lower sales and higher healthcare costs
- Launching of the 365 chain, with twenty leases already signed, will serve as a model for reducing operational costs
- Working to centralize and streamline various functions
 - Shifting responsibility for buying packaged foods, detergents and other non-perishable items for its stores to its headquarters in Austin, Texas
 - Deploying software to simplify labor-intensive tasks, such as scheduling staff and replenishing shelves
 - Many employees report that hours are unexpected, sporadic, and not necessarily consistent with customer flow
- These initiatives are part of WFM’s broader push to distance itself from competition, retailers such as Costco Wholesale Corp. (COST) and Kroger Co. (KR)



TOPLINE TRENDS

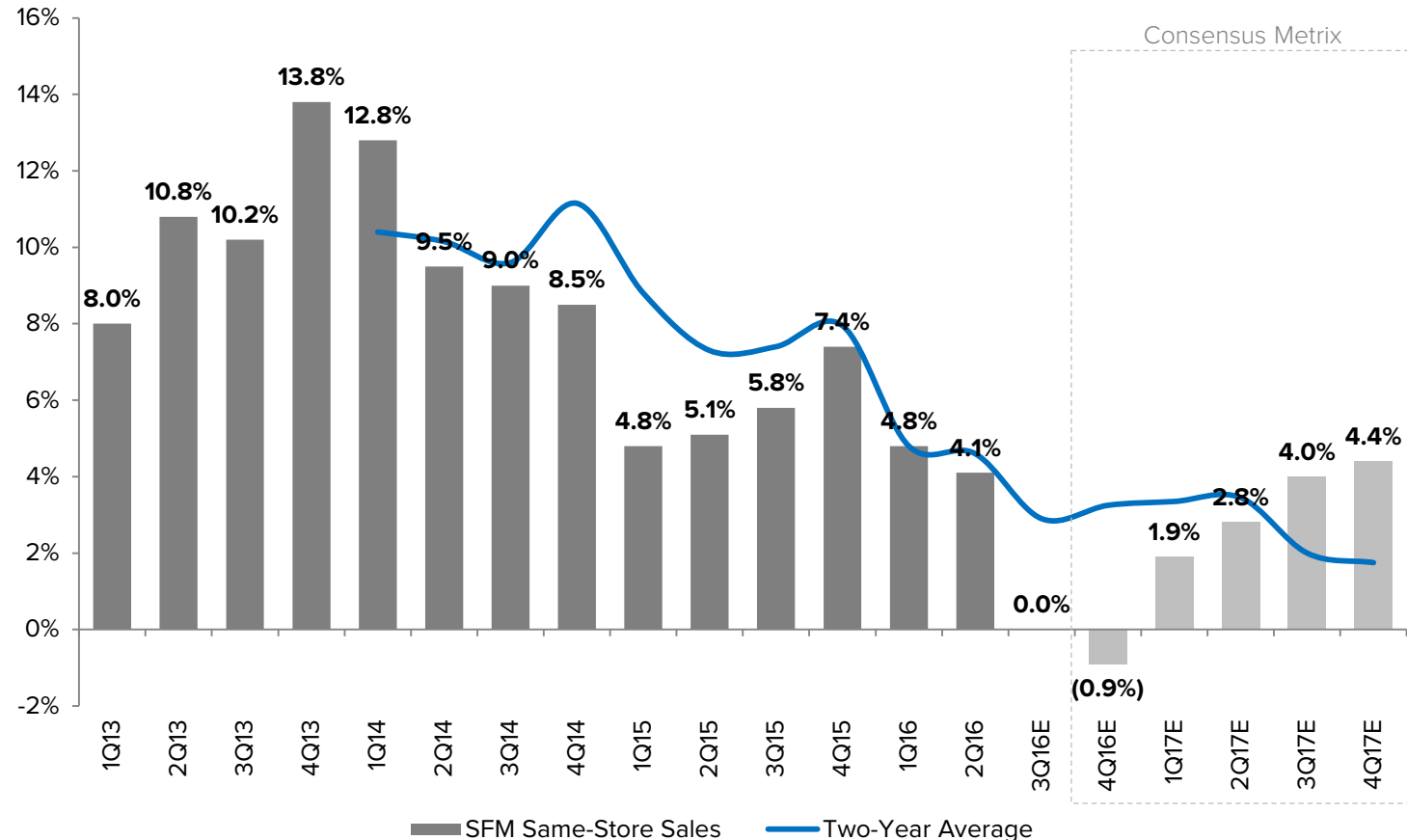
WFM SSS



A DIFFERENT DOWNTURN THAN IN 2008

WFM is faced with additional headwinds from 2008, namely increased competition and Natural and Organic products going more mainstream. But the consumer is in a far different place now as well. WFM is a built to last brand, and it will take time to pivot and regain their competitive advantage in the space.

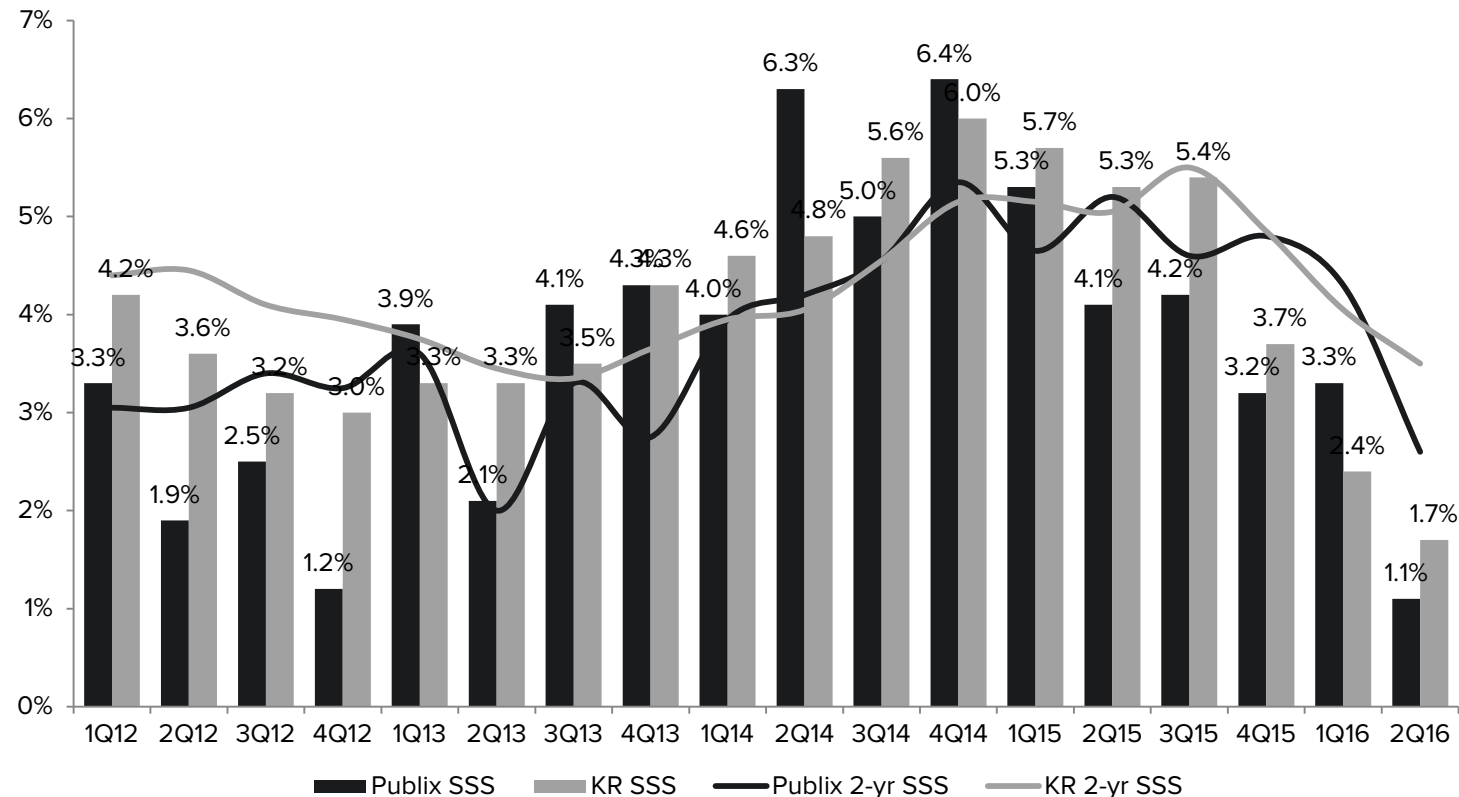
IT'S NOT JUST WFM, AS SFM IS SLOWING AS WELL



- SFM recently presented at an industry conference in which they revised their guidance down considerably
- SSS guidance for the fully-year 2016 is now expected to be in the range of 1.5% to 2.5% and earnings per share in the range of \$0.83 to \$0.86
- This was versus previous guidance of SSS in the range of 3.5% to 4.5% and EPS in the range of \$0.92 to \$0.94
- Management cited the prolonged deflationary environment, competitive landscape and various industry dynamics that have lead to heavy promotions across the industry, which is greatly affecting their business

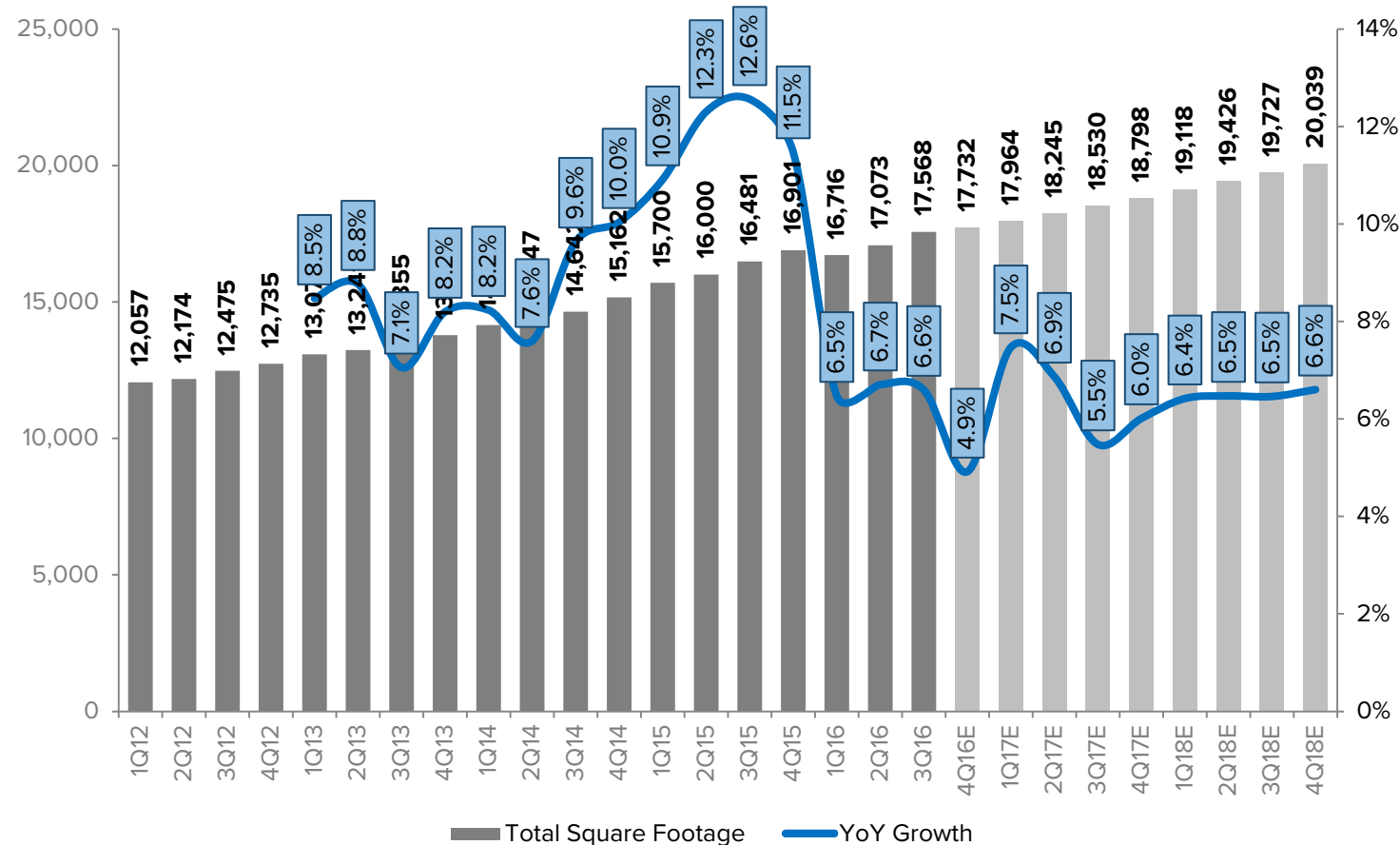
CONVENTIONAL INDUSTRY SLOWING AS WELL

KROGER SSS VS PUBLIX SSS



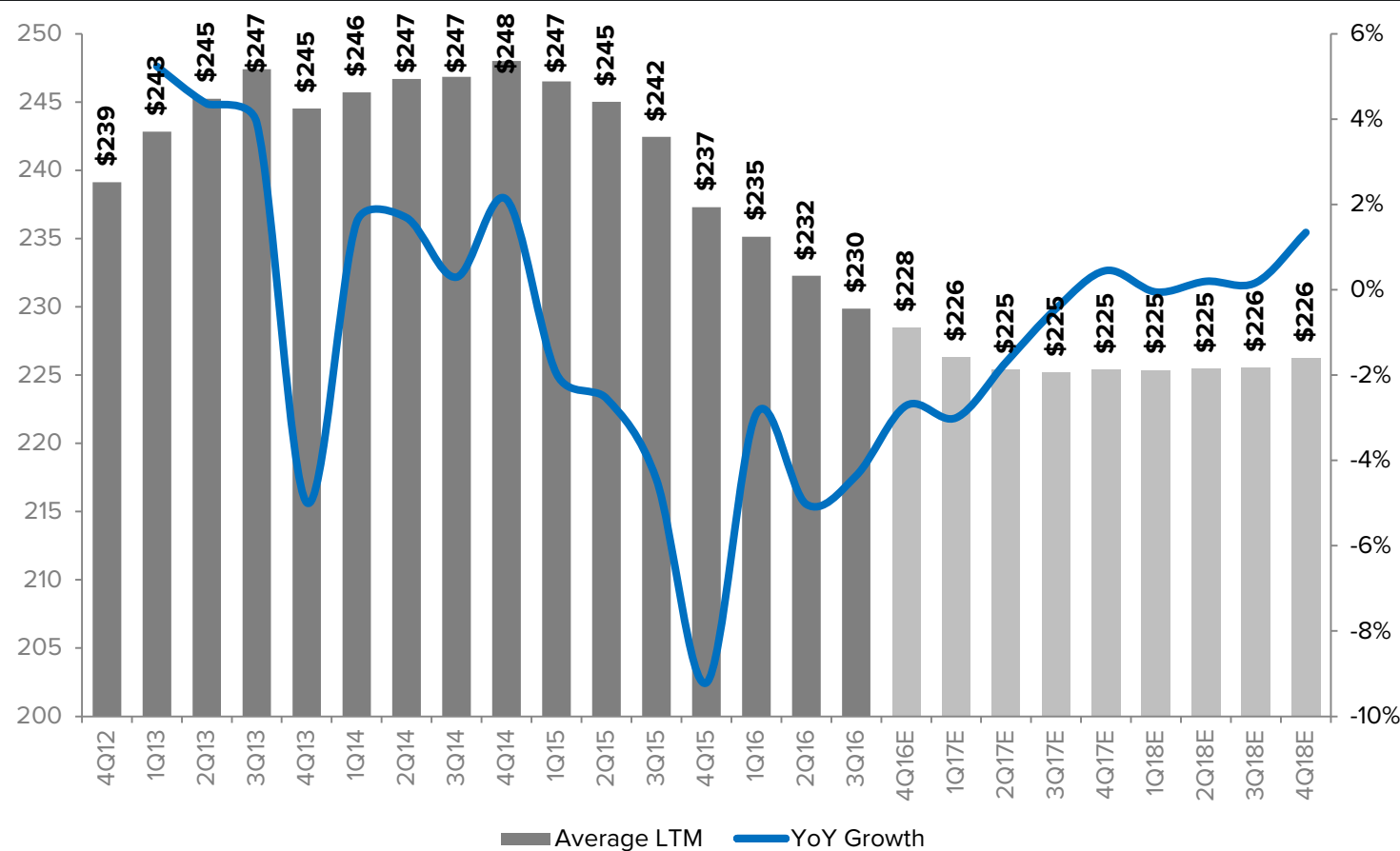
- Industry sales are slowing across the nation in different geographic areas and store formats
- Publix reported their 2Q16 comp on 8/1/16, which showed a -170bps decline sequentially in their two-year trend, YoY that decline expanded to -260bps
- KR hasn't fared much better, reporting SSS growth of 1.7% in 2Q16, which represents a 60bps decline in their two-year average sequentially and a 155bps decline YoY in the two-year average
- Although their footprints don't completely overlap the trend speaks to a broader industry slowing thesis

SQUARE FOOTAGE GROWTH



- Management made note this year that they want to slow down growth and be more methodical while they work to improve the fundamentals of the business
- We agree with this move and think it will be the right thing in the long-term for the business
- In a slowing environment we support their messaging around muted square footage growth, if they were to cut their capex by roughly 50% we would view that as a positive for the stock as they would be more focused on refining their existing business and winning in the marketplace, versus finding new store locations, with the ultimate outcome of improved returns

SALES PER SQUARE FOOT



- Sales per square foot have come down with their comps
- We have seen a considerable slowdown in the deceleration since 4Q15



UNIT GROWTH POTENTIAL

WHERE SHOULD A WFM STORE GO?

“MSA” MARKS THE SPOT

- According to the company, when looking to open new units, they do not focus on income demographics, instead focusing on the per-capita population that has college degrees
- The prime customer for the average WFM location is a college-educated, working professional between the ages of 25-45
- Majority of stores are located in high-traffic shopping areas, high density, mixed-use developments; and WFM has proven to be a great tenant
- Unit growth factors include:
 - College degree (estimated at 50k salary)
 - Located in a Metropolitan Statistical Area (MSA); urban, densely populated
- From our research, we were able to find all MSA's that currently have at least one Whole Foods store, and fit the criteria with regard to per-capita income and population (at least 250,000 people per WFM store)
- From this we found that there are as many as 34-36 MSA's currently in need of additional Whole Foods stores; essentially, these locations have the population to support a Whole Foods store, but currently do not have one or do not have enough stores
- The following chart and maps illustrate the potential unit growth, and helps to further explain our thinking
- With regards to the map, the green highlighted areas signify locations where additional WFM units can be placed, according to our estimations (at least \$50k income and 250k people/store)
 - The orange highlighted segments signify MSA's that are currently saturated or nearly saturated, but could be a potential WFM unit location down the road, as a result of population growth
 - The blue highlighted areas signify possible 365 locations, as they do not meet our income criteria for a Whole Foods Market, but have necessary population to support a store

- Despite their recently negative same-store sales numbers, it is clear that WFM is still an industry leader
- These negative comps can be explained by the overall deflationary landscape that has swept the grocery industry and the overall increase in competition within the industry - natural and organic has gone mainstream
- More and more grocers are turning to the organic/fresh segment as a way to steal market share from juggernauts like WFM

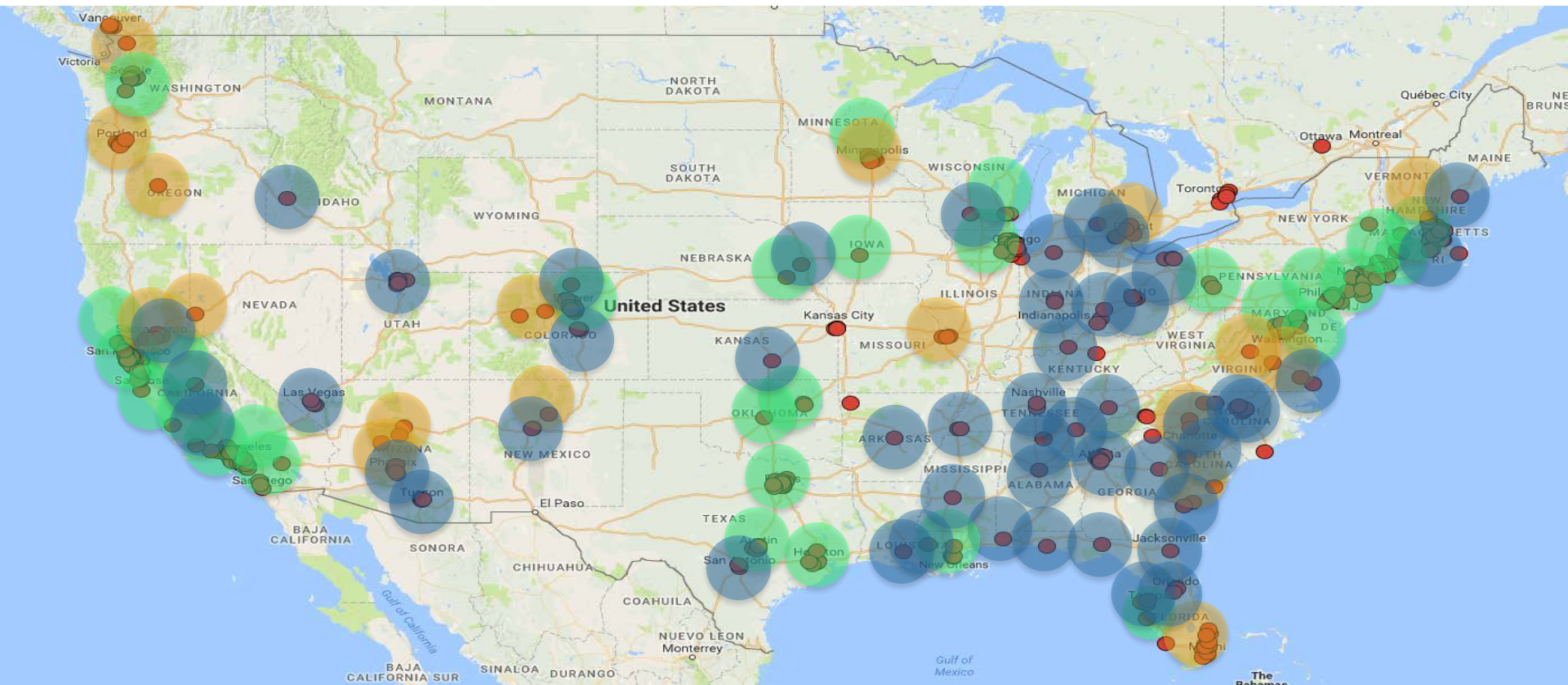
TOP 25 MSA'S

WHOLE FOODS STORES PER MSA

<u>Metropolitan Statistical Areas w/WFM store</u>	<u>Population</u>	<u>Per-Capita Income</u>	<u># of WFM Stores per Metro Area</u>	<u>MSA Pop. per Store</u>
Los Angeles-Long Beach, CA	13,262,220	\$50,751	6	2,210,370
Chicago-Naperville, IL	9,554,598	\$50,690	12	796,217
New York, NY	8,550,000	\$61,440	10	855,000
Dallas-Fort Worth-Arlington, TX	6,954,330	\$49,506	4	1,738,583
Houston-The Woodlands-Sugar Land, TX	6,490,180	\$54,820	9	721,131
Washington, DC	6,033,737	\$62,975	4	1,508,434
Miami-Fort Lauderdale-Wes Palm Beach, FL	5,929,819	\$48,224	4	1,482,455
Atlanta-Sandy Springs-Roswell, GA	5,614,323	\$43,472	4	1,403,581
Boston-Cambridge-Newton, MA	4,732,161	\$64,311	7	676,023
San Francisco-Oakland, CA	4,594,060	\$72,364	8	574,258
Phoenix, AZ	4,489,109	\$39,846	3	1,496,370
Seattle-Tacoma-Bellevue, WA	3,671,478	\$58,205	3	1,223,826
San Diego, CA	3,263,431	\$51,459	1	3,263,431
Tampa-Clearwater, FL	2,915,582	\$41,296	3	971,861
Baltimore-Columbia-Towson, MD	2,785,874	\$53,690	3	928,625
Denver, CO	2,754,258	\$53,983	4	688,565
Pittsburgh, PA	2,355,968	\$49,349	1	2,355,968
San Antonio-New Braunfels, TX	2,328,652	\$41,372	2	1,164,326
Orlando, FL	2,321,418	\$37,104	1	2,321,418
Sacramento-Roseville, CA	2,244,397	\$46,852	2	1,122,199
Las Vegas-Henderson-Paradise, NV	2,069,681	\$39,533	4	517,420
Columbus, OH	1,994,536	\$44,902	1	1,994,536
Indianapolis-Carmel-Anderson, IN	1,971,274	\$44,017	2	985,637
San Jose-Sunnyvale-Santa Clara, CA	1,952,872	\$73,887	2	976,436

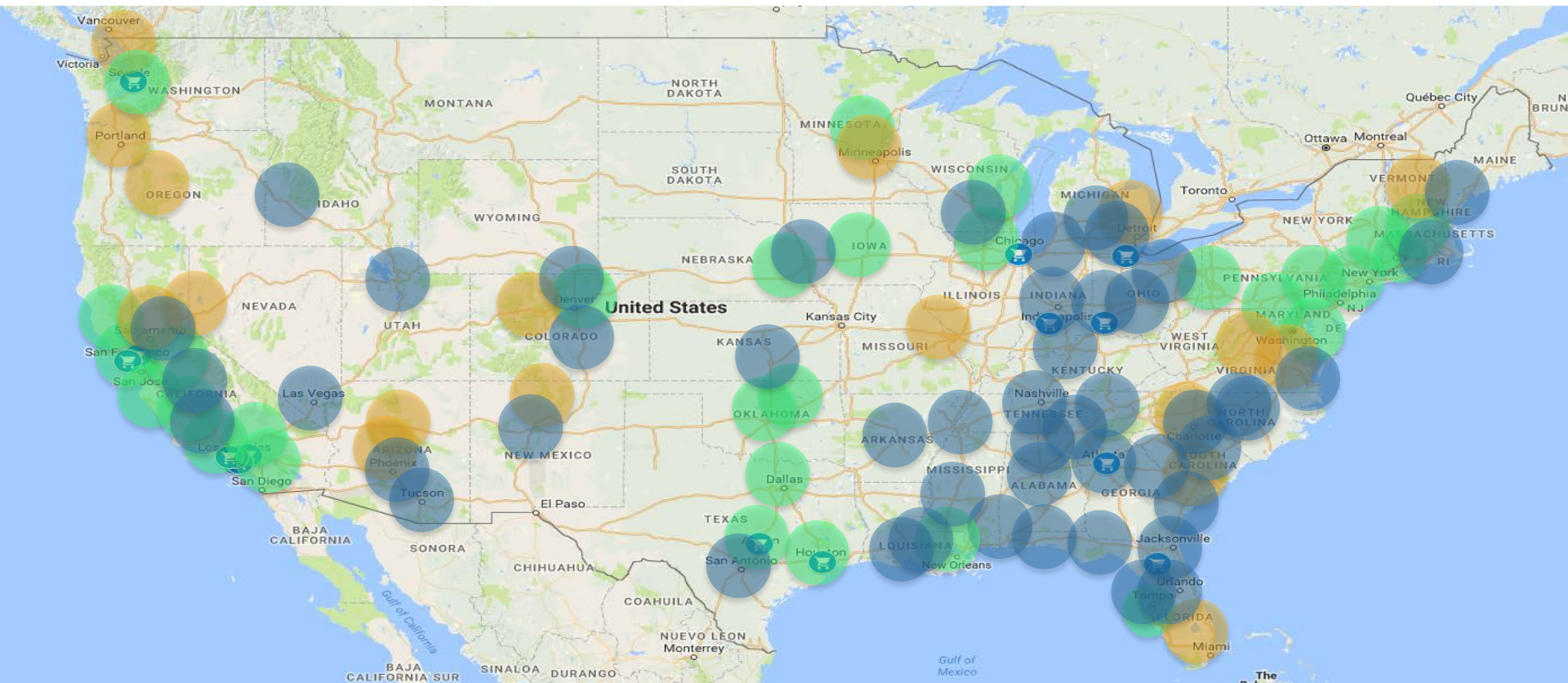
- The chart to the left lays out some of the top MSAs, showing population, income (used to estimate concentration of population with a college degree, and number of WFM store per MSA)
- Currently, there are numerous MSA's across the country that are experiencing a dearth in WFM units
- These are prime locations for additional stores, as many of them meet the desired income level and the current number of units are serving a enormous number of people
- **Fun Fact:** States such as Delaware, Vermont, and West Virginia do not have any Whole Foods units

5-10 YEAR PLAN



365 BY WFM UNIT MAP

CURRENT 365 ACTIVITY SUPPORTS OUR PROJECTIONS



CURRENT 365 CONFIRMED LOCATIONS

• Akron, Ohio

- Ranked 78th out of 381 MSAs
- Population: 703,825
- Per-capita income of \$43,426
- Percent of persons age 25yrs + with Bachelor's Degree: 20.5%
- Currently no Whole Foods store in this city (nearest unit is 30miles away – Woodmere, OH)

• Toledo, Ohio

- Ranked 91st out of 381 MSAs
- Population: 607,456
- Per-capita income of \$40,635
- Percent of persons age 25yrs + with Bachelor's Degree: 17.7%
- Currently no Whole Foods store in this city (nearest unit is 105miles away – Rocky River, OH)

• Bloomington, Indiana

- Ranked 251st out of 381 MSAs
- Population: 164,308
- Per-capita income of \$33,675
- Percent of persons age 25yrs + with Bachelor's Degree: 56.4%
- Currently no Whole Foods store in this city (nearest unit is 50miles away – Indianapolis, IN)

• Bellevue, Washington

- Ranked 15th out of 381 MSAs
- Population: 3,671,478
- Per-capita income of \$58,205
- Percent of persons age 25yrs + with Bachelor's Degree: 62.1%
- Currently 1 Whole Foods store in this city

• Cedar Park, Texas

- Population: 70,614
- Per-capita income of \$33,632
- Percent of persons age 25yrs + with Bachelor's Degree: 44.1%
- Currently no Whole Foods store in this city (nearest unit is 5miles away – Austin, TX)

• Claremont, California

- Population: 36,283
- Per-capita income of \$39,402
- Percent of persons age 25yrs + with Bachelor's Degree: 56%
- Currently no Whole Foods store in this city (nearest unit is 50miles away – Los Angeles, CA)

• Concord, California

- Population: 128,667
- Per-capita income of \$31,404
- Percent of persons age 25yrs + with Bachelor's Degree: 30.9%
- Currently no Whole Foods store in this city (nearest unit is 22miles away – Oakland, CA)

• Decatur, Georgia

- Population: 27,174
- Per-capita income of \$43,032
- Percent of persons age 25yrs + with Bachelor's Degree: 15.1%
- Currently no Whole Foods store in this city (nearest unit is 165miles away – Johns Creek, GA)

• Evergreen Park, Illinois

- Population: 19,841
- Per-capita income of \$30,051
- Percent of persons age 25yrs + with Bachelor's Degree: 33.1%
- Currently no Whole Foods store in this city (nearest unit is 16miles away – Hinsdale, IL)

• Gainesville, Florida

- Ranked 173rd out of 381 MSAs
- Population: 273,377
- Per-capita income of \$38,462
- Percent of persons age 25yrs + with Bachelor's Degree: 42.6%
- Currently no Whole Foods store in this city (nearest unit is 71miles away – Jacksonville, FL)

• Houston, Texas (Garden Oaks)

- Ranked 5th out of 381 MSAs
- Population: 2,296,224 (MSA pop: 6,490,180)
- Per-capita income of \$54,820
- Percent of persons age 25yrs + with Bachelor's Degree: 29.8%
- There are 7 WFM stores in this city

• Sycamore Township, Ohio (Kenwood)

- Population: 6,852
- Per-capita income of \$44,221
- Percent of persons age 25yrs + with Bachelor's Degree: 60.1%
- Currently no Whole Foods store in this city (nearest unit is 11miles away Cincinnati, OH)

• Santa Monica, California

- Population: 93,220
- Per-capita income of \$58,252
- Percent of persons age 25yrs + with Bachelor's Degree: 65%
- There are 3 WFM stores in this city

• Long Beach, California

- Ranked 2nd out of 381 MSAs
- Population: 474,140 (MSA pop: 13,262,220)
- Per-capita income of \$50,751
- Percent of persons age 25yrs + with Bachelor's Degree: 29%
- Currently 1 Whole Foods store in this city

• Los Alamitos, California

- Population: 11,716
- Per-capita income of \$36,367
- Percent of persons age 25yrs + with Bachelor's Degree: 38.7%
- Currently no Whole Foods store in this city (nearest unit is 16miles away – Long Beach, CA)

• Los Angeles, California (North Hollywood)

- Ranked 2nd out of 381 MSAs
- Population: 3,971,883 (MSA pop: 12,262,220)
- Per-capita income of \$50,751
- Percent of persons age 25yrs + with Bachelor's Degree: 31.5%
- There are 5 WFM stores in this city

• San Francisco, California (Russian Hill)

- Ranked 11th out of 381 MSAs
- Population: 868,816 (MSA pop: 4,594,060)
- Per-capita income of \$49,986
- Percent of persons age 25yrs + with Bachelor's Degree: 52.9%
- There are 7 WFM stores in this city

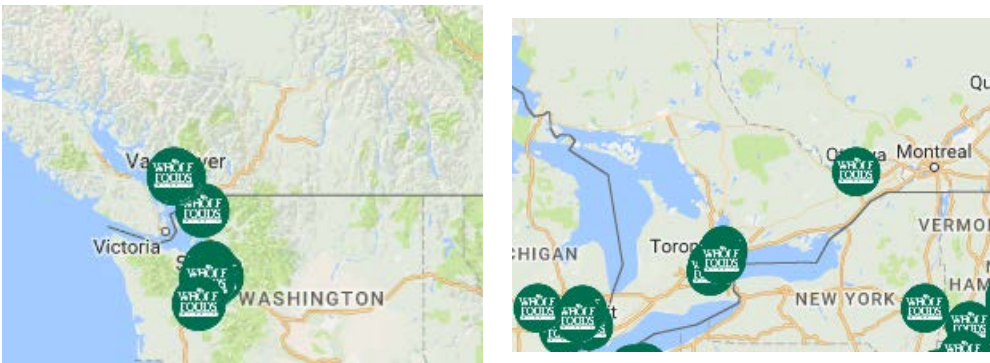
Data Summary

	High	Low	Average
Income	\$58,252	\$30,051	\$43,357
College Degree	65.0%	15.1%	40.3%
Population	3,971,883	6,852	789,757

*365 units previously slated to by Whole Foods Markets

STALLED INTERNATIONAL UNIT GROWTH

Canada



Total Units: 11

United Kingdom



Total Units: 9

INTERNATIONAL GROWTH IS NOT TOP OF MIND FOR THE COMPANY

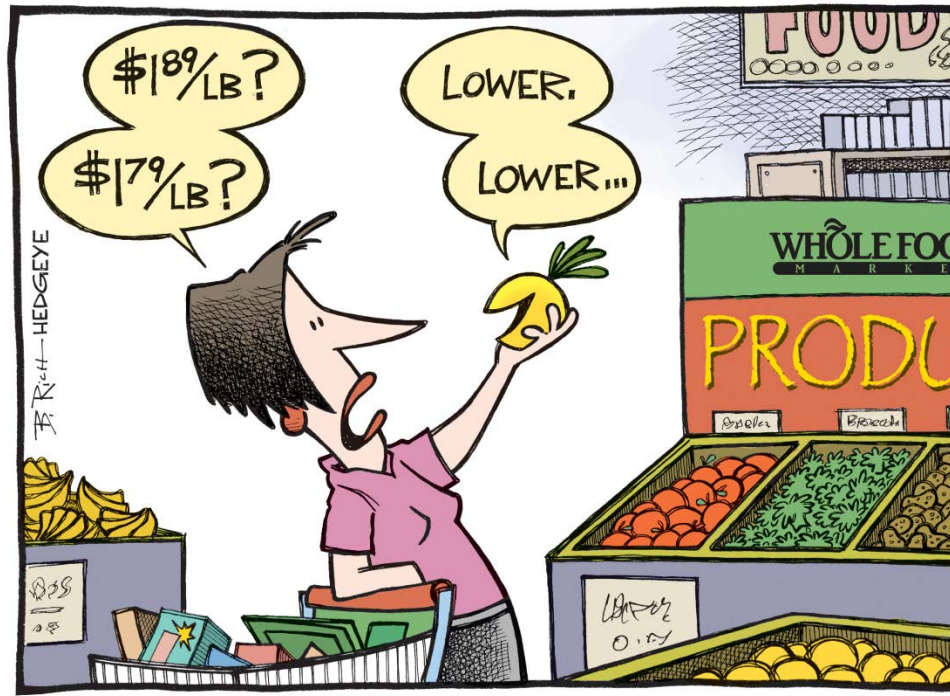
- Management has taken two very different approaches to domestic and international unit expansion
- Unit expansion outside of the United States is not a near term focus for the company, as management is concentrating on the U.S. business
- A few leases have been signed in Canada, but none have been contracted in the United Kingdom

UNIT GROWTH POTENTIAL

CONTINUED GROWTH ON THE HORIZON

- There are 454 units in the United States, Canada, and the United Kingdom, with the potential for 1,200 units (according to management) in the United States alone
- Taking this 1,200 target into account, along with their estimation of 106 new stores (86 WFM / 20 365) scheduled to open through fiscal year 2021, with 20% of these being 365 stores, we can see that these numbers reflect a more moderate growth plan; which the company has recently expressed
- Held constant, this moderate growth plan has them hitting their 1,200 unit target in approximately 35 years
- If WFM instead returned to their previous, more aggressive growth plan, which saw them open 35 new stores in FY2015 alone, taking into account additional 365 units, they would reach their 1,200 unit target in approximately 16 years

- According to the company, there are no new leases signed in the United Kingdom at the moment, and no European expansion is planned at the moment, citing inherent operational challenges and a solid European brand as reasons
- However, there are a few additional units planned for Canada, as WFM has been very pleased with that market; Canada's operational similarity to that of the United States allows for a smoother unit growth process



QUALITY AND VALUE TAKE CENTER STAGE

WFM HAS HIGHER QUALITY FOOD

PERISHABLE AS A PERCENT OF SALES IS 67%

- Whole Foods is the first national “Certified Organic” grocer and uniquely positioned as America’s Healthiest Grocery Store
- Whole Foods offers the broadest selection of high-quality natural and organic products, with an emphasis on perishable foods
- Their groundbreaking quality standards ban hundreds of ingredients commonly found in other stores. In addition, they restrict numerous manufacturing, farming, fishing, and ranching practices viewed as inadequate
- An emphasis on high-quality perishables helps WFM differentiate itself from other supermarkets, and enables them to attract and maintain a broad base of devoted customers

Whole Foods Market



The Kroger Company









PRICE INVESTMENTS ARE CRITICAL TO TRAFFIC GROWTH

INVESTING 200BPS OF GROSS MARGIN OVER THE NEXT COUPLE OF YEARS

Management Commentary

- “We’ve been slowly seeing a nice pick up in average produce items in a basket, and that’s helped to offset part of the investment”
- “We did a lot of investment the last six weeks or so with summer fruit, with cherries and blueberries and strawberries and things like that. And so, really nice – really we move a ton of product.”
- “It’s hard to turn around a trend in produce, but we feel like we really have.”
- “Six weeks into national flier. So, first time in company’s history where customers are actually seeing these produce sales across all channels the whole company at the same time.”
- Hedgeye:** There will be a lag to consistent positive responses from consumers for them to realize the transition to lower prices, just as in restaurants, it takes a couple quarters for consumers to realize excessive price increases and then traffic falls off. Build it and they will come.

Savings Across Categories

ECUADOR Fresh Tilapia Fillets Simply season and bake fillets for quick dinners. Traceable back to where and when the fish were grown and harvested.  \$6.99 / lb Regular \$10.99 / lb YOU SAVE \$4 Valid 9/14 - 9/20 \$4 OFF	WA/NY Fuji or Gala Apples Firm, crisp and sweet, these varieties are a popular pick for snacks and lunches.  \$1.49 / lb Regular \$2.49 / lb YOU SAVE \$1 Valid 9/14 - 9/20 \$1 OFF	ANIMAL WELFARE RATED 85% Lean Grass-Fed Ground Beef 100% grass fed and finished. \$5.99 / lb Regular \$9.99 / lb YOU SAVE \$4 Valid 9/14 - 9/20 \$4 OFF	BACK TO NATURE Crackers A variety of flavors ready for lunchboxes and snack time.  2 for \$6 REG \$3.99-\$4.49 EA SAVE UP TO \$1.49 Valid 9/14 - 9/20 UP TO \$1.49 OFF
BELL & EVANS Air Chilled Boneless Skinless Chicken Breast \$4.99 / lb Regular \$6.99 / lb YOU SAVE \$2 Valid 9/14 - 9/20 \$2 OFF	NATURE'S PATH Organic Frozen Waffles Serve quick and easy breakfasts on the fly with plenty of waffles in gluten free and whole grain varieties in the freeze...  2 for \$5 Regular \$3.79 YOU SAVE \$2.58 Valid 9/14 - 9/20 \$2.58 OFF	LACTALIS Atlantique Cheese Nutty and sweet baby-Swiss-style cheese from France.  \$7.99 / lb Regular \$11.99 / lb YOU SAVE \$4 Valid 9/14 - 9/20 \$4 OFF	DE MARTINO Cabernet Sauvignon Made with organic grapes. Ripe, lush, perfectly balanced. Pair with hearty comfort foods.  \$10.99 ea Regular \$14.99 YOU SAVE \$4 Valid 9/14 - 9/20 \$4 OFF

Promotional Activity Per Quarter

- This is about “blocking and tackling”
- John Mackey, WFM co-CEO stated during their 4Q15 call, “promotion and price investments are an integral part of our conversation, but we are not participating in a race to the bottom.”

1Q16

- Love Fest promo
- 365 weekend promo
- Three-day sale in supplements
- Perimeter investments

2Q16

- Perimeter investments in perishables department
- Citrus
- Organic strawberry

3Q16



- Price investment in summer fruit; cherries, blueberries and strawberries



PRICE GAPS ARE STILL A WORK IN PROGRESS

BUT WFM'S PL CAN LEAD THE CHARGE

PL	Brand
	
\$12.99	\$19.99

PL	Brand
	
\$3.99	\$5.49

PL	Brand
	
\$3.99	\$5.69

PL	Brand
	
\$3.99	\$4.69

Item	WFM PL	Branded	% Difference
Pretzels	\$2.29	\$3.99	(42.6%)
Olive Oil	\$12.99	\$19.99	(35.0%)
Loaf of Bread	\$3.99	\$4.99	(20.0%)
Milk	\$3.99	\$5.99	(33.4%)
Yogurt	\$1.49	\$1.99	(25.1%)
Packaged Salad	\$3.99	\$3.99	0.0%
Peanut Butter	\$3.99	\$5.49	(27.3%)
Pasta	\$1.49	\$3.39	(56.0%)
Pasta Sauce	\$1.49	\$3.39	(56.0%)
Cheese	\$4.99	\$7.99	(37.5%)
Frozen Pizza	\$3.99	\$5.69	(29.9%)
Cereal	\$3.99	\$4.69	(14.9%)
Cheese Crackers	\$2.99	\$3.99	(25.1%)
Whole Chicken	\$3.29	\$3.99	(17.5%)
Ice Cream	\$4.99	\$5.49	(9.1%)
Bottle of Water	\$1.09	\$1.99	(45.2%)
Average			(29.7%)

- In 1Q16 exclusive brands increased to over \$725mm or 15% of total sales, a 150bps increase over the prior year, notable product launches over the past year include a collection of body care products for babies, organic Greek yogurt, animal welfare rated organic sliced deli-meats and an expanded assortment of seasonal and holiday items

RETAILER PRIVATE LABEL EXPANSION

STRONG PL BRAND IS A KEY DIFFERENTIATOR



- Exclusive brands account for 16% of total SKU's
- Private label sales have grown 17% YoY
- Dollar share currently stands at 14%, keeping pace with consistent sales growth
- Approximately 45% of exclusive brand offerings are either organic or "Non-GMO Project Verified"



- "It used to literally be about getting the lowest price you can...we've made great changes, and it took a while for people to notice." (Gil Phipps, Kroger VP of Corp. Brands)
- Store brand products represent 28% of items sold, accounting for 26% of total sales



- "The rule followed by Costco buyers is that all Kirkland Signature products must be equal to or better than the national brands, and must offer a savings to our members." Craig Jelinek (Costco president and CEO)
- Private label makes up 25% of Costco's overall sales



- Private label brands grew by more than 15% in 2015 and now represent over 9% of all sales
- In 2014 alone, it increased its private label assortment by 16%
- The company has launched more than 200 new items YTD, meeting its goal of 2000 private label items

- Store brands sales across the industry reached \$118 billion in 2015, an increase of \$2.2 billion over the previous year; and dollar share came to 17.7%
- Over the past two years, annual sales are up 5%
- Ongoing research by the Private Label Manufacturers' Association reveals that on a trip to a typical supermarket, **shoppers save approximately one-third on basic grocery and household items by choosing store brands**
- According to a representative at the Hartman Group, **"In many instances, shoppers no longer can distinguish between national and private label brands. But what's most interesting is that people don't really care that they don't know the difference"**



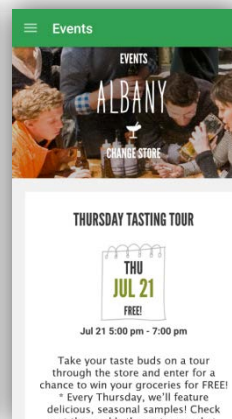
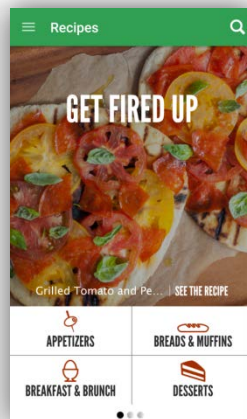
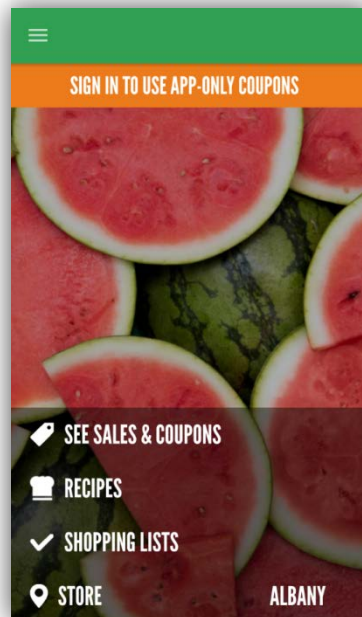
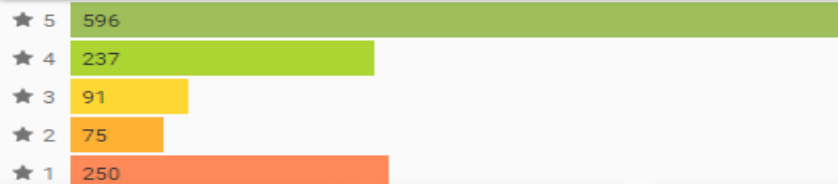
**TECHNOLOGY AND INNOVATION ARE KEYS TO SUCCESS:
ATTRACTING THE FUTURE CONSUMER**

MOBILE AND DIGITAL

MOBILE APP WITH DIGITAL COUPONS

- Whole Foods representatives have made it clear that digital marketing will continue to be a staple moving forward
- Coupons and promotions have proved to be a great way to lure a broader customer-base to the stores
- The use of digital coupons on an app is a smart move, as it not only increases traffic to the stores, but also provides the company with data on its customers, helping Whole Foods as it continues to find ways to better serve its patrons
- Digital coupons, affinity programs, and other digital/app based promotions have resonated very well with customers
- A positive test run of the affinity program in its Princeton, N.J. store, and a larger test run in the Philadelphia market, have increased the company's confidence that a nation-wide rewards program will enhance existing customer loyalty and drive new customers to shop at Whole Foods Market stores

Whole Foods Market



- Find and set a store near you
- Browse specials and save coupons
- Create and manage shopping lists
- In-app barcode scan
- **Browse recipes**
- **View upcoming store events**
- **Provide feedback and ideas via contact page**

ONLINE ORDERING/DELIVERY SYSTEMS



- WFM has been partners with Instacart since 2014, when both companies entered a five-year delivery partnership
- WFM works with instacart in 140 major cities and 20 states



On orders over \$35... **Regular delivery: \$5.99 – One hour delivery: \$7.99 – Instacart Express membership: Free delivery**
Membership plans... **Annual Membership: \$149 – Monthly Membership: \$14.99**



- SFM has been partners with Amazon since June 2016
- Partnering to serve Dallas and surrounding areas

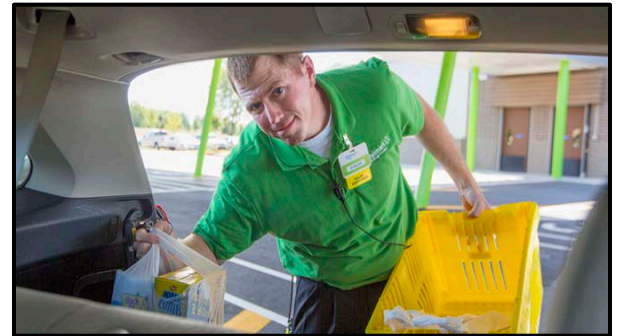
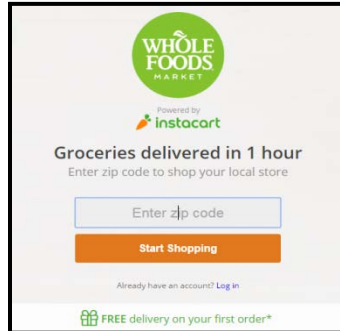


On orders over \$\$\$... **Two hour delivery: Free – One hour delivery: \$7.99 – Amazon Prime membership: Required**
Membership plans... **Annual Membership: \$99 – Monthly Membership: \$10.99**

GROCERY DELIVERY SPREADING FAST

JUST A FEW CLICKS AWAY...

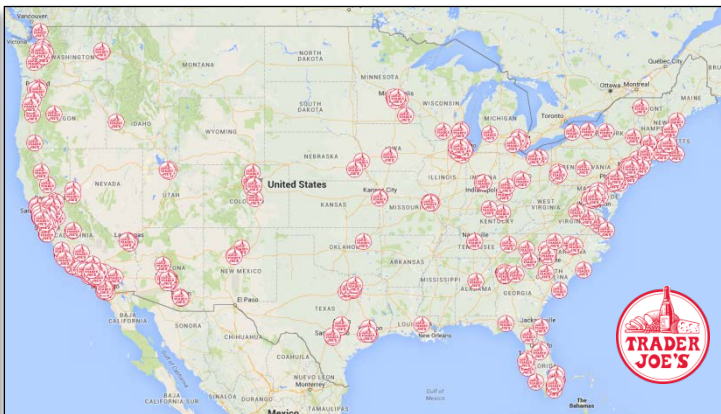
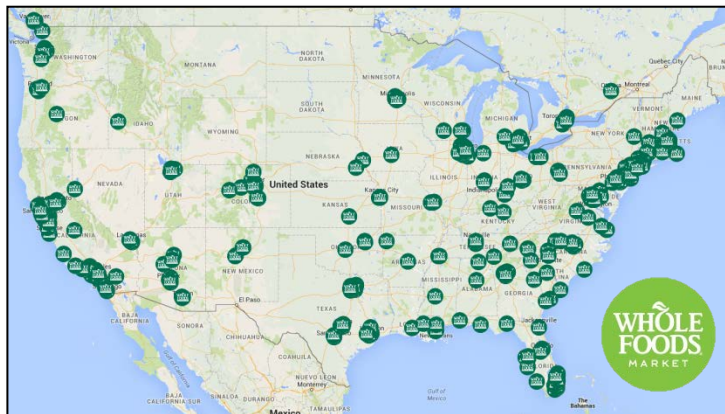
- The grocery landscape is quickly evolving, with many companies revamping their model and moving to grocery pickup, giving customers an added level of convenience
 - Research projects online grocery shopping sales will increase 9.5% to \$9.4 billion in 2017
- In a few of its markets, Kroger offers ClickList, an online-grocery ordering service where customers can order groceries and have them packed and loaded by store employees, for a minimal fee; Kroger also partners with Instacart to service Georgia and Texas
 - Wal-Mart offers a very similar grocery pickup service, for free
- Early signs for the Instacart-WFM partnership were strong as of 1Q16, with several stores averaging baskets over \$100
 - Instacart services many of the same metropolitan cities where WFM units are located, but also expands services to surrounding cities
 - According to WFM, this segment could be a \$100 billion market (8% of grocery sales) by 2025





COMPETITIVE OPERATING ENVIRONMENT

COMPETITIVE LANDSCAPE



- Whole Foods continues to be the only national full-service natural & organic grocery store
- Competitors, such as Trader Joe's, have been national for quite some time, but cater to a different shopping experience
- The development of 365 *by Whole Foods Market* could be a key differentiator in defending themselves from Trader Joe's
- 365 would expand Whole Foods' growth opportunity to beyond 1,200 stores

COMPETITIVE PRESSURES INTENSIFYING

Meal Kit Development

- Approximately 100 companies now offer meal kits – or packages that contain groceries and accompanying recipes
- As of July 2016, 8 million meals are delivered each month, up from one million meals per month at the start of 2015
- Industry leader, Blue Apron, has raised more than \$193 million in equity funding and delivers more than two million meals each month
 - On track to make close to \$1 billion in revenue this year
 - Considering an IPO within the next year, which would value the company at about \$3 billion
- Whole Foods Market has expressed huge interest in entering this space on their most recent earnings call
 - According to Ken Meyer, EVP of Operations, newly hired culinary leader, Tien Ho, has made “meal solutions” one of his main focuses
 - Launching a meal kit service is a needed response to the rise of Blue Apron and others
 - Entry into the this fast growing industry, possibly via an acquisition, could add some much-needed value after four straight quarters of sliding comps

Industry Shows Tremendous Future

Growth

- Survey results show that approximately 2/3 of adults are familiar with meal kit services, but only 4% of U.S. adults have used the service
- 7% of U.S. adults plan to use the service, therefore the meal kit industry has the potential to nearly double

“We have huge interest in meal kits. There’s a lot of people in the Willy Wonka laboratory working on this thing,” Walter Robb (WFM Co-CEO)



Emergence of E-commerce

- This has allowed grocers to expand their reach, as shown by the Vitacost.com acquisition by Kroger in July 2014.
 - Vitacost’s e-commerce technology and fulfillment centers enabled Kroger to serve customers in all 50 states, including 16 states not served by Kroger supermarkets at the time



ACTIVISM/BUYOUT PROVIDING A FLOOR?

POTENTIAL VALUATION

Precedent Transactions & Potential Valuation

- In March of 2016, Fresh Market was purchased by Apollo Global Management for \$1.3 billion in cash
 - Increased competition ate into Fresh Market's market share, significantly affecting same-store sales growth, as conventional supermarket chains expanded their offerings to capitalize on consumers' increasing interest in all things organic
 - This made them a prime takeover target
- WFM, with another less-than-stellar quarter could attract the attention of a potential buyer
- With same-store sales down 2.6% in the third quarter, and down 2.4% YTD, WFM is seeing a stall in growth despite opening 12 new stores during the quarter
- This reflects an increase in competition from other grocers, as natural and organic foods have gone mainstream; mirroring the environment that led to the Fresh Market acquisition

Announcement Date	Target Name	Acquirer Name	EV	Enterprise Value Multiples		Share Price Premium
				Sales	EBITDA (LTM)	
3/14/2016	The Fresh Market	Apollo Global Mgt.	\$ 1,312	0.71x	6.88x	53.0%
11/11/2015	Roundy's	Kroger	\$ 792	0.20x	7.76x	65.0%
7/28/2014	Family Dollar	Dollar Tree	\$ 9,092	0.88x	11.10x	22.8%
3/6/2014	Safeway	Cerberus (Albertson's)	\$ 7,882	0.22x	5.04x	17.0%
7/9/2013	Harris Teeter	Kroger	\$ 2,450	0.53x	7.27x	33.7%
Average				0.50x	7.61x	38.3%
High				0.88x	11.10x	65.0%
Low				0.20x	5.04x	17.0%

WFM Analysis	
Average Scenario	\$ 10,410
Upside / Downside	12.8%
WFM Historical Avg.	\$ 10,867
Upside / Downside	17.7%

Is WFM an option for an Activist?

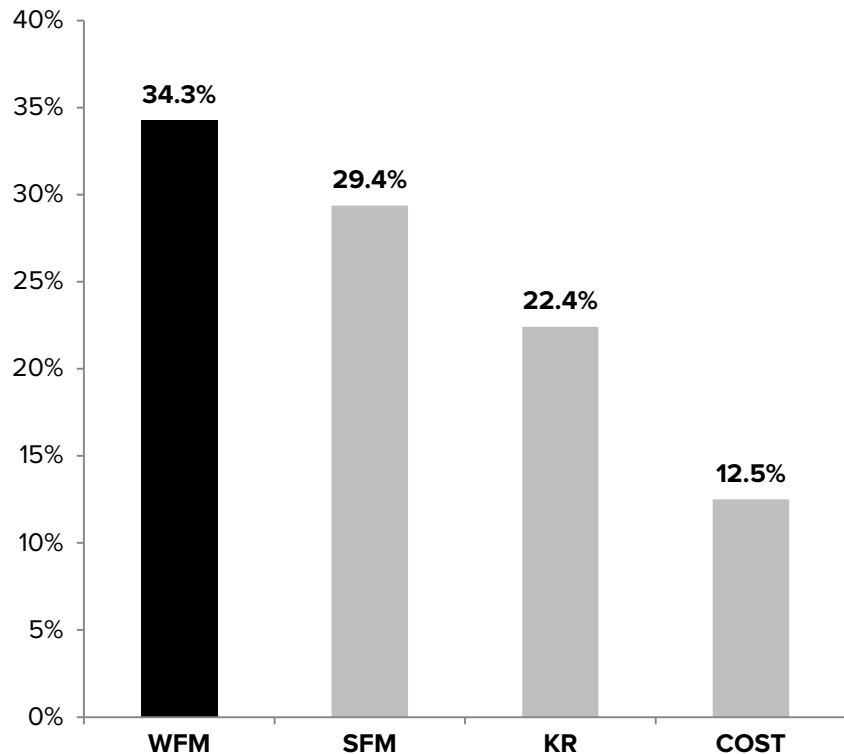
- Activism is not out of the question here, as we have seen it in the past with underperforming food retailers
- A struggling business such as WFM may be best served to go private like TFM in order to remove the focus on stock price volatility due to comp trends, and just to focus on the fundamentals
- An activist has somewhat limited options with WFM
- They can urge them to sell for the reasons previously stated
- Or they can have them change their capital structure, which management has already gone down the path of doing



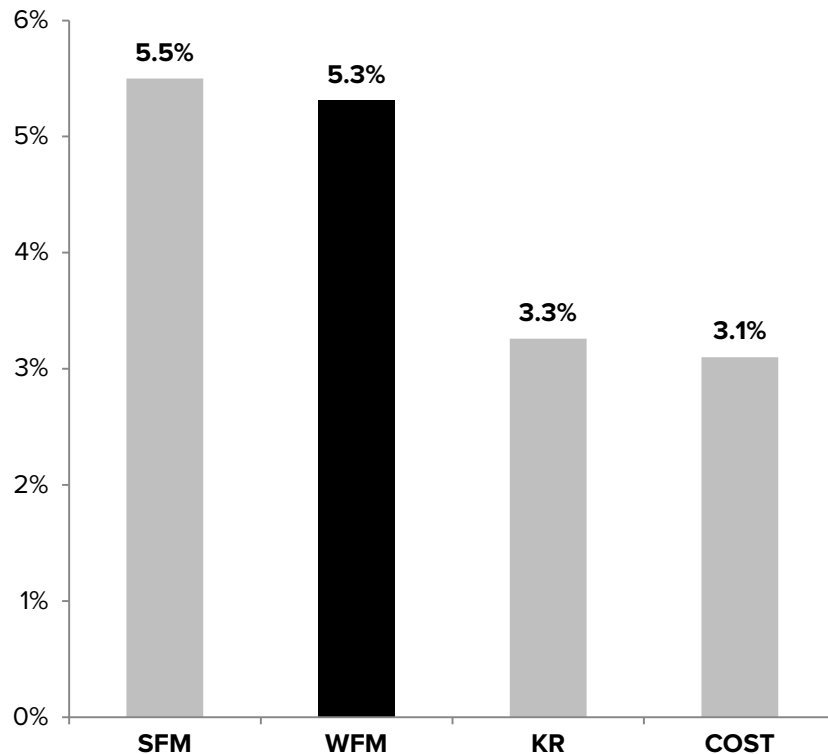
MARGIN ANALYSIS

WFM HAS SOME GROSS MARGIN TO INVEST

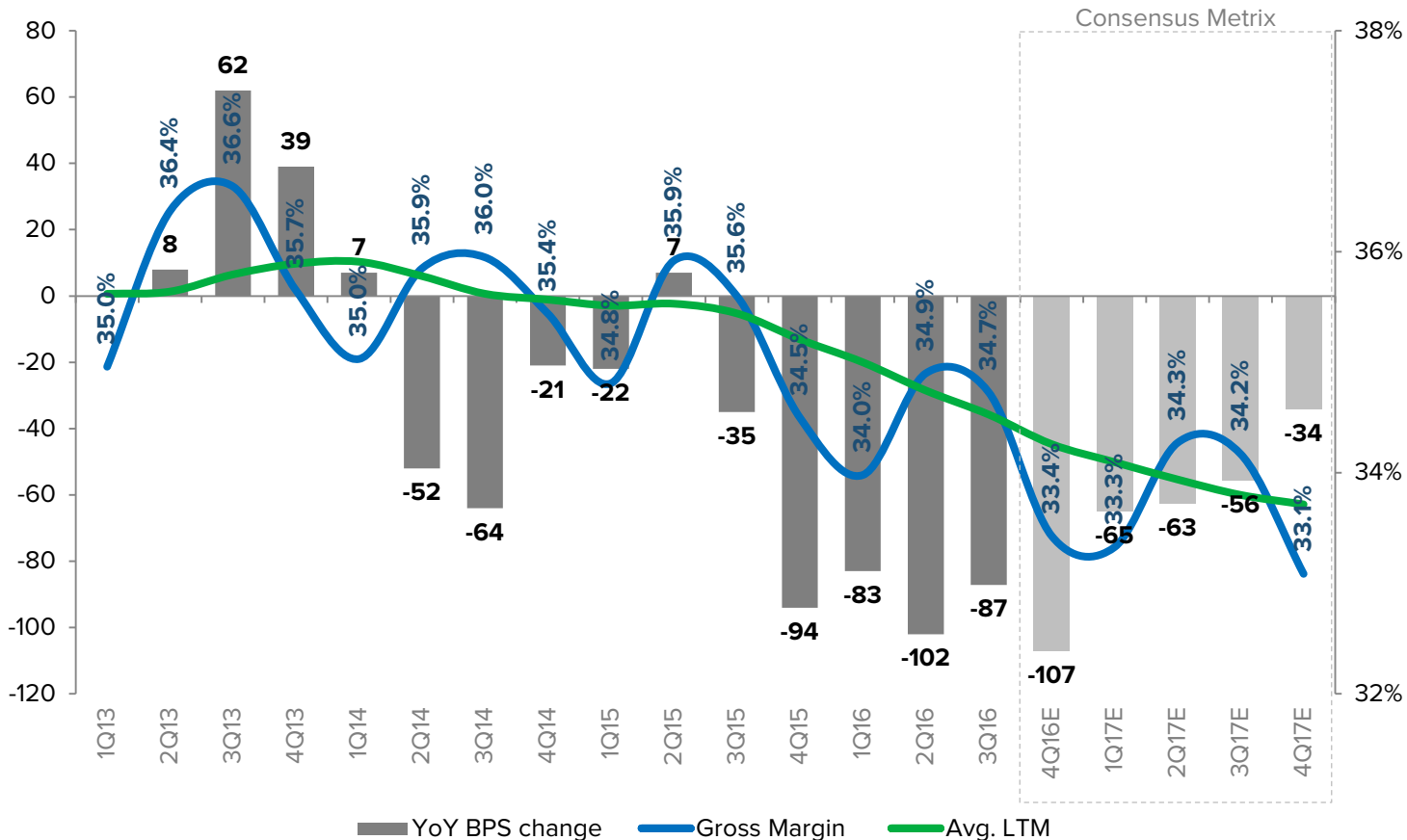
Gross Margin FY16E



Operating Margin FY16E

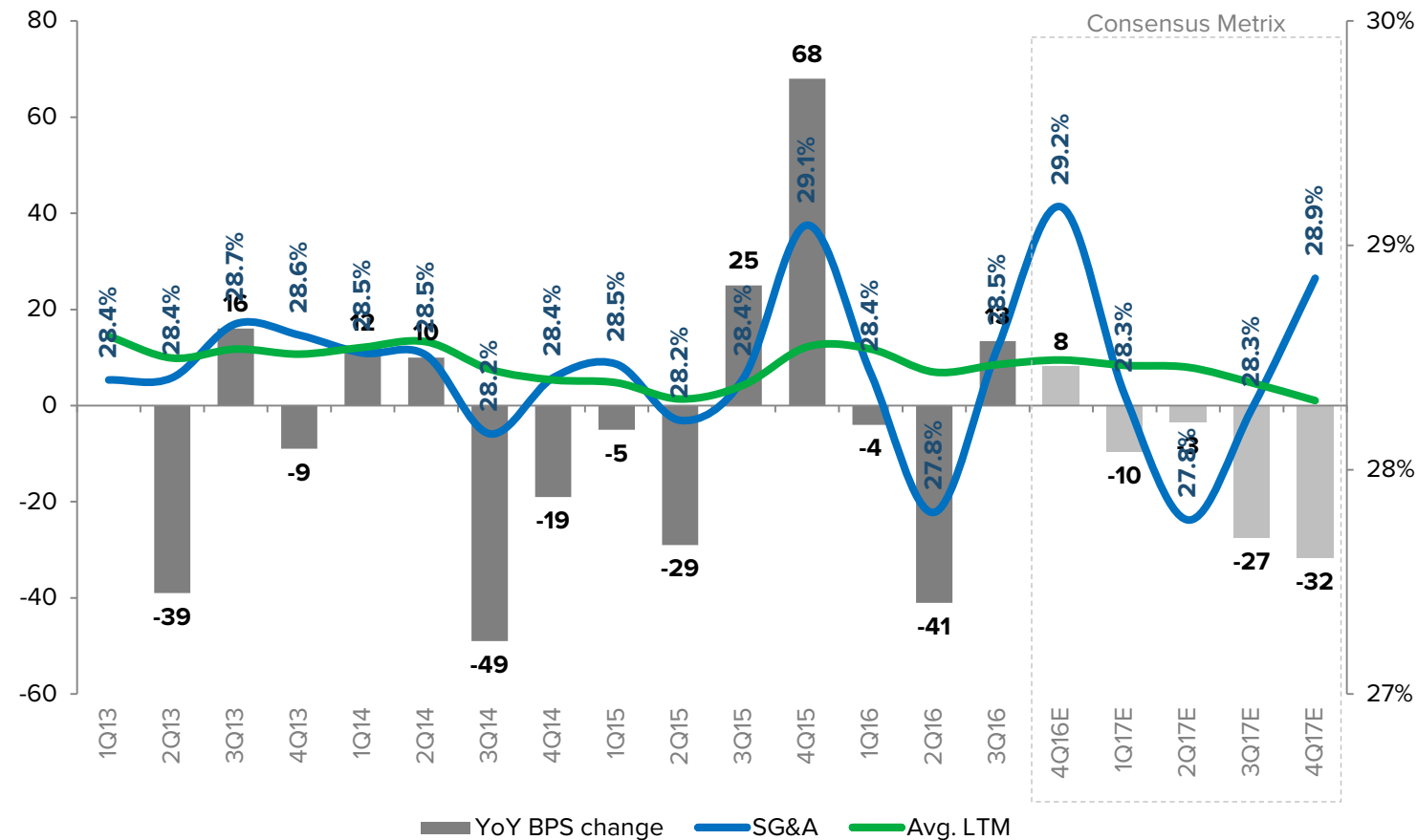


GROSS MARGIN



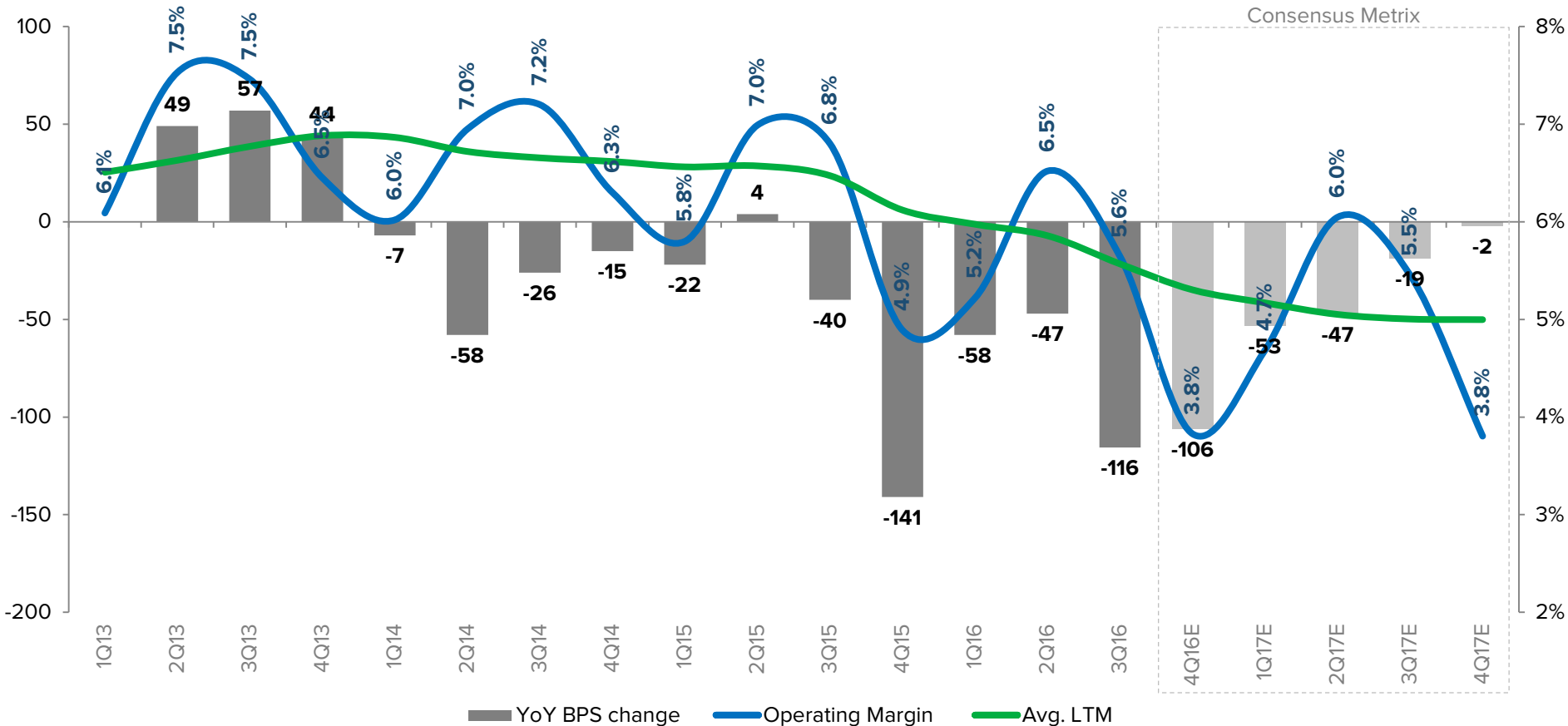
- For 3Q16, gross margin declined 87bps to 34.7% of sales
- Second quarter 2016 saw gross margin decline 102bps to 34.9% of sales
- For 1Q16, gross margin declined 83bps to 34% of sales
- The company says that it expects gross margins to fall approximately 200 basis points over the next year, as part of its competitive strategy, with hopes that this will allow for them to continue to remain at competitive price points
- Consensus gross margins in 2018 are 33.5% and in 2019 they drop another 50bps to 33%

SG&A AS A % OF SALES



- For 3Q16, SG&A increased 13bps to 28.5% of sales
- The second quarter of 2016 saw SG&A improve by 41bps to 27.8% of sales, due primarily to a 96 basis point increase in salaries and benefits, partially offset by increased depreciation, marketing and technology expenses as a percentage of sales
- SG&A improved four basis points to 28.4% of sales in 1Q16

OPERATING MARGIN

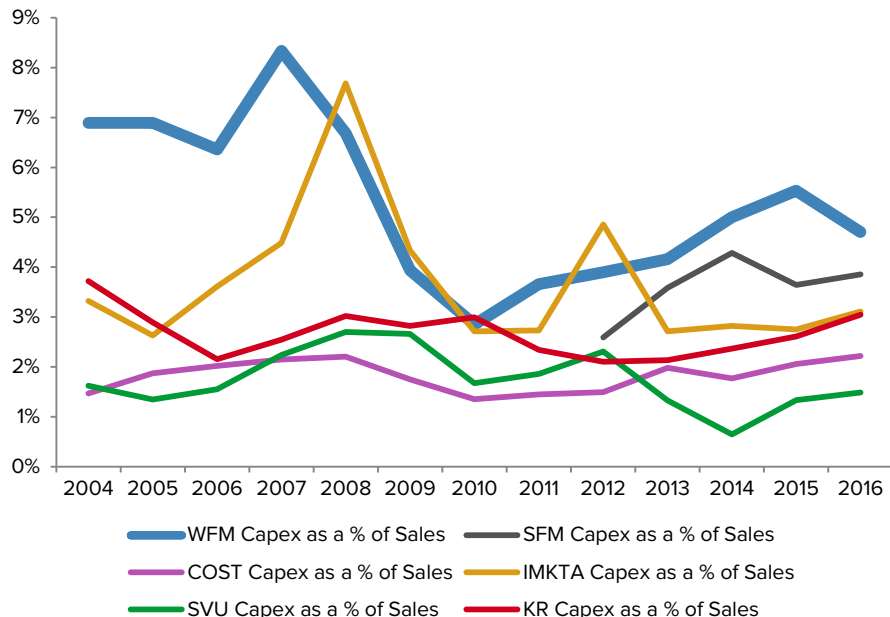




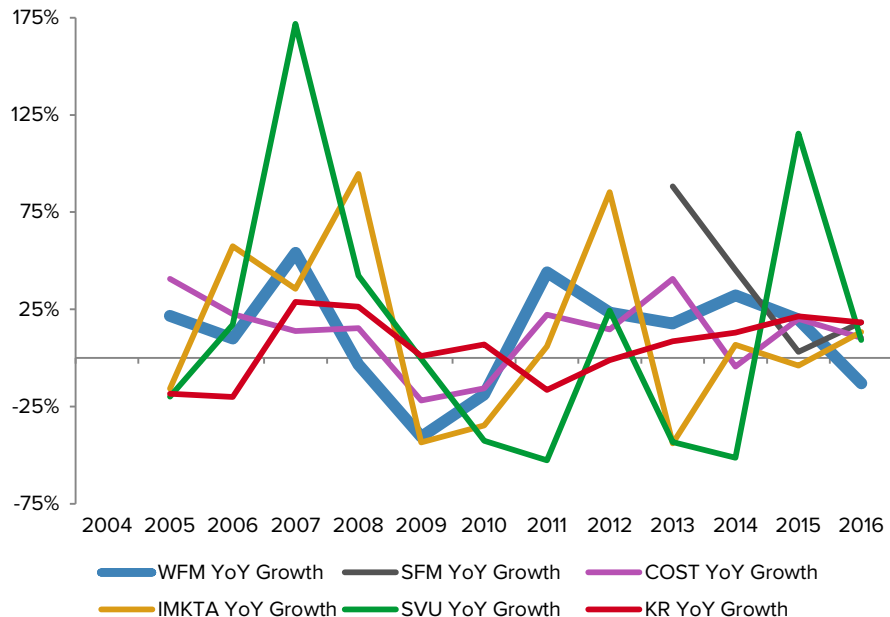
METRICS TO NOTE

CAPITAL EXPENDITURES

CAPEX as a % of Sales



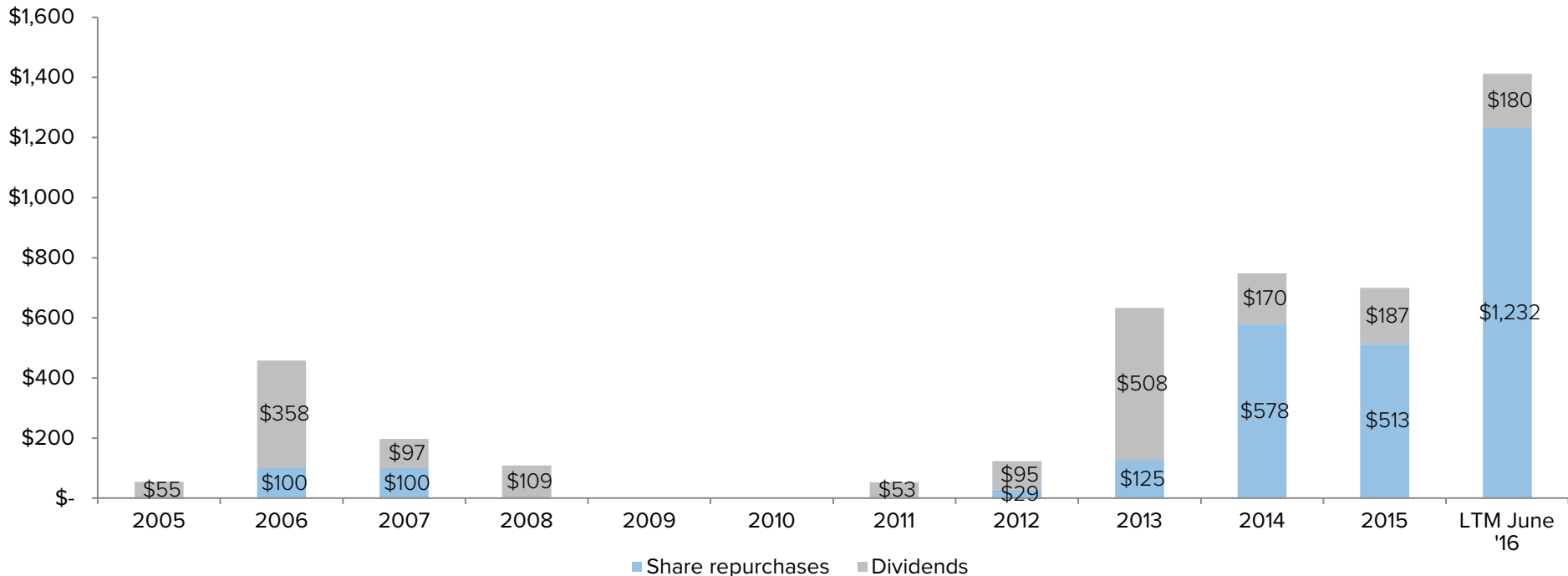
CAPEX YoY Growth



THIS MANAGEMENT TEAM IS DISCIPLINED AND HAS MANAGED DIFFICULT ENVIRONMENTS BEFORE

- In their FY09 they had the foresight and saw a difficult road coming cutting capex, reducing new store opening by 50% and suspended their cash dividend. All while able to maintain a strong balance sheet and approximately flat EBITDA due to the cuts in what was a very difficult environment.
- Back in 1Q09 they were talking about the same things, competition, cannibalization, slowing consumer and deflation, and yet they emerged at the top. Although natural and organic has gone mainstream we are confident that WFM and this management team will emerge at the top once again.

TOTAL CASH RETURNED TO SHAREHOLDERS

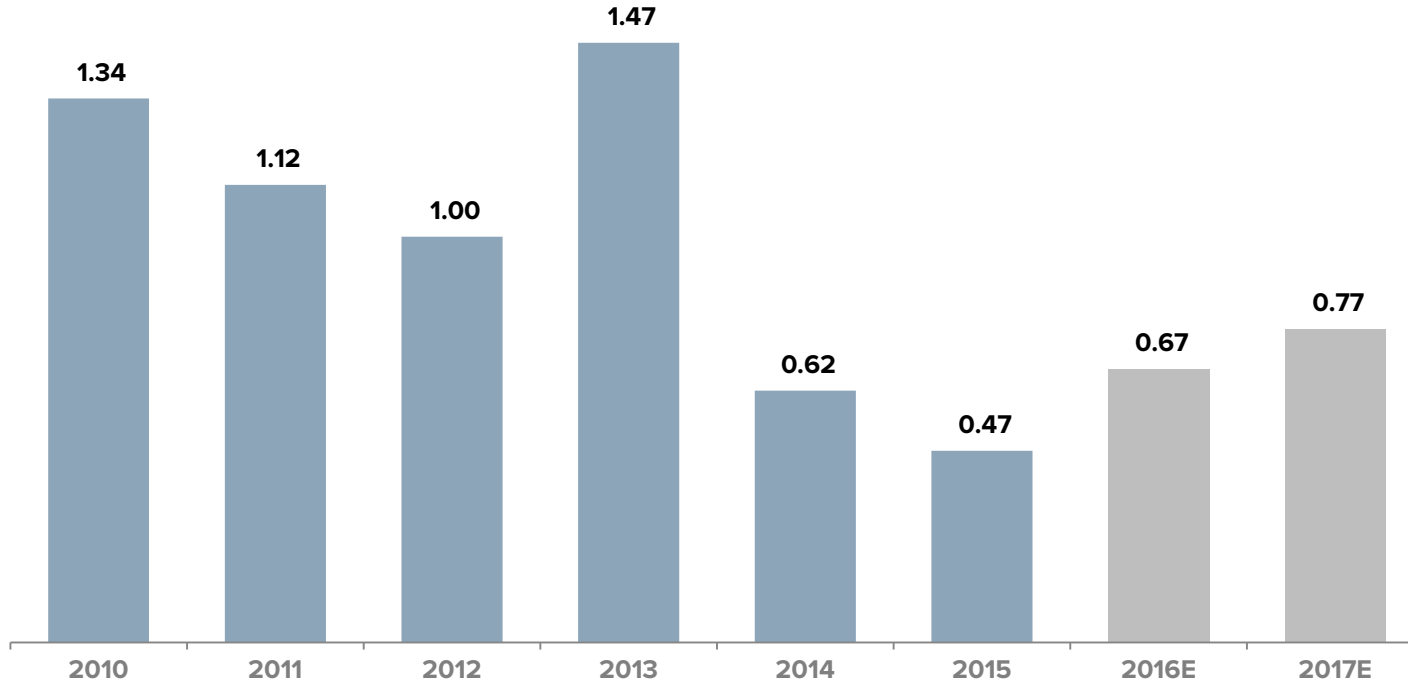


THROUGH BOTH SHARE BUYBACKS AND DIVIDENDS

Share buybacks have been minimal in the past, but they have been buying back copious amounts of shares given the free money environment and depressed stock price.

NET CFFO / NET INCOME

- The proportion if earnings yielding cash is set to recover





VALUATION

COMPANY DASHBOARD

Whole Foods Market, Inc. \$ 28.00

EARNINGS AND VALUATION SUMMARY				
(FY ends Dec.)	NTM	2016E	2017E	2018E
Hedgeye EPS	\$1.56	\$1.50	\$1.63	\$1.76
% Chg YoY		-3.8%	8.7%	8.0%
Consensus	\$1.50	\$1.51	\$1.50	\$1.59
% Chg YoY		0.7%	-0.7%	6.1%
Variance %		-0.9%	8.5%	10.3%
P/E	16.9X	17.7X	16.2X	14.9X

BULL CASE

- 1) Top brand nationally
- 2) Business refinements
- 3) Deflation headwind abating

SUMMARY FINANCIALS			
(Consensus in mm)	NTM	FY2016E	FY2017E
Sales	\$14,194.0	\$15,739.1	\$16,500.6
% Chg YoY		2.3%	4.8%
EBITDA	\$1,340.85	\$1,322.7	\$1,341.7
% Chg YoY		-4.1%	1.4%
EBITDA Margin*	9.4%	8.4%	8.1%
EV/EBITDA	6.9X	7.0X	6.9X

BEAR CASE

- 1) Continued deflation
- 2) Competitive environment

VALUATION	
Stock Price	\$ 28.00
Shares Outstanding	318.804
Market Cap	\$ 8,926.5
+ Net Debt	\$ 304.0
+ Preferred Equity	\$ -
+ Minority Interest	\$ -
Enterprise Value	\$ 9,230.5

NTM EBITDA	\$ 1,340.8
NTM EV/EBITDA	6.9x
NTM EPS	\$ 1.50
NTM P/E	18.6x
1X Turn	\$ 4.21
Upside/Downside	15.0%

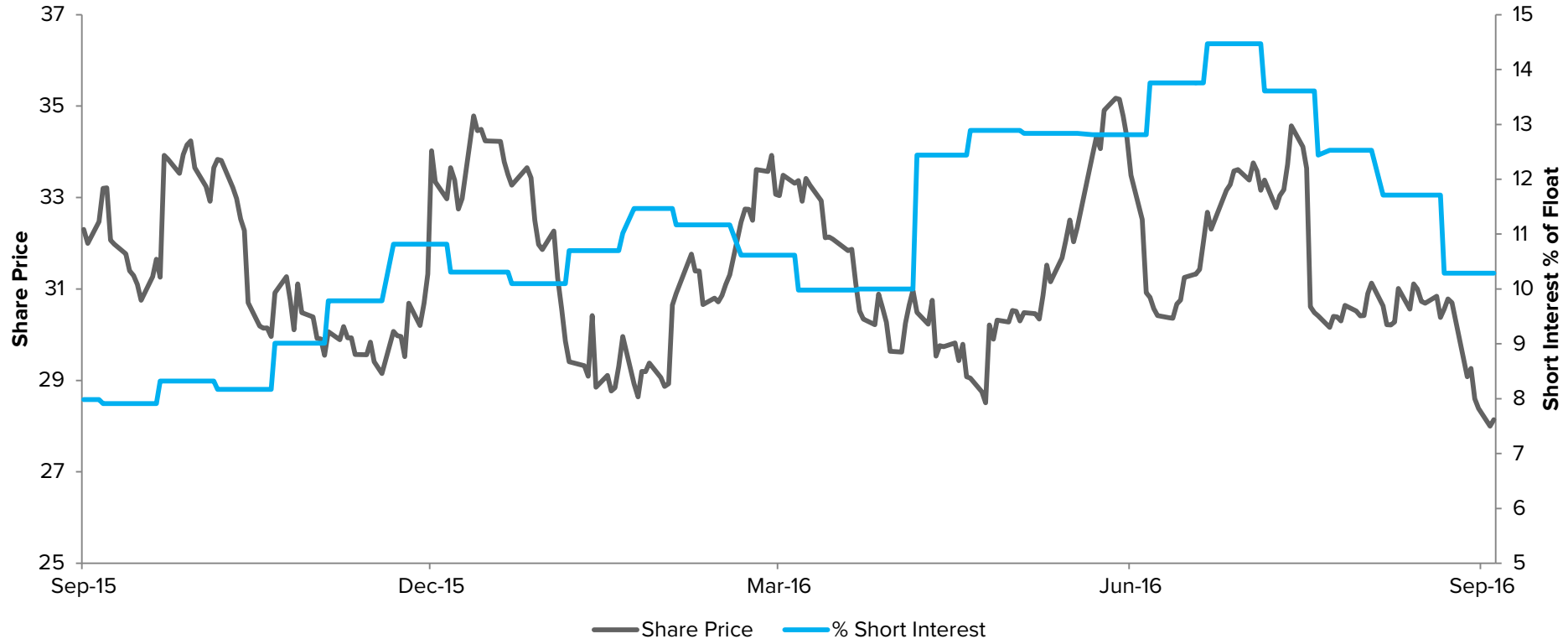
Source: Factset, Company Filings

*Consensus EBITDA Margin

©HEDGEYE RISK MANAGEMENT

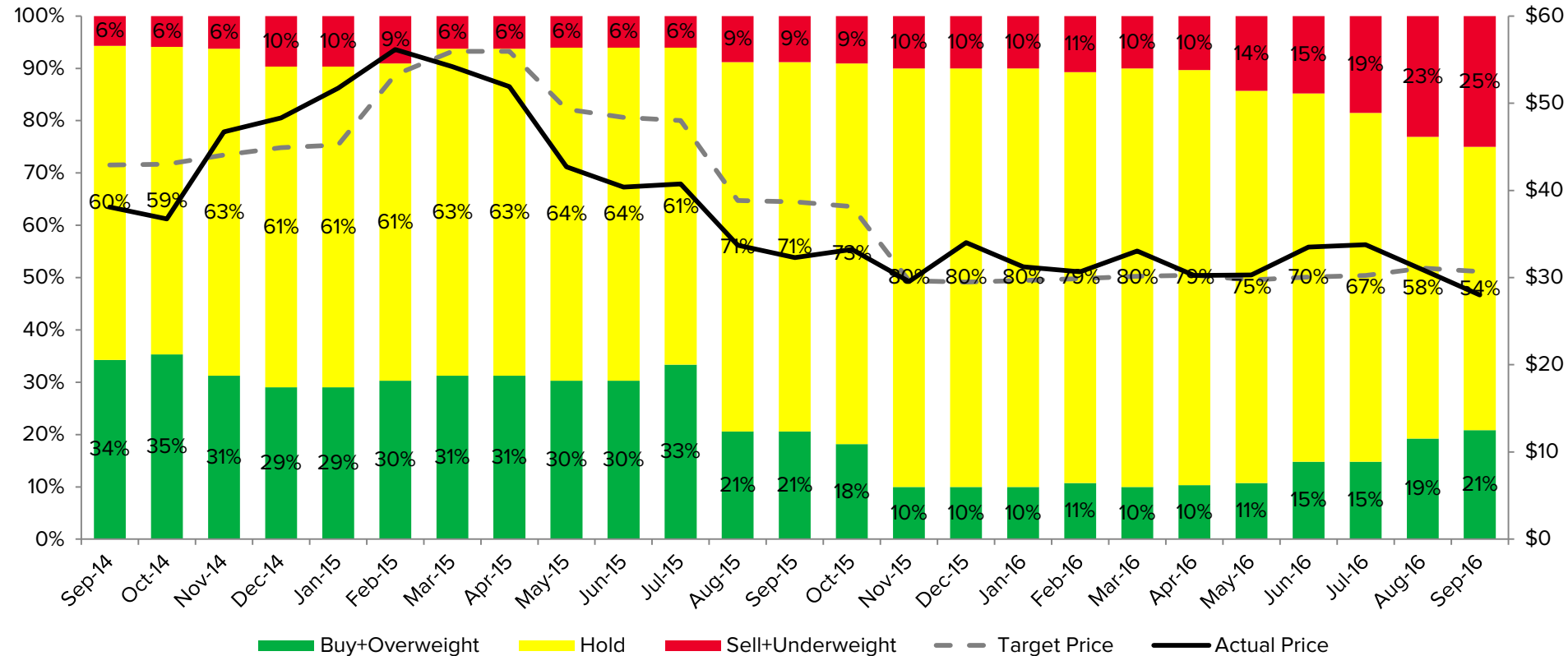
SHORT INTEREST

STILL STANDS HIGH, BUT HAS COME DOWN CONSIDERABLY



ANALYST RATINGS

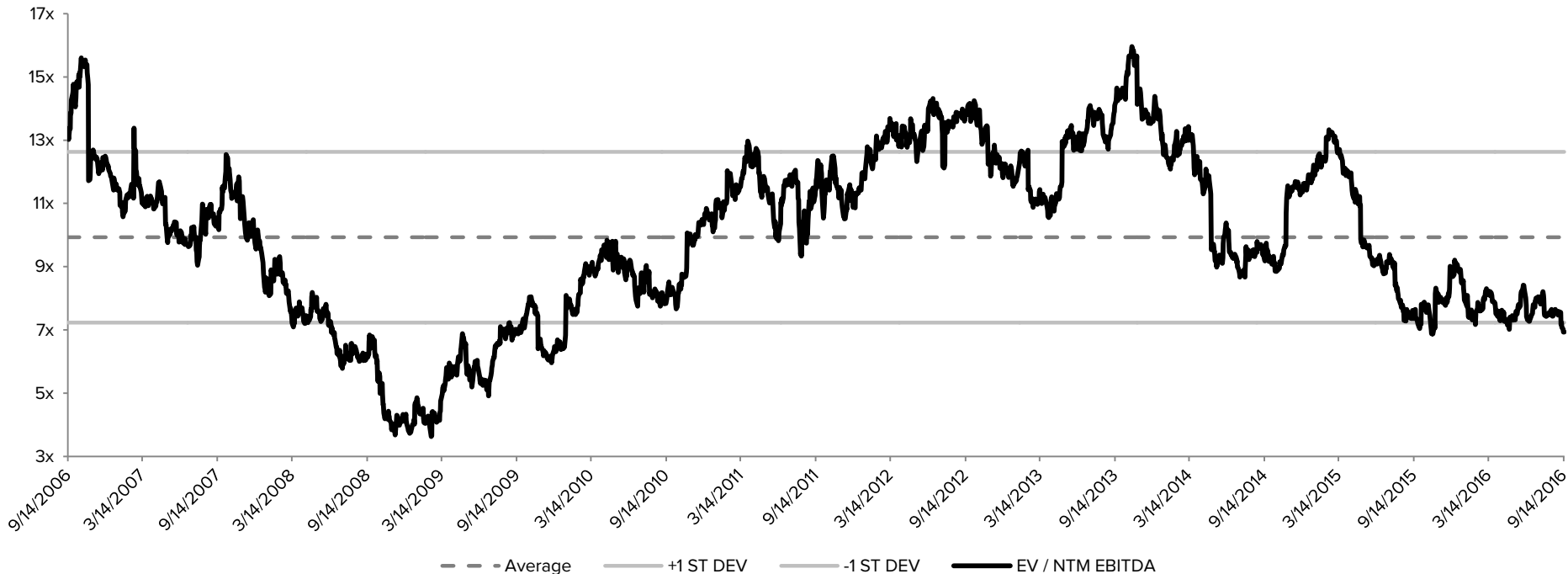
NEGATIVITY PILING IN



PUBLIC COMPANY COMPARABLES

Company Name	Price	Diluted Shares Out.	Equity Value	Enterprise Value	LTM Sales	NTM EV/ EBITDA	Gross Margin	Operating Margin
WFM	\$28.00	319	\$8,926	\$9,230	\$15,666	6.9x	34.3%	6.2%
WMT	\$71.46	3,097	\$221,312	\$263,747	\$483,833	8.0x	24.6%	5.0%
COST	\$150.74	438	\$66,080	\$65,413	\$117,937	12.1x	12.5%	3.1%
TGT	\$68.94	575	\$39,627	\$50,857	\$71,604	6.9x	29.6%	7.0%
KR	\$30.95	941	\$29,124	\$40,276	\$112,409	6.5x	22.4%	3.3%
SVU	\$4.70	265	\$1,246	\$3,680	\$17,318	5.1x	14.7%	2.8%
SFM	\$19.22	148	\$2,853	\$3,007	\$3,858	9.4x	29.4%	6.4%
Mean						8.0x	22.2%	4.6%
Median						7.5x	23.5%	4.1%

WFM 10 YEAR EV / NTM EBITDA



WFM IS CURRENTLY TRADING GREATER THAN 1 STD BELOW ITS 10 YEAR AVERAGE

The lowest WFM has traded on an EV / NTM EBITDA multiple basis is just under 4.0x at the end of 2008. This business has grown since then and has a more robust capital structure, the likelihood of a dividend cut is minimal, although they are faced with a notion that natural and organic has gone mainstream, and they are not the only game in town. Right now at 6.9x it is trading at the same level it was at the end of 2009.

VALUATION MATRIX

NTM EV/EBITDA Multiple												
EBITDA	5.8x	6.1x	6.5x	6.8x	7.2x	7.5x	7.9x	8.2x	8.6x	8.9x	9.3x	
	\$1,270	\$21.96	\$23.35	\$24.75	\$26.14	\$27.54	\$28.93	\$30.33	\$31.72	\$33.11	\$34.51	\$35.90
	\$1,296	\$22.42	\$23.84	\$25.26	\$26.68	\$28.11	\$29.53	\$30.95	\$32.37	\$33.80	\$35.22	\$36.64
	\$1,322	\$22.88	\$24.33	\$25.79	\$27.24	\$28.69	\$30.14	\$31.59	\$33.04	\$34.49	\$35.94	\$37.39
	\$1,348	\$23.36	\$24.84	\$26.32	\$27.80	\$29.28	\$30.76	\$32.24	\$33.72	\$35.20	\$36.68	\$38.16
	\$1,375	\$23.85	\$25.36	\$26.87	\$28.37	\$29.88	\$31.39	\$32.90	\$34.41	\$35.92	\$37.43	\$38.94
	\$1,403	\$24.34	\$25.88	\$27.42	\$28.96	\$30.50	\$32.04	\$33.58	\$35.12	\$36.66	\$38.20	\$39.74
	\$1,431	\$24.85	\$26.42	\$27.99	\$29.56	\$31.13	\$32.70	\$34.27	\$35.84	\$37.41	\$38.98	\$40.55
	\$1,459	\$25.36	\$26.97	\$28.57	\$30.17	\$31.77	\$33.37	\$34.98	\$36.58	\$38.18	\$39.78	\$41.38
	\$1,488	\$25.89	\$27.52	\$29.16	\$30.79	\$32.43	\$34.06	\$35.69	\$37.33	\$38.96	\$40.60	\$42.23
BEAR			BASE						BULL			
-22%			12%						51%			

THIS BULL CASE WILL TAKE SOME TIME TO MANIFEST

The pivot of commodities turning from deflationary to inflation will be critical, and we feel we aren't more than 6 months away from that. WFM will continue to churn away on their business further refining their processes and refining their competitiveness.

SUMMARY OF OUR THOUGHTS

Key Points

- 1 Deflationary headwinds drawn out – closer to the end given historical trends
- 2 WFM has strong initiatives underway to propel the next leg of growth
- 3 Gross margin reset has been accepted, and WFM is still well above the competition
- 4 Depressed valuation likely has potential buyers and or activists looking closer, providing a floor that is probably only a few dollars away

Risks To The Short

- 1 Continued deflation beyond current expectations would hamper the top line
- 2 Competitive pressures intensify, causing WFM to increase price investment beyond our projections

FOR MORE INFORMATION CONTACT:

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