Whole Foods Financial Analysis Report

Whole Foods is the largest natural and organic foods supermarket, fifth largest public food retailer, and the tenth largest food retailer overall. The firm operates 456 stores as of September 25, 2016, with a blended real estate strategy- with owned and leased real estate. Whole Foods averages over 8 million customer visits per week. The firm is a mission-driven company that sets its objectives beyond simply food and grocery retailing. The company's motto "Whole Foods, Whole People, Whole Planet," encapsulates the holistic overview and corporate social responsibility efforts. The company prides itself on its sustainability efforts, its treatment of employees, shareholders, clients, vendors, and supply chain.[1]

The firm has a robust product selection including prepared foods and bakery, organic coffee, packaged goods including their own brands 365 Everyday Value, Whole Foods Market, Whole Paws, and Allegro Coffee. Whole Foods carries over 30,000 unique stock keeping units (SKU's) which include organic produce, frozen items, dairy, meat, bakery, coffee, tea, beer, wine, etc. The company foresees continued expansion, due to positive macro trends such as consumer preferring certified organic products and overall health consciousness. The core tenet of its philosophy is to create a socially responsible and environmentally friendly business, only marketing the healthiest products available.[2]

Whole Foods is extremely stable within both the organic specialty retail market and the overall grocery business. The firm enjoys positive cash flow, and net income thus enabling it to deliver the highest quality experience to its customers. The biggest challenge facing Whole

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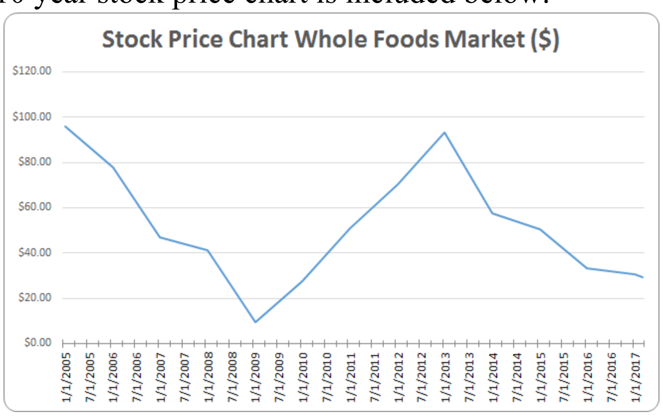
[1] Whole Foods Market. (2017). 2016 Annual Report. http://investor.wholefoodsmarket.com/investors/financial-information/annual-reports-and-proxy/default.aspx

[2] Whole Foods Market. (2017). 2016 Form 10-K . http://investor.wholefoodsmarket.com/investors/financial-information/annual-reports-and-proxy/default.aspx

Foods is maintaining its competitive advantage in an increasingly competitive market. Companies such as Walmart, Kroger, and Target are enhancing their own organic goods selections which can potentially hamper Whole Foods growth and margins. Other material risks include diminishing vendors, damages in consumer confidence, disruption of supplier and supply chain.[2]

The growth of Whole Foods includes new store openings, acquiring smaller speciality chains, and the continued possibility for mergers & acquisitions with existing brands and companies. There has been speculation that Whole Foods could potentially be purchased by Kroger in a $40/share, $13 billion bid.[3] A takeover from a traditional grocer would present a unique series of challenges considering the organic & healthy focus of Whole Foods, with a probable strategy leaving Whole Foods Corporate intact as a form of subsidiary. Whole Foods has already launched into Canada and the United Kingdom, and the future holds expansion into further international markets. [4]

Whole Food's 10 year stock price chart is included below:[5]



3 "Is Kroger going to buy Whole Foods? - Oct. 7, 2016 - CNN Money." 7 Oct. 2016, http://money.cnn.com/2016/10/07/investing/whole-foods-kroger-merger-rumors/. Accessed 13 Mar. 2017.
4 "Store List - Canada | Whole Foods Market." http://www.wholefoodsmarket.com/stores/list/canada.
5 "WFM Historical Prices | Whole Foods Market, Inc. Stock - Yahoo Finance." 13 Mar. 2017. <http://finance.yahoo.com/quote/WFM/history?period1=696142800&period2=1489377600&interval=1mo&fi%2Blter=history&frequency=1mo>.

For the full balance sheet, income statement, cash flow statements, vertical analysis, horizontal analysis and financial ratios refer to the corresponding excel spreadsheets. Highlights and summary items for the cash flow statement are included below.

Cash Flows	2016	2015	2014
Net cash provided by operating activities	$1,116	$1,129	$1,088
Net cash used in investing activities	$(895)	$(455)	$(484)
Net cash used in financing activities	$(113)	$(622)	$(698)
Net change in cash and cash equivalents	**$114**	**$47**	**$(100)**

The first significant 3 year trend is an overall increase in cash flows from 2014 to 2016. From 2014 to 2016, there was a change of $214 million in net cash flows. This positive change is a clear indicator that its overall strategy over the period of cost-cutting and streamlining to reduce prices has paid off. The second 3 year trend is that net income dropped from $579 to $507 million, operating income dropped from $934 to $857 million, but gross profit increased from $5,044 to $5,411 million. This again confirms that restructuring and administrative costs are putting an increased burden on the overall bottom line, however when removed and analyzing just the gross profitability.

The two year trends that immediately jump out for Whole Foods is the change in working capital and the current ratio. Whole Foods increased working capital from $292 million in 2015 and more than doubled it to $634 million in 2016. Doubling working capital is a huge leap for any company to make, especially a retail grocer operating in a thin margin environment. The current ratio difference from 2015 to 2016 isn't as large but is still significant, moving from 1.23 to 1.47. These two movements show a strong positive change in the short term financials of Whole Foods.

These ratio improvements can be attributed to two main areas, 1) approximately $500 million annually in net income for both 2015, 2016 and, 2) the increase in net cash flows. From 2015 to 2016, total cash flow from operations maintained as an inflow of over $1 billion, at $1,129 million and $1,116 million respectively. This positive cash flow from operations continues to demonstrate that Whole Foods operations are generating revenues, and the company's operations are able to generate significant net income to turn into a strong overall positive cash flow which in return are being used to funnel and generate growth. Including financing and investing activities, net cash flows went from a $47 million inflow of cash in 2015 to increase to $114 million.

Whole Foods is not only stable while continuing to maintain its operations, it is also financially stable while significantly expanding its operational footprint. During 2015 and 2016, Whole Foods opened 38 and 28 new stores (while shuttering 9), an increase in 15% of its stores from year end of 2014 (see exhibit below). Despite this growth, and a strategic cost cutting initiative that resulted in 1,500 layoffs, many of Whole Foods financial ratios showed little to no change from 2015 to 2016. Cash flow from operations to current liabilities ratio (.88 to .87) , accounts receivable turnover ratio (73.99 to 68.37), inventory turnover ratio (21.20 to 20.28), number of days' sales in inventory (5 both years), and accounts payable turnover ratio (34.93 to 34.26), number of days' payables outstanding (11 to 10), and cash-to-cash operating cycle (12 to

13). This stability demonstrates the company's ability to manage change and continue to expand.

Whole Foods is a difficult company to find industry comparatives for because the grocery store industry varies greatly in size and targeted market. Whole Foods is the largest "health &

Our historical store growth for the fiscal years indicated is summarized below:

	2016	2015	2014	2013	2012
Stores at beginning of fiscal year	431	399	362	335	311
Stores opened	28	38	34	26	25
Acquired stores	—	—	4	6	—
Relocated stores	(3)	(6)	(1)	(5)	(1)
Stores at end of fiscal year	456	431	399	362	335
Total gross square footage at end of fiscal year	17,800,000	16,625,000	15,162,000	13,779,000	12,735,000
Year-over-year growth	7.1%	9.7%	10.0%	8.2%	7.6%

organic" focused brand with no comparatives of its size and comparing against other grocery stores is difficult as the industry is segmented into supergiants like Publix and Kroger then smaller or regional grocery brands. For comparative purposes, we decided to utilize an IBIS and Risk Management Association Industry analysis, utilizing data for grocery store chains with more than $50 million revenue per year.[6] Whole Foods is considerably larger ($15 billion in revenue) and thus industry comparative is still difficult.

In analyzing the comparative to industry, there are several ratios where Whole Foods is performing better than the industry comparative. Working capital for year end 2016 is $634 million, showing significantly larger working capital than the industry average 10.4 million and debt ratio for Whole Foods was .49, significantly better than industry average of 2.0. Inventory turnover ratio and days' sales in inventory was also significantly better, at 18 days compared to industry average of 24. Whole Foods performed worse than industry in its accounts receivable turnover ratio, days' sales in receivables, and its cash to cash operating cycle. The accounts

[6] "IBISWorld." http://clients1.ibisworld.com.remote.baruch.cuny.edu/reports/us/industry/keystatistics.aspx?entid=1040 Accessed 14 Mar. 2017.

payable turnover ratio and days' payables are off from industry standard which can be interpreted as bad since they're paying bills on average within 11 days and not holding onto capital spent on bills as long as possible.

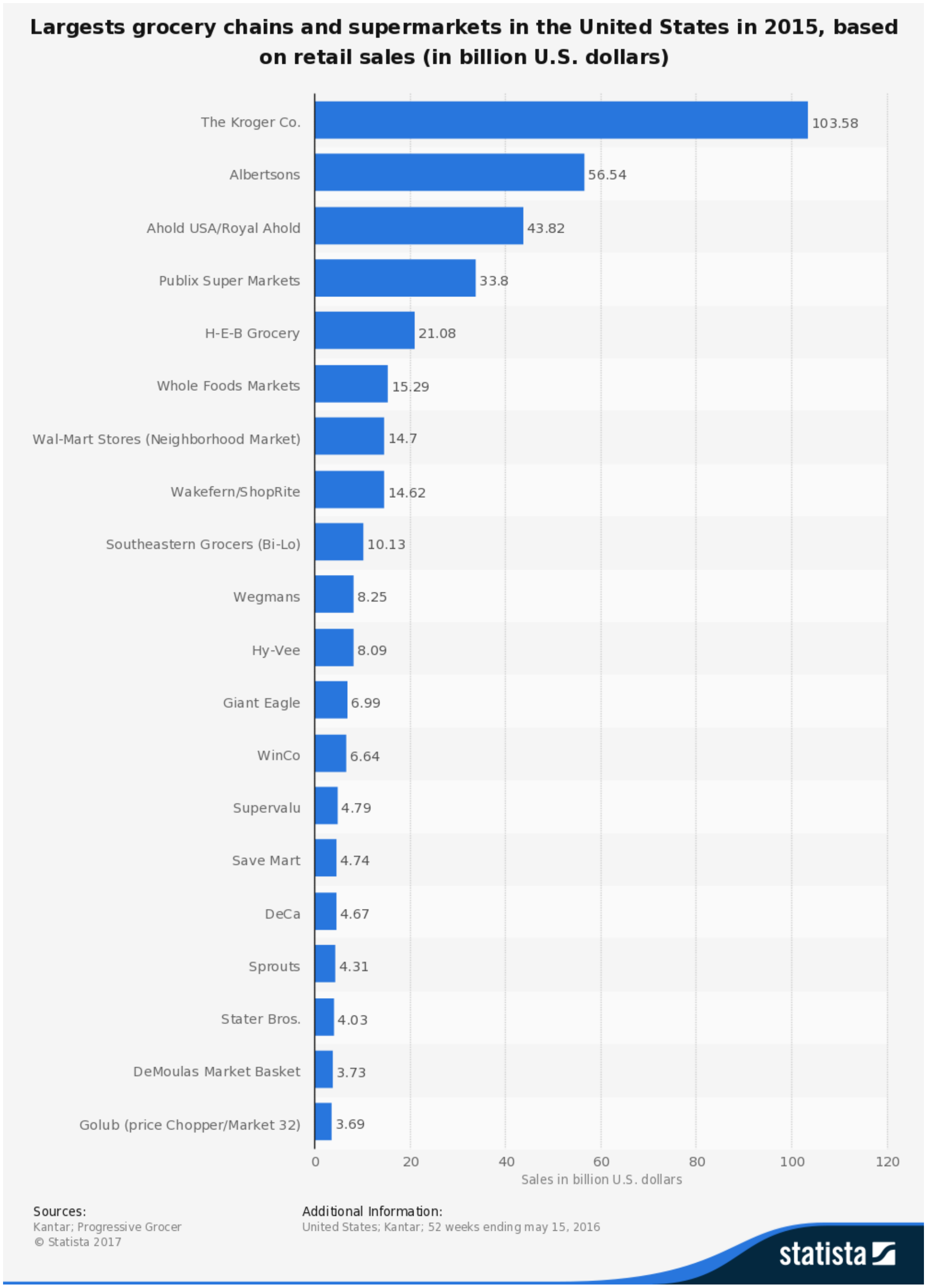
If we were an investor group, we would invest in Whole Foods stock. At its current price, the price/earnings ratio is 19.26 and every financial indicator shows that the company is poised to invest in strong growth. Coupled with the aggressive strategic initiatives implemented by the company both in cost cutting and expansion over the past years, we would expect the stock price to reach a target price point of $38.00 in 12 months. Whole Foods is in an attractive position to be purchased by one of the mega-grocers, Publix or Kroger, to cross-brand into the once niche and now growing mainstream organic market. A buyout would lead to an immediate

Type of Ratio	Financial Item / Ratio	2016	2015	Industry Comparativ	Whole Foods Performance
Liquidity Analysis	Working capital	$ 634	$ 292	10.4	Significantly Better
	Current ratio	1.47	1.23	1.3	Similar
	Acid-test (Quick) ratio	0.96	0.75	0.8	Similar
	Cash flow from operations to current liabilites ratio	0.87	0.88	0.95	Slightly worse
	Accounts receivable turnover ratio	68.37	73.99	124.6	Worse
	Days' sales in receivables (DSO)	5	5	2.9	Worse
	Inventory turnover ratio	20.28	21.20	15	Significantly Better
	Days' sales in inventory (DIO)	18	17	24.3	Significantly Better
	Accounts payable turnover ratio	34.26	34.93	19.5	Requires Interpretation
	Days' payables outstanding (DPO)	11	10	18.7	Requires Interpretation
	Cash-to-cash operating cycle	13	12	8.5	Worse
Solvency Analysis	Debt ratio	0.49	0.34	2	Significantly Better

increase for shareholders as Whole Foods balance sheet & positive metrics would require a strong incentive to reach an agreement.

If we were a banking group, we would be liberal and open to any number of financial loans to Whole Foods Group. Their debt ratio of 2.0 is excellent, current assets alone are $1.97

billion, and total assets of more than $6 billion provide ample room for Whole Foods to provide collateral and have assets to repay any debts taken out.



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[7] "Leading 100 American retailers 2015 based on US retail sales - Statista." https://www.statista.com/statistics/195992/usa-retail-sales-of-the-top-50-retailers/. Accessed 9 Mar. 2017.