

Whole Foods Equity Valuation

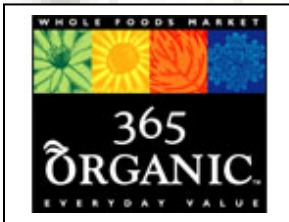
Valued as of April 1, 2007



By:

Kelli Morrison- Kelli.Morrison@ttu.edu
Andres Wiese- Andres.Wiese@ttu.edu
John Acuff- John.Acuff@ttu.edu
Trey Hoppe- Trey.Hoppe@ttu.edu
Jordan Wetzel- Jordan.Wetzel@ttu.edu

TABLE OF CONTENTS:



Executive Summary..... 3

Business & Industry Analysis... 7

Accounting Analysis.....17

Ratio Analysis.....32

Forecasting Analysis.....58

Valuation Analysis.....76

Appendices

Appendix 1.....90

Appendix 2.....91

Appendix 3.....92

Appendix 4.....98

Appendix 5.....99

Appendix 6.....104

References.....105

RECOMMENDATION: OVERVALUED

Company Overview

Whole Foods is the leading organic food manufacturer in its industry. It has grown substantially over the years and is a company that has a potential to take over the general food industry in oncoming years. Since opening in 1980, Whole Foods has now acquired three of its top competitors. Some of their existing competitors include Kroger, Ruddick, Central Market and all the normal grocery stores. Although normal grocery stores are included as one of Whole Foods competitors, Whole Foods offers a much more extensive array of food. According to the Whole Foods Website, Whole Foods has climbed to now, the number five position in the fortune 100's best company to work for. Whole Foods has been very prosperous in creating a competitive advantage over all of their competitors. They have outshined everyone in the industry and have set themselves apart from everyone in the grocery industry by having various types of food. Whole Foods' strategy is to set themselves apart from everyone else by not only supplying food of great quality, but also by offering a wide selection of food that everyone can enjoy.

Accounting Analysis

After analyzing Whole Foods' 2006 10-K we were able to draw some conclusions about their accounting practices. Analyzing a company's 10-K is a very useful way in telling what direction a company is going. Whole Food's uses an overall aggressive accounting strategy. In their accounting strategy, we only found two discrepancies. The first is how Whole Foods handles their goodwill. Whole Foods, in between the years of 2002 through 2006 reported about 42.6 million dollars in goodwill. However, Whole Foods does not recognize the impairment of goodwill, which will in turn overstate their net income. The second discrepancy

that shows up is when we converted Capital Leases in to Operating leases. Whole Foods has operating lease liabilities of about 2.5 billion dollars. We believe that Whole Foods chose to do operating leases instead of capital leases in order to hide 2.5 billion dollars in their balance sheet. After forecasting Whole Foods' financial statements for ten years, we were able to have a better idea about where Whole Foods was going. First, we assumed an average historical growth to forecast our net income. After looking at those numbers we realized that Whole Foods' growth may slow down so we slowed down the growth rate after a few years. Still, Whole Foods has proved to be a very strong, growing company. Since they do not have any close competitors, it is likely that they will be a very stable and successful company.

Financial Ratio Analysis

One measure that has helped paint a picture of where Whole Foods stands within its industry is in analyzing financial ratios. The financial ratios we examined can be broken down into three categories: liquidity, profitability, and capital structure. We began by conducting a time series analysis of all of the ratios which provided us with a look at Whole Foods by itself, outside of the industry. Next, we performed a cross sectional analysis which allowed us to analyze Whole Foods in comparison to the rest of the industry.

The liquidity ratios allow an investor to analyze a company's ability to pay off their current debts. They do this by providing insight on the company's current ratio, quick asset ratio, how many days the company's sales remain outstanding, and how long it takes the company to turn over its inventory. The profitability ratios exist to accomplish another task. They analyze the past performance of the company and evaluate their ability to generate a profit. The gross profit margin, return on equity, and return on assets are examples of ratios in this category. The last section consists of the capital structure ratios. These ratios are

important because they give an idea of where and how the company allocates their money to finance assets. They include the debt to equity ratio, times interest earned, and the debt service margin.

Forecasting Financial Statements

The reason we forecasted out our company for ten years was in order to have an idea where Whole Foods will be in the future. Although these forecasts are not 100% accurate, we have used historical and industry averages in order to ensure that they are as accurate as possible. The biggest thing we had to take in to consideration with our forecasting is that Whole Foods is somewhat of a new company and is still growing. We assumed that Whole Foods would continue to grow at an increasing growth rate for the next couple of years and then start to level off. Forecasting Whole Foods gave us a better idea about what direction Whole Foods was heading in and also gave key numbers that we needed to find the overall value of our company.

Intrinsic Valuations

Intrinsic valuations start with the calculations of the weighted average cost of capital (WACC), the cost of equity (K_e), the cost of debt (K_d), and the growth rate. The five different valuation methods we used were: discounted dividends, residual income, long run residual income perpetuity, free cash flows, and abnormal earnings growth. Free cash flow is the only valuation method in which WACC is used; all the other methods use K_e as the discount rate. Each of these valuations models does have their flaws, as a few of these were deemed inaccurate. The Abnormal Earnings Growth valuation proved to be closest to the observed market price. However, the long run residual income perpetuity model came very close. The reason for error in this valuation is derived from the flaws

in the principles of the valuation models. If we used our historical five-year average of Whole Foods' ROE in the long run residual income perpetuity model, the result would have come extremely close to the observed market price. However, we used the average of the forecasted ROE's, which has been declining due to the forecast. Because we cannot accurately forecast dividends, we kept them at \$0.45/share, which is an historic average. Due to this constant number, our retained earnings is growing at an abnormal rate, which in turn increases our owner's equity. This ultimately lowers our forecasted ROE over time. The Altman Z-Score, although not a method of valuation, is used to determine the overall financial health of a company. The result of this formula is used to assess the credit worthiness of the company.

COMPANY OVERVIEW AND ANALYSIS

COMPANY OVERVIEW

Whole Foods Market, Inc. has become one the leading competitors in the organic food industry. The company has built their success on many attributes, including completely natural and healthy foods, good customer service, and a very motivated business strategy. Whole Foods sells many products that competitive grocery stores also sell, but separate themselves by providing natural products, including bread, produce, seafood, and other products. On top of selling natural foods, Whole Foods has also created an authentic and natural body product line called Whole Body. Based on the health concerns that have come about in the past 5 years, Whole Foods can count on a wide-range of customers. Whole Foods donates almost 5% of their annual profits to non-profit organizations, whether it's giving cash or some of their products (10K). Some of the company's core values include selling the highest quality natural products, fantastic customer service, and caring about the community (10K). According to the

Organic Trade Association, "consumer demand for organic products has risen 20% annually since 1990 and is still growing." Whole Foods Market, Inc. was created in 1980, when Safer Way Natural Foods and Clarksville Natural Grocery combined to form the company as it is today. "It is based in Austin, TX and now operates 177 stores in 31 states in the U.S., 3 stores in Canada, and 6 stores in the U.K." In 1991, Whole Foods collected \$92 million in sales, and collected \$ 5.6 billion in 2006. This results in an annual growth rate of 31% (10K).

Whole Foods is a part of the grocery store industry. This industry includes not only natural and organic markets, but also supermarkets. Although Whole Foods is one of the largest in its industry, the company is still surrounded by upcoming competitors. Some of Whole Foods biggest natural and organic market competitors include Wild Oats and few privately owned organic food retailers. However, supermarkets, such as Wal-Mart, Kroger, and Randalls are beginning to sell natural and organic products to keep up with the rise in health awareness. Whole Foods has a market capitalization of 6.38 billion, which is almost 5 times the industry's market capitalization of \$1.29 billion (10K). According to Whole Food's NASDAQ info quote, "the current common stock value of Whole Foods is \$ 6,236,244,690

Industry Overview & Analysis

The Natural Products Industry

Born from the more general retail (grocery) industry, the natural products industry has developed its own identity. A key example of this is one of Whole Foods Market's major competitors, Central Market. This company is a subsidiary of the privately owned Texas corporation, HEB Grocery Stores. Just as Central Market has grown out of HEB, the natural products industry has grown out of the

grocery-retail industry. Key industry characteristics that set the industry apart from its parent are level of competition, level of differentiation, consumer elasticity, and concentration. Companies in the natural products industry employ a high level of product differentiation. Major players have grown through acquisition, changing the industry's structure to one that is more concentrated. Competition in the industry is relatively low because the barriers to entry are high. The industry experienced 7% growth over the prior year while the retail (grocery) industry is growing at a parallel clip. WFM is enjoying an expanding market for its industry.

Industry Demand Drivers

Whole Foods Market (WFM) has found its niche in the grocery industry. In order to compete among the price leaders that compete for market share in the industry, the company has created an entirely new industry in which to compete. The Natural Products Industry is a more specialized form of the grocery store (retail) industry, born from the environmentalist influence. The natural products industry has benefited from increasing consumer demand in recent years.

According to WFM 10K, the drivers for the market are as follows:

- A more health conscious populace,
- A better educated and wealthier populace,
- Concern for food purity, i.e. pesticides, and
- Environmental concerns.

The natural products industry provides the optimal marketplace for firms to take advantage of a changing demographic. The drivers in the market are aligned with new trends in consumer preferences and demand.

Five Forces Model | Natural Products Industry

The five forces model will highlight five competitive forces in the industry. The degree of actual and potential competition coupled with the bargaining power in input and output markets will provide an opinion as to the profitability of the industry.

Competitive Force 1: Rivalry among Existing Firms

The natural products industry is experiencing increased growth, as more competitors enter the market. Industry leaders have grown through acquisition, diluting the competitive landscape. The movement away from fragmentation to a more concentrated structure allows the top firms in the industry to coordinate and keep the prices of their specialized goods high. The market sustains these high prices because the natural products industry is so differentiated. Switching costs will remain high as long as the specialized nature of the industry remains intact its demand drivers continue. Learning economies, high exit barriers, and the acquisition-based growth nature of the industry slow down the entry of potential competitors and prevent over-saturation.

Competitive Force 2: Threat of New Entrants

First mover advantage is prevalent in this industry because the level of competition is relatively low and highly concentrated. A large player looking to enter a market is concerned with median age, household income, home value, etc. Companies try to extract the customers from the pool of wealthier, younger, and more educated consumers through product differentiation. Existing firms in the industry have grown through acquisitions, which open up channels of

distribution and facilitate the forming of relationships. The major players in the natural products industry enjoying economies of scope and scale heavily invest in their network of suppliers and distributors. Potential entrants should beware of where they stand on the learning curve in terms of channels and relationships. For example, last year United Natural Foods, Inc. signed an agreement with WFM to replace an existing three year contract with a seven year contract to continue to serve as WFM's primary wholesale natural grocery distributor.

Potential entrants are indeed a threat to the natural products industry. "When companies like Wal-Mart and Albertsons start carrying organic foods cheaper and direct competitors like Trader Joe's and Wild Oats become larger, then the company (WFM) will have to rethink its pricing structure," said Jason Whitmar, an analyst with FTN Midwest Securities.

Competitive Force 3: Threat of Substitute Products

The natural products industry faces few substitutes due to its uniqueness. The industry faces potential competition from its parent industry, the retail grocery industry. Substitute products will be a problem for the industry when existing grocery retailers begin to carry more natural products to compete with natural product industry players. The grocery retailers will become more organic-minded and attempt to reestablish a sole identity for the consumer retail grocery industry. These substitute products will perform the same function as WHM goods.

Competitive Force 4: Bargaining Power of Buyers

Customer demand in this industry is more inelastic than the grocery (retail) industry. Buyers in the natural products industry are less price sensitive due to its differentiated nature. Whole Foods Market sells its products at the retail level

to buyers who pay a premium for a specialized good. There are few alternatives in the industry for buyers looking for this level of product specialization. The bargaining power of buyers in the natural products industry will remain low until competitive forces saturate the market.

Competitive Force 5: Bargaining Power of Suppliers

Suppliers are an emerging force in the natural products industry, whose power will continue to grow. The fragmented nature of the suppliers in the market make it difficult to concentrate power. The industry is moving away from small local suppliers to regional and national suppliers. More contracts are being signed. Suppliers will pose a more credible threat as the competitive landscape in the industry shifts.

Value Chain Analysis

Factors Shaping the Market

With the recent heightened awareness in health consciousness, consumers have become increasingly aware of the quality of the foods they eat, the ingredients the foods contains, and the processes the foods go through. This has allowed for heavy expansion in the natural and organic foods market and the creation of key drivers for which businesses can differentiate themselves.

The five forces model is a favorable model for evaluating Whole Foods in the status quo. However, it doesn't take into account the changes taking place in the industry. While the competition is more fragmented, the competitive landscape will change as a result of firms recognizing low competition and high profit margins in the natural products industry. Success in controlling cost coupled with differentiation as the industry continues to develop in its infant state will be necessary.

Business Strategies

The recognition of customer wants and needs is vital in the food retailing industry. With a saturated market and low switching costs for customers, sales are driven by the adaptability to customer preference. Preferences vary with each customer, so a well-balance business strategy that encompasses every competitive factor is essential. In the food retailing industry, value is created for customers through customer service, quality and variety of selection, store location and convenience, price, and store atmosphere. Emphasis on one or more of these aspects will create a competitive advantage for a given firm.

For large retailers such as Kroger and Safeway, a competitive advantage is earned by driving cost down while still being respected as a quality supplier. They differentiate themselves by using the economies of scale factor to better accommodate their customer's needs. Execution of a business strategy of this nature requires consistent improvements in productivity, which can be difficult for smaller companies.

Smaller, more consumer specific firms such as Whole Foods and Wild Oats, differentiate themselves through quality, variety, atmosphere, competence of employees, and even access to distribution channels. Health conscious consumers prefer a wide variety of high quality products consistently. This is difficult to satisfy, as many natural and organic food retailers are supplied by local, independent farmers who lack consistency. A competitive advantage can be earned by improving distribution channels, product techniques, and increasing the number of suppliers.

Every firm in the food retailing industry puts emphasis on atmosphere. Enhancing customer's shopping experience can lead to customer loyalty and entice new customers, thus grabbing market share. Many companies are aiming

at becoming “lifestyle” stores, where a unique feeling is conveyed through company culture and store atmosphere.

Firms can also gain a competitive advantage through customer service. Larger food retailers will somewhat ignore this fact in an attempt to drive costs down. In the natural and organic sector, increased human capital is necessary. By being interested and educated, employees can better fulfill customer wants and needs. Plus, knowledgeable employees can consistently monitor quality, which is a key driver in adding value. Although this may increase product prices, having competent employees adds value to the customer.

A disciplined growth strategy is crucial for success in this industry. Firms must adapt appropriately to emerging markets, careful not to over expand but bold enough to recognize opportunities. Many companies have a balanced growth strategy which includes a majority of new store openings and a marginal amount of acquisitions. When opening a new store, firms must adapt to the specific region's needs. This can be achieved more easily by having a decentralized company, where decisions are made closer to the consumer.

Firm Competitive Advantage Analysis

Whole Foods – Past and Current

The food retailing industry has many key players making it a large and extremely competitive industry to be a part of. In order to excel in this type of environment it is crucial to maintain a strategy that not only provides you with a competitive advantage but allows you to maintain that advantage. One of the most significant ways of accomplishing this is through the process of differentiation. The Whole Foods Market has done an excellent job in creating a way of differentiating themselves in an industry of this magnitude and placing them in a more specialized industry; the natural and organic products industry.

Whole Food's strategy has been to capitalize on the recognition of heightened health awareness and "help bring organic and natural eating trends into the mainstream" (2006 10-K). Today, Whole Foods Market is the largest food retailer of natural and organic products. In order to differentiate themselves into this niche of the food retailing industry, Whole Foods Market has focused on providing people with the highest quality of products. As technology has grown rapidly over recent years so has the way our culture eats. More and more foods nowadays are being genetically altered. Many farmers and suppliers of food products inject chemicals and growth hormones into animals in order to boost production and get more meat to market faster. Produce production is also affected. Numerous chemicals and artificial flavorings are added to nearly all the foods we are exposed to today. Whole Foods Market has capitalized on this fact by, "carefully evaluating all of the products they sell and ensuring that they are free from artificial preservatives, colors, sweeteners, and hydrogenated fats" (2006 10-K). In addition, Whole Foods supermarket chain prides itself on their support of local farmers. They purchase products from several different privately owned farms around the country. The farms that contain livestock and supply meat and poultry are regulated to "ensure that the animals are raised without any added growth hormones or antibiotics" (2006 10-K). In differentiating themselves in this way Whole Foods Market has found that they are exposed to much less competition. Whole Foods really only has one large competitor which is Wild OATS. They compete on a small scale with local Ma and Pa shops and with the traditional supermarkets extremely small (but growing) selection of organic products. This low competition is a huge success factor for Whole Foods.

Another factor leading to Whole Food's success is their ability to attract a broader customer base through creating appealing stores. Being a quality driven company, Whole Foods not only focuses on having quality products, but quality stores as well. As Whole Foods Market grows and expands into new and existing markets, they attempt to differentiate each new store in a way that reflects the

surroundings. With the growing competition among larger retailers such as Wal-Mart and Kroger, Whole Foods has maintained an advantage by differentiating themselves as a “lifestyle” store. They have been very successful in emphasizing the importance of store atmosphere and they design each location differently from the next, but more importantly, much different from any traditional grocery store around the country. They do this primarily to appeal to the type of customers throughout each different market. This attraction factor will potentially increase awareness throughout the market, ultimately leading to more customers and higher profits.

Whole Food’s growth strategy has been another factor leading to their success. With the recent uprising in the awareness of health, Whole Foods found plenty of room to grow. Today, there are over 185 stores across the U.S., Canada, and the United Kingdom. Whole Foods stores continue to sprout on busy, high quality real estate sights, in part due from a strong acquisition strategy. Nearly one-quarter of existing square-footage is a direct result of acquisitions. By growing and expanding into new markets Whole Foods is attracting a broader customer base which is helping to strengthen their brand recognition.

Whole Foods – Into the Future

Whole Foods is quietly veering from its practices that allowed for their current success. Their acquisition strategy that has shut down many local stores and a few regional chains is becoming ineffective. “Such acquisitions, however, are expected to have less of an impact on our future store growth and financial results than they have had in the past primarily due to the growing base size of the Company.” (2005 10-K pg. 7) Furthermore, Whole Foods is beginning to move away from local and regional suppliers and leaning towards larger, national suppliers. This will allow for lower product costs at higher volumes, but Whole Foods may lose its identity as it becomes more commercialized.

Although Whole Foods' growth strategy is promising, sustaining a competitive advantage in a fast growing industry will be difficult. With the recent slow down in their acquisition strategy, Whole Foods is lowering the barriers to entry relative to natural and organic food suppliers. In contrast, Whole Foods has gravitated to become a cost leader in the natural and organic food industry by buying products on the national level.

Many large food retailers have begun experimenting with a natural and organic section of their own. This increasing competition from bigger players might be difficult for Whole Foods to overcome. Bigger players such as Wal-Mart and Kroger have more bargaining power and the economies of scale factor. This could force Whole Foods to engage in a price war, which would be tough with such company wide emphasis on quality.

With a steady expansion strategy that includes the opening of numerous stores throughout the country, Whole Foods needs to remain focused on its core values if it wishes to continue its success in the food retailing industry.

Accounting Analysis

Key Accounting Policies

The accounting policies used by a company not only reflect the nature of their behavior, but also the effectiveness of their operations within their industry. When evaluating these policies it is important to look at certain major items that a company is willing to disclose. These items include not only the things that relate to their key success factors but also those that allow for manipulation of numbers through estimates and assumptions. It is crucial to understand those things that affect the values of the assets, liabilities, revenues, and expenses of a company.

Whole Foods Market has created a competitive advantage through the use of several tools that has allowed for them to become the leader in their industry. One of these major advantages has been their growth strategy. They have grown primarily through acquisitions of other companies and taking over new markets. Whole Foods states that, "approximately 21% of their existing square footage is coming from acquisitions" (2006 10-K). It is important to address this growth strategy because it brings up several questions. First of all, it is important to understand how these new store openings and acquisitions are being accounted for on the books in terms of how they are leased, whether or not there is goodwill being generated from this growth, and if so, how that goodwill is being dealt with. Another major key success factor for Whole Foods is in their product differentiation. They place a large emphasis on perishable foods making it important to understand how they deal with their inventory.

Some of the major costs associated with Whole Foods acquisitions and new store developments are pre-opening and relocation costs. According to Whole Foods management, "pre-opening costs include rent expense incurred during construction of new stores and other costs related to new store openings, including hiring and training personnel, supplies, and other miscellaneous costs" (2006 10-K). Whole Foods should see these costs continue to increase because of their rapid expansion policy. Due to this, expenses will also increase by amounts estimated by management's expectations about future store openings.

When it comes to leases, Whole Foods remains pretty consistent with other competitors in the industry in that they finance numerous store locations and amenities through operating leases. When a company recognizes a lease as an operating lease instead of a capital lease they are using aggressive accounting. Operating leases are considered off the balance activities. By capitalizing the lease, a company will recognize the lease as an asset and its future payments

will be recognized as liabilities rather than as expenses. By using operating leases, it is estimated that Whole Foods is understating their liabilities by approximately 2.5 billion dollars.

As Whole Foods is growing and expanding through acquisitions it is important to evaluate their goodwill. When one company purchases another company, the difference between the purchase price and the book value is considered Goodwill. Intangible assets such as goodwill should be checked periodically for impairment as they have a tendency to lose value over time. Whole Foods Market has acquired approximately 42.6 million dollars in goodwill since 2002 and according to their 10-K, "there was no impairment of goodwill or indefinite-lived intangible assets during fiscal years 2002, 2003, 2004, 2005, or 2006" (2006 10-K). Seeing information like this can potentially raise a red flag. Inventory is another important area of accounting for companies. For Whole Foods it's very important because of the large amount of inventory that gets lost to spoilage. They claim in their Notes to Consolidated Financial Statements that, "we value our inventories at the lower of cost or market," and that, "cost was determined using the LIFO method for approximately 94% of inventories in 2005 and 2006" (2006 10-K). Whole Foods most likely values their inventory in this manner in order to manipulate net income in a way that they feel justifiable. As far as the physical flow of inventory goes, Whole Foods uses the FIFO method. This method is the most appropriate for Whole Foods because it decreases the amount of spoiled inventory on hand. Because eliminating spoilage in this industry isn't possible, it would be important to understand how it is accounted for. Whole Foods has not listed any items on their balance sheet indicating any sort of account for spoilage allowances, so therefore it could be assumed that inventory at any given time might be overstated. The spoiled goods that are thrown out of inventory should be expensed on the income statement.

Potential Accounting Flexibility

Flexibility in accounting gives managers an opportunity to use their expertise and better convey the financial position of their company. It is WFM's goal to present the most transparent information to investors. WFM allows flexibility of accounting to best state the success derived from key business transactions. This flexibility can lead to distortions of B/S items. To highlight WFM's accounting flexibility regarding their key success factors, "business combinations" involve estimations and managers degree of flexibility. The aggressive expansion strategy WFM utilizes is characterized by making acquisitions and paying a premium. The treatment of the residual goodwill is determined by SFAS No. 142. Since adopted by WFM, managers no longer amortize but impair and write off goodwill over time. If this is not properly done, an overstatement of assets, specifically intangibles, could result. The graph below highlights recent acquisitions and corresponding premiums paid by WFM.

Company	Date	Book Value (millions)	Purchase Price (millions)	Premium %
Wild Oats	February 2007	478	565	18%
Fresh & Wild	January 2004	5.5	36	85%
Select Fish	October 2003	1.1	3	37%

Goodwill is to be reviewed annually and impairment decisions made according to assumptions about asset use. WFM needs to impair the value of their goodwill because the value placed on the acquired companies has deteriorated since the transaction. Investors should be aware of the possibility of misappropriated assets. Another accounting flexibility that could lead to forecasting errors due to distortions involve WFM's treatment of leases. The operating lease structure keeps the asset and corresponding liability off the books. WFM lease structure is primarily operating; however WFM appears to enjoy all the benefits that capital

leases would provide, besides for an asset and liability. The following table illustrates by period WFM's upcoming obligations on their operating and capital leases. The data presented in the table is from the WFM 10k.

	Total	< 1 yr	1-3 yrs	3-5 yrs	> 5 yrs
Capital	378	58	182	113	25
Operating	4,763,886	162,827	474,74	489,359	3,636,926

Accounting flexibility in this system is working to WFM's advantage in the status quo. However, over the next five years the company is responsible for growing operating lease obligations. They have no liabilities on leased space and their rent payments are low compared to the burden the company will face in the future regarding these leases. This, combined with a lack of capital assets on the balance sheet could potentially disguise a liquidity problem.

Evaluation of Accounting Strategy

Whole Foods' accounting policies follow the accounting policies within their industry and also conform with the Generally Accepted Accounting Principles (GAAP). Whole Foods' only publicly traded competitor, Wild Oats, states on their website (www.wildoats.com), that they compete on "providing the highest quality, organic food." Both Whole Foods and Wild Oats use the FIFO method for at least 80% of their inventory. Whole Foods competes not only on high quality products, but also on unique products. One of their competitors, outside their immediate industry, Walmart, who is also considered as one of their competitors has more of a focus on selling products at the best price possible. With that said, it would be safe to say that within Whole Foods' immediate industry their accounting policies and focus is all on the same value, but within the grocery industry their accounting policies are differentiated. It is important to distinguish the difference between Whole Foods in the grocery industry and

Whole Foods is in the Organic Food industry because Whole Foods has done so well in making their own industry and being so good at what they offer, they barely have any close competition within their specific industry. After extensive analysis of Whole Foods' financial statements, we have been led to the conclusion that Whole Foods is aggressive with their accounting strategy. They have manipulated their balance, leading them to show higher assets rather than higher liabilities.

According to the Whole Foods 10-k there has been a recent change in the accounting policy different from the previous years. In July 2006, the FASB issued the FIN 48 which stands for "Accounting for Uncertainty in Income Taxes". This states that "The interpretation applies to all tax positions accounted for in accordance with Statement 109 and requires a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in an income tax return." The effect of this imposition by the FASB is unknown for the Whole Foods market, because of the recent merging with one of its main competitors. It will most likely take a year or two for Whole Foods to find out the real effect that this will make. Along with the implementation of FIN 48, the Whole Foods 10-k states that the SEC also issued a "Staff Accounting Bulletin No, 108". SAB 108 discusses the "effects of prior year uncorrected misstatements should be considered when quantifying in current year financial misstatements." This means that if any accounting is done incorrectly it must be restated and fixed in the following year's statement. SAB 108 will eventually enforce that Whole Foods write off goodwill, especially after their recent buy over one of their main competitors, Wild Oats, and show their liability of about 2.5 billion dollars in operating leases, spread out over an x amount of years.

Quality of Disclosure

The quality of disclosure in Whole Foods' 10-k is vital in assessing the transparency of the company regarding its financial statements. These supplemental pages discuss the various methods management has used in deriving what they believe to be the most honest portrayal of the company's current situation. When comparing the supplemental disclosures with the industry norm, Whole Foods thoroughly discusses their reasoning for decisions slightly better than their main competitor, Wild Oats, even if the facts may be unpleasant.

Regarding the disclosures pertaining to market risk, Whole Foods is consistent with the industry norm. However, Whole Foods' summary of significant accounting policies is very straightforward and easy to understand, as opposed to Wild Oats'. Whole Foods blatantly discusses their accounting policies relating to operating leases, advertising, and pre-opening and relocation costs. The industry discusses these items, but in a manner where facts can be easily misinterpreted by the common person. For the most part, Whole Foods uses conservative accounting policies and thoroughly explains the reasoning behind each decision, even if the policies are unfavorable to investors.

For example, after thorough examination into possible accounting distortions, Whole Foods is guilty of manipulating earnings through the acceleration of vesting dates in respect to stock options. As of last year, the passage of FAS 123R requires the value of the stock options to be expensed in the year granted. To avoid these expenses, Whole Foods accelerated the vesting date to come before FAS 123R came in to effect. Although this can be viewed as unfavorable from an investors perspective, Whole Foods chose to include these facts in the Executive Summary portion of Management's Discussing and Analysis of Financial Condition and Results of Operation portion of their 2005 10-k.

After evaluating all of the footnotes in the financials, Management's Discussion and Analysis, and other supplementary data, Whole Foods clearly goes beyond the industry norm in providing more transparency in their 10-k.

Through cross examination, Whole Foods' values on various financials are found to be rarely restated, and minimally if so. By examining specific ratios over the past five years, there is numerical proof that Whole Foods is reporting consistent numbers.

Screening Ratio Analysis

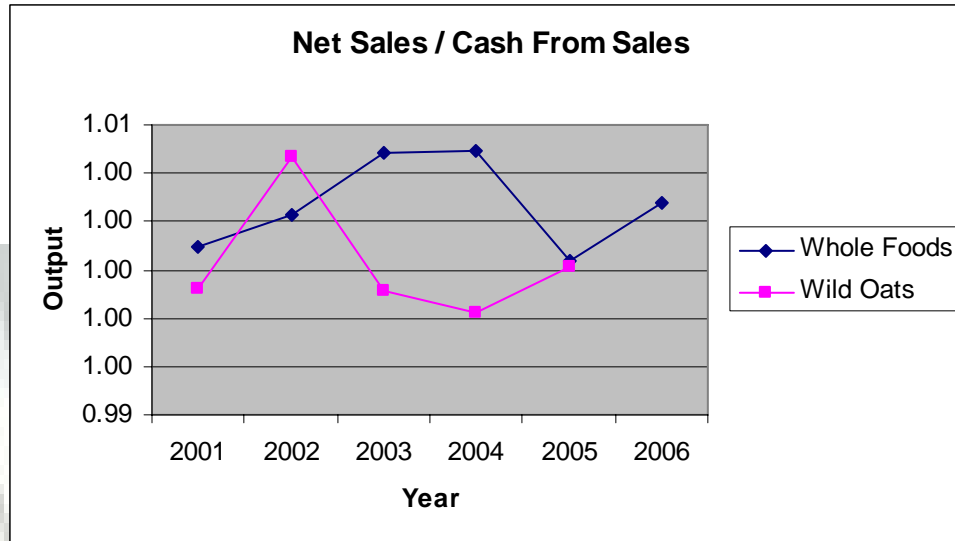
*The 2006 ratios for Wild Oats are missing due to lack of financial data.

The following is an assessment of the above screening ratios.

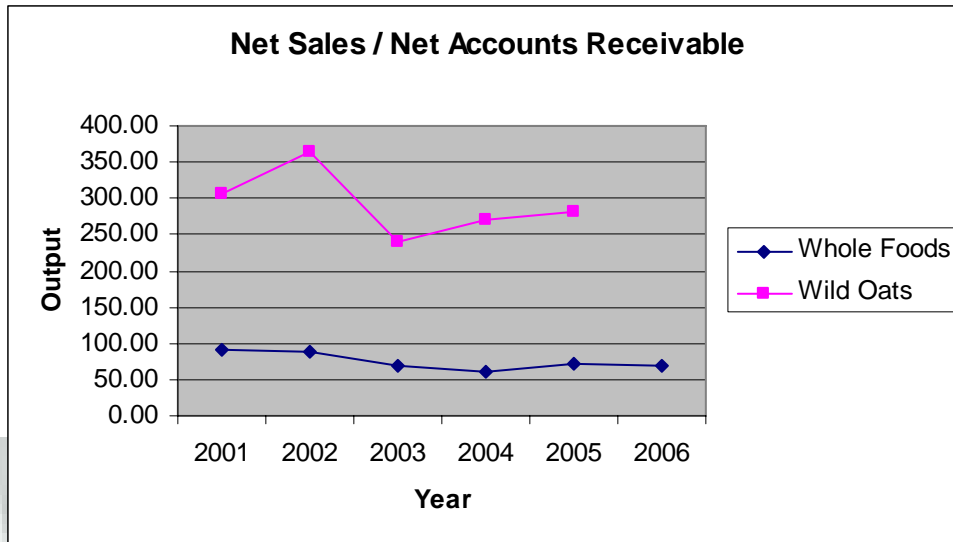
	2001	2002	2003	2004	2005	2006
WHOLE FOODS						
Sales Manipulation Diagnostics						
net sales/cash from sales	1.00	1.00	1.00	1.00	1.00	1.00
net sales/net accounts receivable	91.40	87.10	68.53	59.49	70.50	68.27
net sales/inventory	23.04	24.87	25.41	25.28	26.89	27.52
Core Expense Manipulation Diagnostics						
sales/assets	2.74	2.85	2.59	2.54	2.49	2.74
CFFO/OI	1.55	1.54	1.59	1.52	1.79	1.42
CFFO/NOA	0.27	0.30	0.33	0.32	0.33	0.31
WILD OATS	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	
Sales Manipulation Diagnostics						
net sales/cash from sales	1.00	1.00	1.00	1.00	1.00	
net sales/net accounts receivable	307.36	364.16	240.02	271.55	280.57	
net sales/inventory	16.52	19.48	20.79	19.07	17.82	
Core Expense Manipulation Diagnostics						
sales/assets	2.27	2.54	2.60	2.58	2.68	
CFFO/OI	-0.43	1.85	5.92	-1.86	2.96	
CFFO/NOA	0.14	0.21	0.23	0.07	0.13	

The main goal in running the ratios is to determine the overall quality of published financial documents. Managers have numerous incentives to distort various numbers. For example, if a manager receives bonuses based on sales,

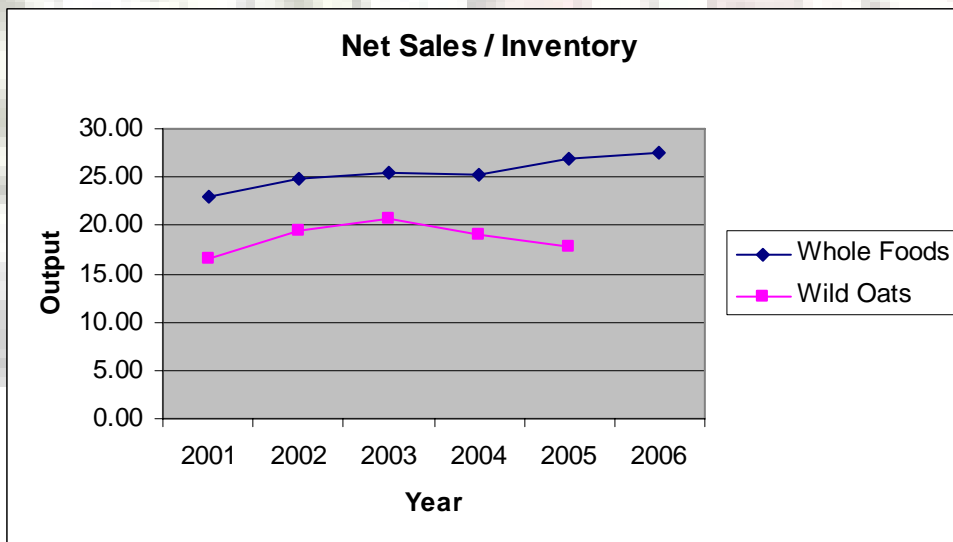
that manager might try to distort sales numbers. By observing the past five years of financials and running these ratios for each year, we can assess the quality of sales and expense numbers, being suspicious of abnormal values.



Net Cash / Cash from Sales is a good indicator as to how much cash is actually being collected from sales. Within the grocery industry, it is not uncommon to have a ratio very near one. This large number indicates that very little, if any, merchandise is being sold on credit. Whole Foods, along with the industry, does not have the burden of market risk associated with accounts receivable. The graph above indicated Whole Foods is slightly better in collecting cash from sales, but the difference is so infinitesimal it is rendered unimportant. The graph may portray the financial data to be historically volatile, but the scale is so small (one-one hundredths) that the variations are acceptable.

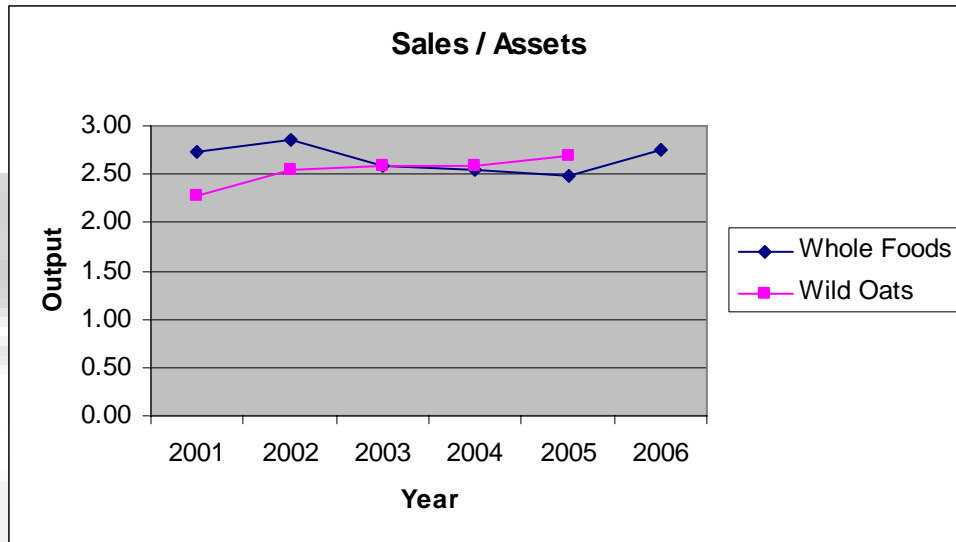


This ratio is indicative of how much receivables exist in regard to sales. In the case of Whole Foods, the high amount of receivables, compared to its competitor, is offset by the high volume of sales. Wild Oats 2002 and 2003 values raise suspicion, but the recent leveling out is a good sign. The consistency of Whole Foods on this graph adds to the perceived quality of their financial statements.

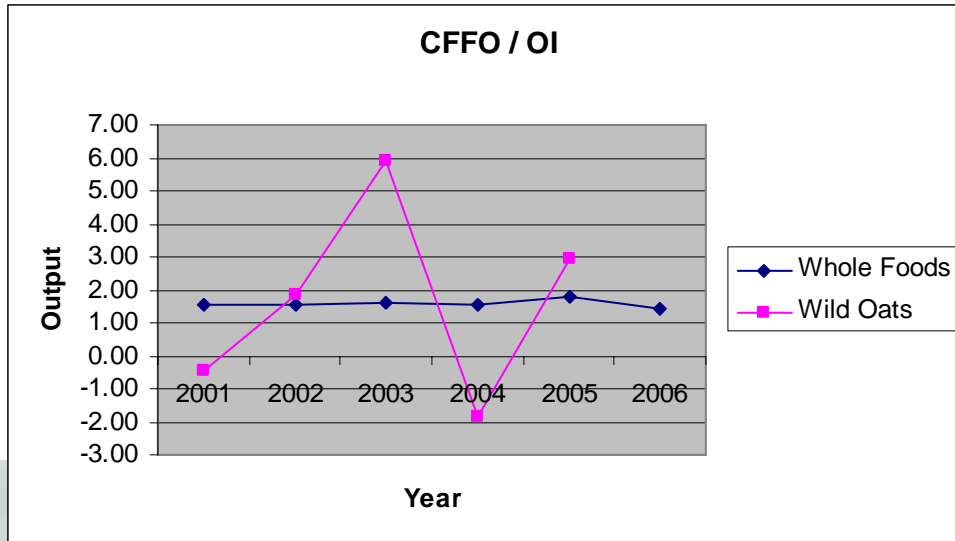


Judging from the graph, Whole Foods is the industry leader in turning their inventory into sales. With a constantly increasing plot line, Whole Foods has increased their efficiency over time. Whole Foods does not have as much inventory caught up in the cash to cash cycle as Wild Oats would if their sales

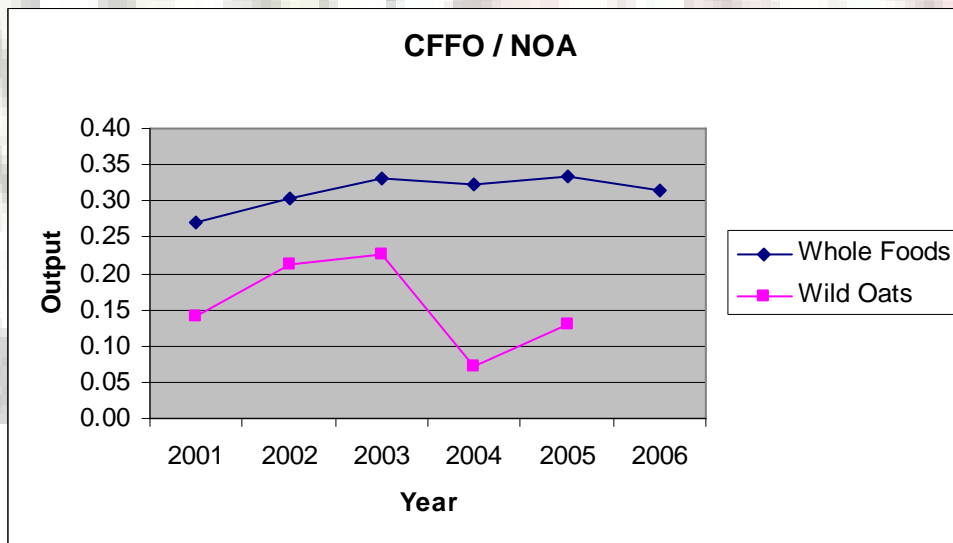
were comparable. Especially in the grocery industry, where perishable foods are the majority of total sales, a high Net Sales / Inventory ratio is imperative. The consistent numbers posted by both companies further ensures no manipulation of financial data has taken place.



These numbers are distorted due to the use of operational leases when capital leases are more appropriate. With the capitalization of leases, total assets would increase, lowering this ratio. However, both Wild Oats and Whole Foods use operational leases, so the numbers are proportionate to one another. With Whole Foods being the bigger player, one would expect them to better utilize their economies of scale. However, in the natural and organic food industry where most products are bought on the local and regional levels, Whole Foods has found trouble in developing this potential competitive advantage.



The consistency of Whole Foods in this category is notable. With a yearly ratio of Cash Flow from Operations / Operating Income in between one and two, the majority of their cash is coming from sales. This is understandably expected. Wild Oats shows great variation, which raises red flags. However, Wild Oats has been severely underperforming, with a negative operating income in 2004 and 2001.



The steady numbers Whole Foods is reporting is favorable. The slight increase over time is attributed to higher productivity and store activity. Whole Foods is increasing their sales, and in turn their cash flow from operating activities, with a lower increase in net operating assets. The volatile value in 2004 posted by Wild

Oats is attributed to an underperforming year in 2004, with cash flow from operations below their historical average.

Potential Red Flags

When looking at Whole Food's financial statements, the company appears to have a steady growth rate and no apparent gaps in their financial number comparisons throughout each fiscal year. However, after further study and research in Whole Foods' 10-K, there are two major red flags that come about that are certainly not apparent at a glance.

The first major red flag was the consideration of the merger of Whole Foods and 4 smaller companies in 2002, 2003, 2004, and 2006. Whole Foods reported around 42.6 million dollars as goodwill from 2002-2006. However, the company's 10-K form states, "There was no impairment of goodwill or indefinite-lived intangible assets during fiscal years 2002, 2003, 2004, 2005, or 2006." Business Analysis & Valuation states, "As a part of the new accounting methods brought about in 2001, companies are required to write off goodwill only when they become impaired." Intangible assets tend to decrease in value over time and should incur expenses upon the company. As Whole Foods neglects to recognize the impairment of the goodwill assets, they are possibly understating their expenses and, in turn, overstating net income. Whole Foods also states in their 10-K, "Goodwill is reviewed for impairment annually or more frequently if impairment indicators arise, on a reporting unit level." This seems contradictory taking into consideration the 42.6 million dollars that has had no impairment recognition over the past four years.

The second major red flag is the financial statements reveal that Whole Foods has operating lease liabilities of around 2.5 billion dollars. This should be

recognized as a red flag simply because they are choosing to use operating leases as opposed to capital leases. "Capital lease policies tend to report rent expense sooner than operating lease policies," according to http://pages.stern.nyu.edu/~adamodar/New_Home_Page/AccPrimer/lease.htm, which result in a major understatement of their liabilities as well as their assets.

Undoing Accounting Distortions

As discussed in previous sections, Whole Foods uses operating leases instead of capital leases. After undoing this accounting distortion, it shows that Whole Foods is hiding about \$2.5 Billion of liabilities on their balance sheet, as shown on the following table:

OL exp		i	0.07
T	FV	PV Factor	PV
1	167,827	0.935	156,848
2	227,490	0.873	198,699
3	247,824	0.816	202,298
4	246,028	0.763	187,694
5	243,331	0.713	173,492
6	242,462	0.666	161,563
7	242,462	0.623	150,993
8	242,462	0.582	141,115
9	242,462	0.544	131,883
10	242,462	0.508	123,255
11	242,462	0.475	115,192
12	242,462	0.444	107,656
13	242,462	0.415	100,613
14	242,462	0.388	94,031
15	242,462	0.362	87,879
16	242,462	0.339	82,130
17	242,462	0.317	76,757
18	242,462	0.296	71,736
19	242,462	0.277	67,043
20	242,462	0.258	62,657
		Total PV	2,493,533
By	M. Moore	5.389	

To derive this number we used a discount rate of 7%. We derived the depreciation by using our total present value divided by the number of years. We calculated depreciation in order to find the amount of capital leases. Capital lease is the interest plus the depreciation. Capital leases are very important because we plug that in to our principle payment in order to make sure it equals zero. This ensures that we did all of the undoing of accounting distortions correctly. Since there is about \$2.5 billion of unrecorded revenue, we now have to put in the effects of what it has on the balance sheet. The way to record Operating leases on the balance sheet is as follows:

	Debit	Credit
Leased Assets	\$2,500,000,000	
Capital lease Obligations		\$2,500,000,000

If we do this, it will allow us to recognize our actual liabilities and assets under the capitalization method. Overall, converting operating lease to capital lease allows us to show our actual liabilities and actual assets rather than not having them show up anywhere on our financial statements. It allows us to have a more accurate view of the overall placement of the company.

The use of operating leases instead of capital leases understates our assets. This makes our ratios look a lot better than they actually are compared to the industry as a whole. The use of operating leases understates both our assets and our liabilities by \$2.5 billion dollars, which causes a huge affect on our entire balance sheet.

Although Whole Foods has an aggressive accounting strategy, they are also very good at disclosing all the information. They let the public know that they use operating leases instead of capital leases. They also make their public aware

that they have not written off any goodwill. The only information that they do not disclose is how things such as good will and operating leases would affect their overall income statement and balance sheet. And as we have shown, if we undo all these accounting practices that they have distorted it, it could make a huge affect on the overall standing of the company.

Ratio Analysis & Forecasting

In this portion of our analysis of Whole Foods Market we will analyze and define numerous ratios and use them in order to forecast the company's financials. We will begin by analyzing the last five years and breaking down the ratios we use into three categories including liquidity, profitability, and capital structure. The liquidity ratios will give us a good idea of Whole Food's ability to turn their assets into cash which can then be used to draw down their current portion of liabilities. The profitability ratios will provide us with a good idea of how successful Whole Foods is at generating profits. For this section we will use ratios such as the gross profit margin, net profit margin, return on assets, and return on equity. In the last section of the ratio analysis we will focus on the capital structure ratios including the debt to equity ratio, times interest earned, and the debt service margin. These ratios will provide us with a good look at the financial leverage of the firm and how they handle their long term debt. Once this section is complete, we will begin forecasting Whole Foods financial statements from now until ten years into the future.

Time Series Ratio Analysis

WHOLE FOODS

Liquidity

Analysis

	2002	2003	2004	2005	2006
Current Ratio	0.98	1.52	1.45	1.61	1.22
Quick Asset Ratio	0.25	0.88	0.78	0.9	0.55

Inventory Turnover	16.25	16.71	16.51	17.46	17.91
Days Supply of Inventory	14.68	21.84	22.11	20.91	20.39
Receivables Turnover	87.1	68.53	59.49	70.5	68.27
Days Sales Outstanding	4.19	5.33	6.14	5.18	5.35
Working Capital Turnover	647.22	25.9	25.57	18.5	49.1

Profitability

Analysis

Gross Profit Margin	0.35	0.34	0.35	0.35	0.35
Operating Expense Ratio	0.04	0.03	0.03	0.03	0.03
Net Profit Margin	0.03	0.03	0.03	0.03	0.04
Asset Turnover	2.85	2.59	2.54	2.49	2.74
Return on Assets	0.09	0.08	0.09	0.07	0.1
Return on Equity	0.14	0.13	0.14	0.1	0.15

Capital Structure

Analysis

Debt to Equity Ratio	0.63	0.56	0.6	0.38	0.45
Times Interest Earned	13.78	21.32	30.78	107.67	10617.03
Debt Service Margin	38.91	48.54	56.90	68.78	76.31

Liquidity Analysis

Current Ratio

Whole Foods Market, Inc.'s (WFM) current ratio has been relatively inconsistent in the last five years and experienced a drop from 2005 to 2006. In 2006 the current ratio dropped from 1.61 to 1.22, nearly a quarter percentage point drop. In the last year the company has seen a rise in current liabilities relative to its current assets, negatively impacting their liquidity. A major factor leading to the recent drop in this ratio is the fact that Whole Food's cash and cash equivalents decreased by a significant amount ultimately leading to a lower value of current assets in 2006 relative to 2005. In fact, according to Whole Food's balance sheet, the cash and cash equivalents dropped about \$300 million from 2005 to 2006.

We believe a portion of the cash and cash equivalents being held in 2005 went to purchase short term investments being held in 2006 and another portion to a common stock repurchase that took place towards the end of fiscal year 2006. Another factor leading to the recent decline in the current ratio is the increase in the current liabilities from '05 to '06. A large reason for this increase is explained by the line item "other current liabilities". This portion of current liabilities increased about \$70 million which explains approximately 78% of the change in total current liabilities. Because Whole Food's has done a rather poor job in disclosing certain information, we have been unable to decipher exactly what "other current liabilities" entails. What we can conclude is that with a current ratio of 1.22, Whole Foods is relatively safe from liquidity problems. This current ratio states that for every \$1.00 of current liabilities outstanding there is \$1.22 of current assets available to cover them. Just because their current ratio decreased from the year before doesn't necessarily mean that Whole Foods is currently in the danger zone when it comes to liquidity, however if this ratio continues to decrease they will be.

Quick Asset Ratio

Some people tend to believe that the quick asset ratio is a better measure of a company's liquidity than the current ratio because it includes the three most liquid assets that could be used to help a company in financial trouble. Whole Food's quick asset ratio is very similar to their current ratio in that the behavior of the numbers is consistent. This makes sense because cash and securities are the most volatile numbers within the current assets portion of Whole Food's balance sheet. These numbers explain most of the movement in their current ratio and therefore as it increases and decreases the quick asset ratio does the same. In analyzing the results of the quick asset ratio over the last five years we can see that it has been just as inconsistent as the current ratio. Also, in the last five years the quick asset ratio has not exceeded the number one although it came close in 2005 reaching its peak at 0.9. Since that "high" the ratio has

dropped down to 0.55. Having a quick asset ratio of 0.55 is basically telling us that for every one dollar Whole Foods has in current liabilities, they only have \$0.55 in quick assets that can cover that debt. From a liquidity standpoint this is a bad thing.

Inventory Turnover

The next ratio we computed was the inventory turnover. There has been a slight increase in Whole Food's inventory turnover from 2001 to 2006 which can be viewed as a favorable movement. Inventory turnover measures the number of times the company buys and then sells inventory within the last 12 months. Having a high inventory turnover can mean that a company is spending less on their investment while receiving equal gross profits. By purchasing a large amount of inventory at the beginning of the year and selling that one batch throughout the year, a company is tying up a lot of dollars in their inventory. If they were to order smaller amounts of inventory more often throughout the year they could earn the same gross profits relative to the one initial investment but they would have fewer dollars tied up that they could use for other operations. Having a high inventory turnover, like Whole Foods does, is appropriate for an industry such as this one because of the products involved with the inventory. When dealing with foods, particularly perishable foods, it would be impossible to have a low turnover rate because much of the food would go bad and spoil before you had time to sell it. By having this high inventory turnover Whole Foods has less money tied up in inventory providing them with more money on hand. Having more money on hand allows them to be more liquid. In addition, over the last five years we can see that Whole Foods' day's supply of inventory is sloping downward. This move is inversely related to the upward slope in inventory turnover. The more times inventory gets bought and sold through the year, the fewer the number of days the inventory is on hand. The movement in Whole Foods day's supply of inventory is explained by the movement in their

inventory turnover. Judging from the results we found, we can conclude that this particular ratio is not providing Whole Foods with any liquidity problems.

Accounts Receivable Turnover

The accounts receivable turnover ratio measures the number of times that accounts receivable are being collected within an accounting period. The receivables turnover for Whole Foods has taken a rather unfavorable move over recent years as it has declined overall. A low or declining accounts receivable turnover indicates that either a company is not collecting the cash from their credit sales efficiently or the amount of credit a firm is willing to extend has increased from one year to the next relative to their sales. The decrease in this ratio is affecting Whole Food's liquidity in a negative way. One of the major factors leading to this decline is the fact that in some recent years Whole Food's accounts receivables have grown at two and even three times the growth rate of sales in their respective years. This information can be seen from the chart below. This rapid increase in accounts receivable leads Whole Foods to experience a much higher number of uncollectible accounts. By not collecting the cash due from their receivables efficiently they will have less cash on hand to help them may they find themselves amidst financial trouble. Also, it is important to consider that this ratio is directly related to the day's sales outstanding ratio. Day's sales outstanding measures the accounts receivable turnover ratio as a number of days opposed to number of times. Not only did Whole Foods increase their accounts receivable in recent years, they also increased the number of days that sales went uncollected over the last five years. Whole Foods, by increasing their day's sales outstanding, is indicating to me that they are increasing their accounts receivables in addition to easing their credit terms and therefore creating a liquidity problem.

	Sales Growth	A/R Growth
2001 - 2002	18.41%	24.25%
2002 - 2003	17.03%	48.75%
2003 - 2004	22.75%	41.41%
2004 - 2005	21.64%	2.63%
2005 - 2006	19.27%	23.18%

Working Capital Turnover

The working capital turnover ratio measures how efficiently a company's working capital is at generating sales dollars. When this ratio is high or growing it is generally positive because it means that the company is able to generate greater sales relative to the dollars it uses to fund those sales. The working capital turnover for Whole Foods has been rather inconsistent over recent years, however has moved significantly upward since 2002. This ratio yielded negative returns for Whole Foods in 2002 due to the fact that their current liabilities outweighed their current assets. In that particular year Whole Foods was exposed to dangerous liquidity problems. However, after 2002 Whole Foods was able to boost their current assets to levels in excess of their current liabilities mainly through cash and cash equivalents, leading to a positive working capital turnover ratio. This ratio in 2006 has exceeded all previous ones from recent years which is good for Whole Foods. In fact, it shows that \$49.10 of sales dollars are generated for every \$1.00 of working capital. Judging by this we can conclude that at the moment this ratio is not providing Whole Foods with any liquidity problems.

In analyzing the liquidity analysis as a whole, we can determine that Whole Foods is not in too much danger of liquidity problems, however they are close and if certain ratios continue to decline in the future they could face some trouble. Having a current ratio greater than one indicates that Whole Foods has

more current assets than current liabilities but they could afford to get this number a bit larger. Their quick asset ratio should be a bit larger as well but the liquidity ratio that were a little more concerned with is the receivables turnover ratio. Overall in the last five years this number has declined and if it continues to do so it could cause some liquidity problems for Whole Foods. Their inventory turnover looks excellent and their current working capital turnover does as well.

Profitability Analysis

On a time series basis, WFM maintains consistency in its profitability margins. Their greatest success has been controlling increasing costs despite high growth. WFM industry leadership is derived from their ability to grow and control expenses accordingly.

Gross Profit Margin

Gross profit margin represents the percentage recovery of revenue over direct costs. Two key components comprising gross profit margin provide insight as to the premium paid in the marketplace for WFM goods and the efficiency with which they are produced. Consistent with the industry, WFM has maintained a constant gross profit margin of 35% for the last six fiscal periods (since '01).

	2002	2003	2004	2005	2006
Gross Profit Margin	0.35	0.35	0.35	0.35	0.35

The company is experiencing high sales growth and still recovering the same amount of profit. The differentiated nature of WFM goods command a premium as does the degree of competition in the market. A unique product in a market with fragmented competition translates into high gross profit margin numbers. The fact that WFM is still recovering 35% of sales suggests that they have been unaffected by new entrants and that the marketplace maintains a high value for their product. The robust sales numbers have kept pace with the cost increases.

Whole Foods Market (WFM) production processes work efficiently to meet consumer demand, indicative of the buoyant sales.

In examining the profitability of WFM on a time-series basis, the high growth in sales is an attractive feature. Consumer demand for WFM products has increased and management is taking advantage. Analysis of the gross profit ratio concludes that the company's profitability is being driven by sales. However, drilling down to a second level of growth in a time series evaluation of sales uncovers diminishing marginal returns in '05 and '06. See table below.

	2002	2003	2004	2005	2006
Sales	2,690,475	3,148,593	3,864,950	4,701,289	5,607,376
Sales Growth		17.03%	22.75%	21.64%	19.27%
Growth of Growth			33.62%	-4.89%	-10.93%

In order to maintain the consistency and forecast-ability of the gross profit margin, sales must continue to grow. Exhibit 3-3 is evidence of unsustainable growth rates. Such high growth rates, as the company was experiencing in '04 and '05, will be difficult to maintain. The diminishing rate of sales growth will be taken into consideration in deriving the sales forecast.

Operating Expense Ratio

The Operating Expense ratio is another tool for evaluating operating efficiency. WFM's operating expenses have remained at a consistent percentage of sales. In 2003, operating expense ratio decreased from 4% to 3% resulting from a significant increase in sales. Since '03, the ratio has remained at a comfortable 3%. WFM has been successful at growing sales and controlling cost. However, greater importance will be placed on monitoring expenses if growth rates of

sales continue to decline. The table below illustrates the consistent nature of WFM's expenses and the firm's ability to keep expenses in check.

2002	2003	2004	2005	2006
.04	.03	.03	.03	.03

Operating Profit Margin

The operating profit margin for Whole Foods Market has always been high due to the nature of their business model. In 2002, WFM's operating profit margin was 5.7%. The ratio has decreased on a time series basis over the past five years. The changes from year to year reveal some volatility related to sales. WFM today is continually raking in the same amount of profit despite increased sales volumes.

2002	2003	2004	2005	2006
5.69%	4.89%	5.61%	5.32%	5.24%

Net Profit Margin

The Net Profit Margin or Return on Sales (ROS) for WFM has experienced some volatility recently resulting in a profitable outlook for 2006. Until 2006, 3 percent of every sales dollar was net income. In '06 net profit margin increased to 4 percent. Sales continued to increase at a diminishing rate while Net Income jumped nearly 50 percent. The increase in the numerator (net income) is responsible for the change. Exhibit 3-4 highlights the correlations between the net profit margin and the growth in net income.

Exhibit 3.4

	2002	2003	2004	2005	2006
Net Income	\$79,594	\$98,915	\$129,512	\$136,351	\$203,828
Growth		24.27%	30.93%	5.28%	49.49%

Net Profit Margin	3%	3%	3%	3%	4%
-------------------	----	----	----	----	-----------

WFM appears to be squeezing more net income out of every sales dollar. Careful analysis of operations data reveals a significant decrease in interest expense in 2006, inflating the bottom line. The interpretation of an increase in ROS is increased profitability and efficiency of operating activities.

Asset Turnover

Asset turnover indicates no trends except consistencies over the duration of the entire time series. The average asset turnover for WFM over the last six years is 2.66. Each year's results do not significantly deviate from that mean. For each dollar of asset, WFM is able to generate 2.66 sales dollars on average. Over the long term, this is a forecast-able number.

Return on Assets

Return on Assets (ROA) comprises profit margin and asset turnover, both of which are sensitive to changes in net income. Analysis of WFM return on assets indicates that assets are more properly employed in 2006. A breakdown of ROA reveals the source of the '06 jump from seven percent to ten percent to be the growth in profit margin. ROA is responding to the growth in net income, illustrated by the above table (exhibit 3.4). WFM's ability to generate four dollars up from three in 2005 is positively impacting profitability.

Exhibit 3.6

	2004	2005	2006
Net Income Growth	31%	5%	50%
Return on Assets	9%	7%	10%
Return on Equity	14%	10%	15%

Return on Equity

WFM's return on equity, being directly affected by net income, experiences volatility between '04 and '05. Owner's equity has not significantly fluctuated

compared to net income in the time series in the above table. Like ROA, sensitivity to net income growth determines the change in the ratio of income to stockholders equity. Consistencies in recent and current stockholders' equity can be extrapolated to future performance. The same cannot be said for Net Income.

Sustainable Growth Rate

	2002	2003	2004	2005	2006
ROE	21%	18%	17%	14%	15%
ROA	10%	10%	11%	9%	11%

Net Income	\$79,594	\$98,915	\$129,512	\$136,351	\$203,828
Cash Dividends Paid	\$0	\$0	\$27,728	\$54,683	\$358,075
Dividend Payout Ratio	0%	0%	21%	40%	176%

SGR	21.00%	18.00%	13.36%	-8.39%	-11.35%
IGR	10.00%	10.00%	8.64%	5.39%	-8.32%

Average
9.88%
5.14%

Whole Foods Market (WFM) appears to follow no policy regarding their dividend payouts. In 2006, the company's dividend payout ratio was 176 percent up from 40 percent the year prior. This negatively impacted WFM's 2006 sustainable growth rate and internal growth rate. The main driver, representative of a capital structure change, is growth in cash dividends paid. WFM increased their stock repurchasing program by 100 million in November of 2006, reducing its equity base, while increasing debt to equity ratio. Sales increased by nearly 20 percent, net operating assets increased, net debt increased significantly coupled with a substantial decrease in cash and cash equivalents. Consequently, despite the increase in ROE, SGR was too heavily affected by the stock repurchase initiative. In effect, 2006 SGR is an anomaly due to the restructuring.

Capital Structure Analysis

Whole Foods has three main ratios that help to indicate their capital structure, debt to equity times interest earned, and debt service margin. These ratios are important because they give an idea of where and how the company allocates their money to finance assets.

Debt to Equity Ratio

Debt to Equity Ratio	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Whole Foods	0.63	0.56	0.60	0.38	0.45

The debt to equity ratio explains how much of the shareholder's investments of the company are used to spend on acquired debt. Whole Foods has an average of .61 debt to equity ratio over the past five years. This means that Whole Foods has \$.61 of debt for every \$1.00 of owner's equity. Whole Foods has a slight decrease over the past five years, which generally means that the company is managing their debt financing well relative to their equity. From 2005 to 2006, the company had about a 0.07 increase in debt to equity ratio, which is the highest increase out of the past five years. This increase is largely due to a higher increase in liabilities than equity. From 2005 to 2006, total liabilities increase almost 3 times more than total equity. This huge increase is due to increases in "other current liabilities" and "deferred rent liability". The smaller increase in total equity is due to an offset of a high increase in common stock from 2005 to 2006 but high decrease in retained earnings. Overall, Whole Foods' debt to equity ratio over the past five years shows a slight decrease, which means that investment dollars from shareholders are not heavily used for debt financing.

Times Interest Earned

Times Interest Earned	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Whole Foods	13.78	21.32	30.78	107.67	10617.03

The times interest earned ratio is used to evaluate how well the company's operating income covers their interest expense on debt. Over the past five years, Whole Food's time interest earned has significantly increased, which means that their operating income over the past years has been more than enough to cover the interest expenses. The company shows a significant jump in times interest earned in 2005 and especially in 2006. These increases are due to a large decrease in interest expense from 2004 to 2005 and an overwhelming decrease in interest expense from 2005 to 2006.

Debt Service Margin

Debt Service Margin	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Whole Foods	38.91	48.54	56.90	68.78	76.31

The debt service margin is calculated to measure how well cash provided by operations is allocated to payoff current notes payable. Whole Foods has an average debt service margin of 57.89. This means that, on average, for every \$1.00 of current notes payable there is \$57.89 of cash provided by operations to help decrease that debt. The debt service margin ratio gradually increases from 2002 to 2006. This shows that Whole Food's is having to using less cash provided by operations each year to payoff current notes payable.

Overall, Whole Food's capital structure looks to be in working order. Although there are numerous increases and decreases between certain years, the ratios still show that Whole Food's is in no way approaching a problem with their

capital structure. This will prove to be beneficial in the long run because it means that the company is correctly allocating their money to make sure debt payments do not become a problem.

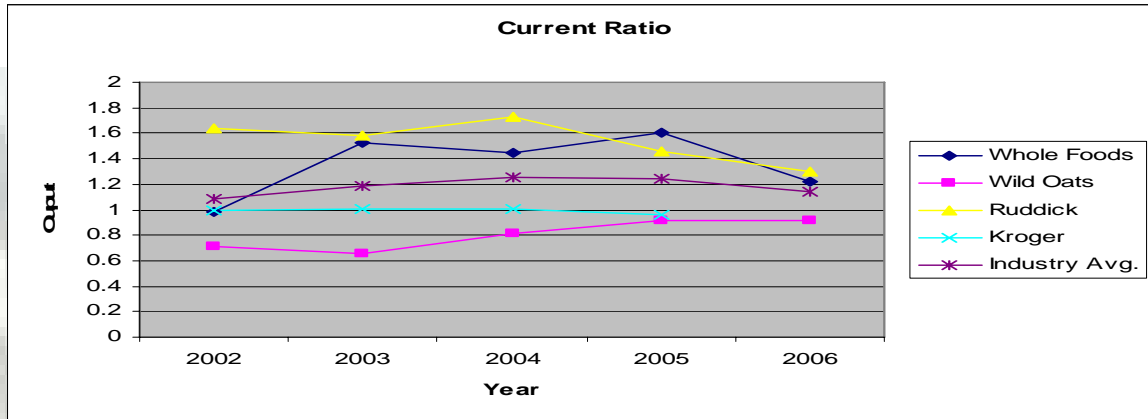
Cross-Sectional Ratio Analysis

When interpreting the liquidity, profitability, and capital structure ratios for any company it is important to analyze the results relative to some benchmark. For Whole Foods we compared ratio results to three other companies along with an industry average. We ran into some complications with selecting other companies to use as competitors because of the industry niche Whole Foods belongs in. The only two publicly traded companies in the natural foods industry are Whole Foods and Wild Oats Market, which is Whole Food's main competitor. In selecting the other two companies, we looked at the market capitalization of numerous businesses within the retail grocery industry in search of ones with similar size to Whole Foods. In addition to Wild Oats, we chose the Kroger Company and the Ruddick Corporation. Ruddick operates numerous grocery stores and supermarkets throughout the United States carrying traditional grocery items and also specializing in other goods such as threads and textiles. We've decided that the 'other goods' only represent a small portion of Ruddick's operations and have considered them to be a qualified competitor for ratio comparison. Some of the companies we chose have yielded unrealistic results in certain ratios causing the industry average to be skewed. When this situation occurred we simply eliminated them from our charts for those particular ratios.

Liquidity Analysis

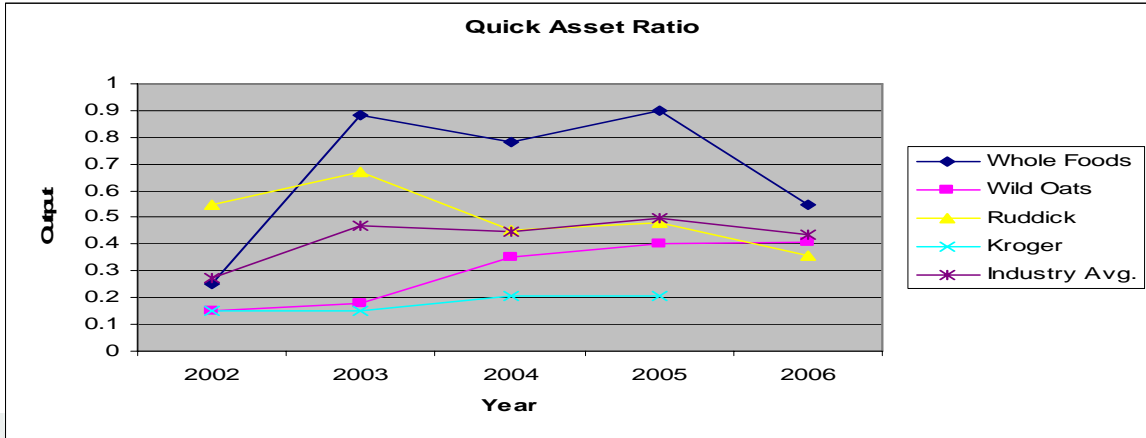
In analyzing the overall liquidity for a company it is important to look at other performers in the industry to get an idea of where the company fits. The liquidity

ratios analyzed in this section include the current ratio, quick asset ratio, inventory turnover, accounts receivable turnover, and working capital turnover. In this section we will compare Whole Food's liquidity ratios with some competitors that we have deemed acceptable. This should give us an idea of how Whole Food's looks in relation to the rest of the industry and will provide us with some good insight in conducting our valuation.



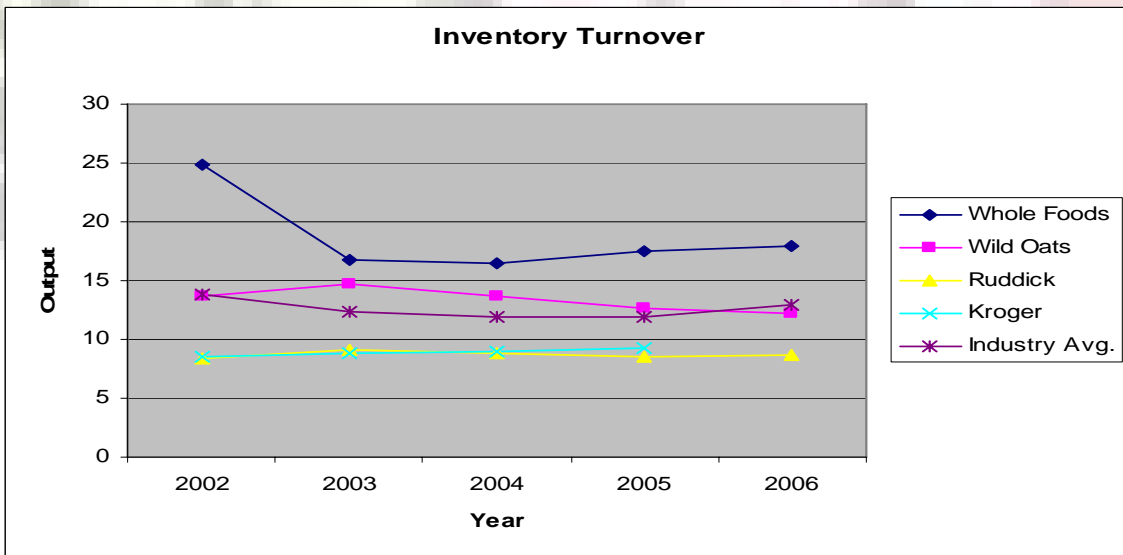
Current Ratio

When analyzing Whole Food's current ratio against the three chosen competitors, we see some interesting things. The only two stores that exceed the industry average are Whole Foods and Ruddick. One significant thing we noticed was that Whole Foods current ratio, although inconsistent, has been on the rise overall from 2002 to 2006. As one can see from the graph, Ruddick's current ratio is also above the industry average however is moving at a decreasing rate. This is a negative movement for them and a rather positive movement for Whole Food's. Judging from the current ratio alone, Whole Food's has an advantage relative to the industry when it comes to liquidity.



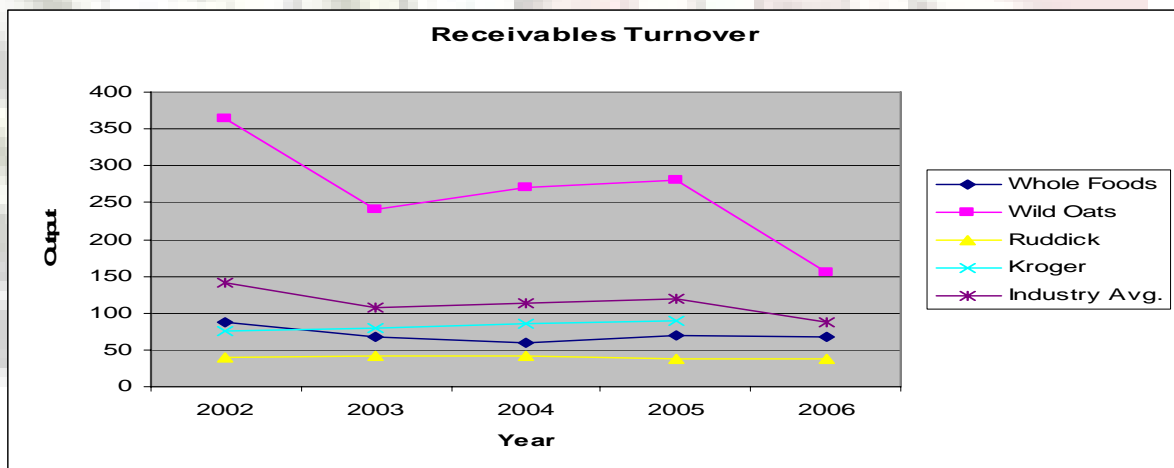
Quick Asset Ratio

The quick asset ratio is a rather volatile ratio for Whole Foods and Ruddick. While we see that those two company's move up and down the most, we notice an increasing trend in this ratio for Wild Oats and Kroger. However, Wild Oats and Kroger are well below the industry average. Whole Foods by far exceeds all other competitors in this area although we feel that having recently declining quick asset ratio of 0.55 could be problematic for Whole Foods should it continue to decrease.



Inventory Turnover

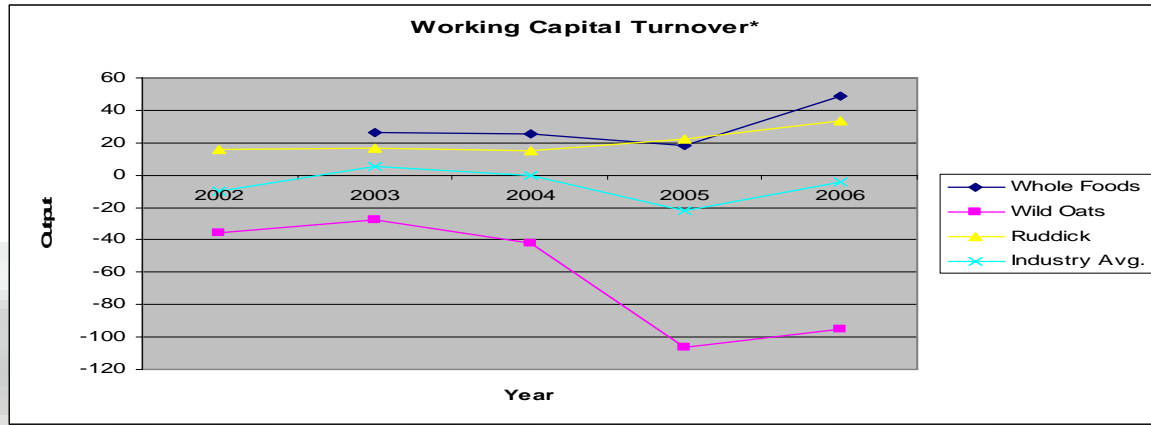
This portion of the liquidity analysis is interesting to look at when dealing with the retail grocery industry. As you can see, both Whole Foods and Wild Oats have much higher inventory turnovers than do Ruddick and Kroger. Whole Foods has greatly exceeded the industry average while Wild Oats has been slightly over it for the majority of the previous five years. When considering this we took into account the fact that Whole Foods and Wild Oats are in their own separate niche of the retail grocery industry. Both of these retailers pride themselves on bringing high quality, specialized goods into the market place. A large number of these high quality goods are perishable and will not stay fresh for long periods of time. Because these companies are dealing with these types of products, they have to turn their inventory over rather often. Kroger and Ruddick have significantly lower inventory turnovers which is consistent with the fact that they are carrying more generic products along with a lower amount of perishable goods.



Accounts Receivable Turnover

The accounts receivable turnover is measuring how many times accounts receivable is being collected within an accounting period. For this ratio, the higher the better. Judging from the graph, Whole Foods is well below the industry average putting them in liquidity danger compared to most of the

competition. The only company with a lower receivables turnover is the Ruddick Corporation.



Working Capital Turnover

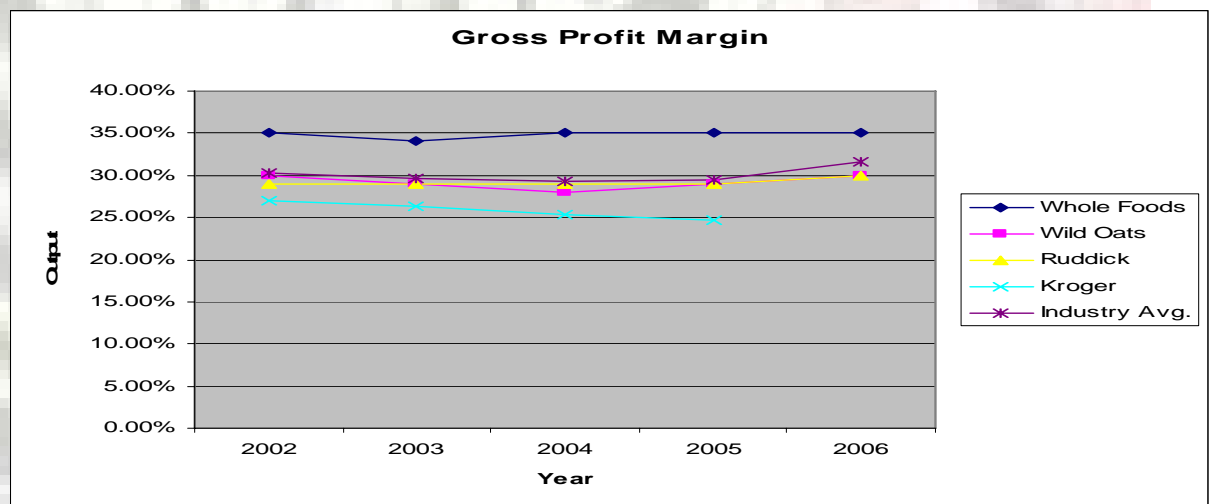
The working capital turnover ratio was one in which we had to remove a company due to unrealistic numbers. Kroger was eliminated from this chart because their ratio was jumping all over the place causing the industry average to be biased. In addition, we removed the 2002 working capital turnover ratio for Whole Foods because it was -647.22. This large negative number was due to their current ratio being less than one in 2002. In analyzing the graph we can see that Whole Foods has the highest working capital turnover and is accompanied by Ruddick in being above the industry average. Knowing that the working capital turnover ratio measures how efficiently a company's working capital is at generating sales dollars we can determine that Wild Oats has done an extremely poor job and is certainly in the danger zone when it comes to liquidity.

Overall, Whole Foods appears to lead the industry in liquidity. All of their ratios, with the exception of receivables turnover either top or come close to topping all of the competitors that were examined. The only real liquidity ratio that seems to be causing problems for Whole Foods is the accounts receivable turnover. Over the last few years this ratio has been declining and it is indicating that as their

accounts receivables grow, Whole Foods is taking a longer amount of time to collect the cash. In addition, as their receivables grow to larger sizes, their uncollectible accounts do as well and this is placing them with a liquidity disadvantage relative to the industry.

Profitability Analysis

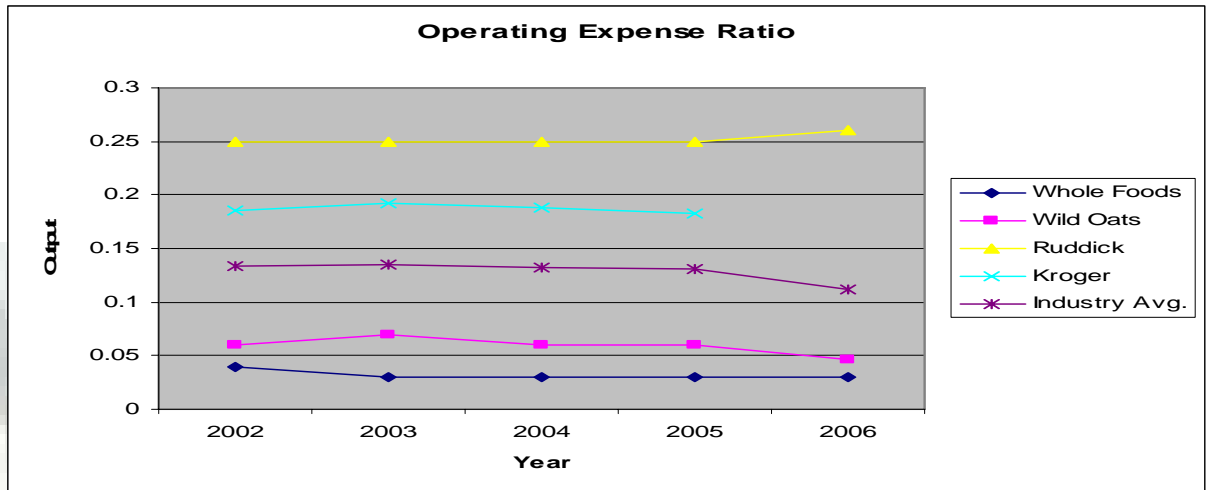
A cross sectional evaluation of profitability compares Whole Foods with its competitors. Whole Foods is taking advantage of changing demographics in a new market to enhance profitability, resulting in margins that are higher than industry averages. Net profit margin, in particular gives insight to Whole Foods success in charging a premium for its goods and achieving higher profitability.



Gross Profit Margin

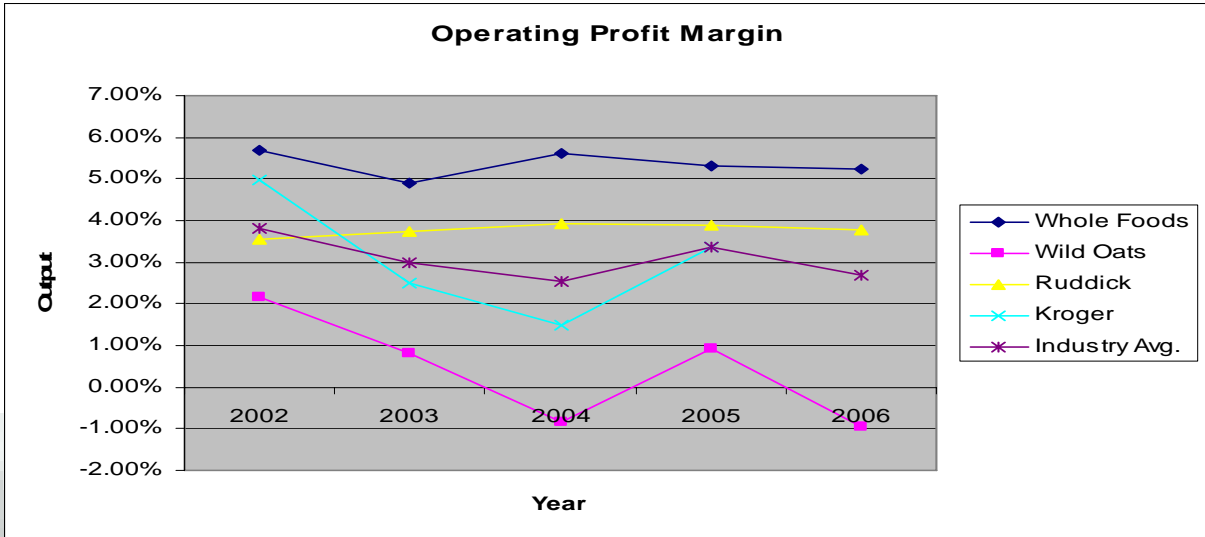
Whole Foods Market's (WFM) gross profit margin is well above that of the industry. Differentiation strategies involve price premiums and are responsible for the company's buoyant profit margin. Both Wild Oats and Ruddick command more profit coverage of total sales due to their pricing strategies but are still below the industry average, which has increased as a whole. Kroger's profit margins reflect that of a cost player. The high profit margins that WFM is

experiencing will certainly attract competition to make a play for the high margins and consumer demand.



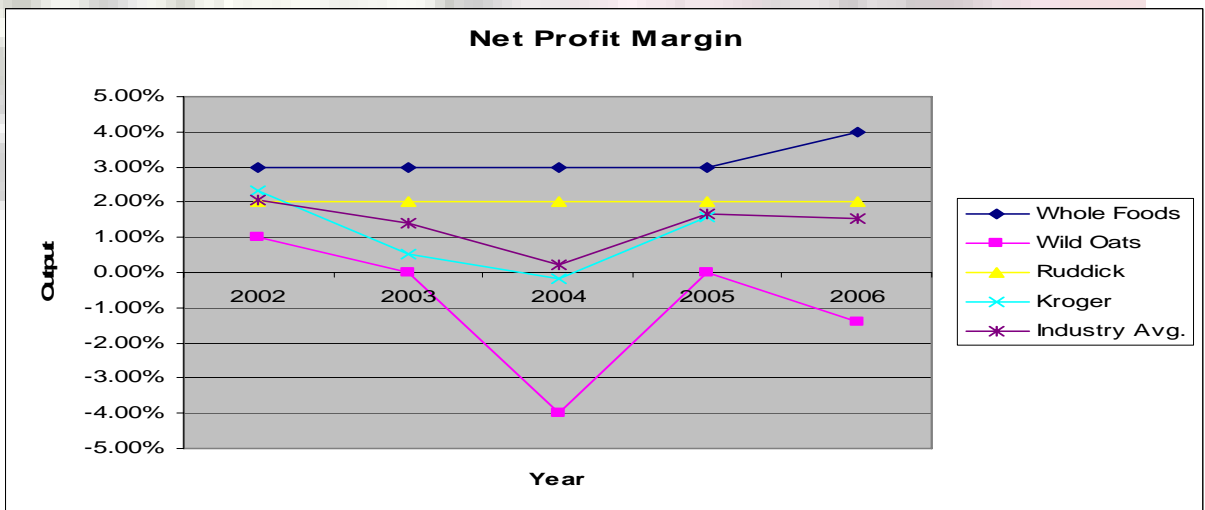
Operating Expense Ratio

The ratio of operating expenses to sales provides insight to the differences among company's cost control systems. Whole Foods maintains a low operating expense ratio compared with the industry. Three percent of each sales dollar is reserved for covering expenses. Wild Oats is the only other industry player with an operating expense ratio anywhere close to the low levels achieved by WFM. Kroger and Ruddick's operating expense ratio are significantly higher than the average, brought down by Wild Oats and Whole Foods. This division between the industry competitors regarding their operating expense ratio is indicative of the nature of these companies. Both Wild Oats and Whole Foods are in an industry sector all to themselves and are both experiencing low operating expenses compared to their sales. This is another aspect of the Natural Products industry that will be exploited by potential market entrants.



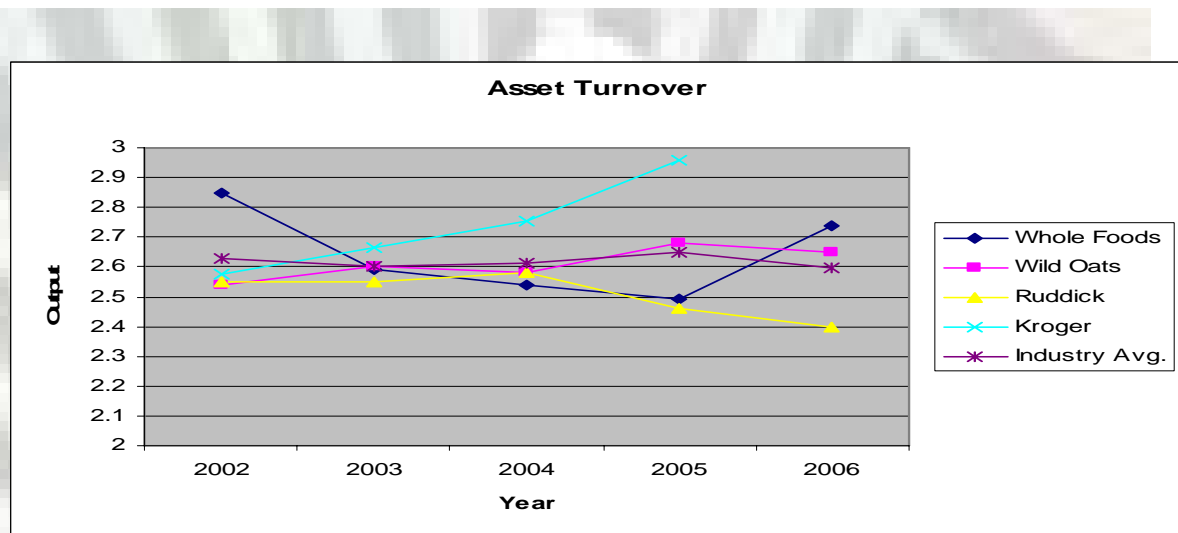
Operating Profit Margin

Operating profit income takes into account more variable expenditures than gross profit. The slight structural differences between our chosen industry competitors becomes more lucid when considering more expenses that directly alter performance. The volatility in the operating profit margin for WFM is also reflected in similar patterns by the industry average. However, Whole Foods Market's operating profit margin remains higher than that of the industry for five consecutive accounting periods.



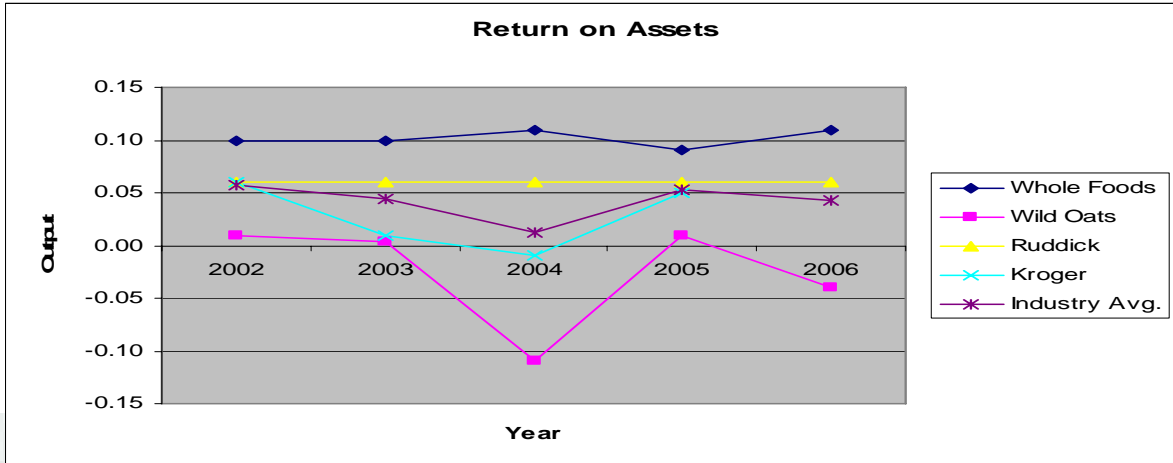
Net Profit Margin

Like gross profit margin, high net profit margins in comparison with the industry, are another sign that competition will eventually eat away at those margins. WFM and Ruddick's net profit margins for 2006 are four percent and two percent respectively. Wild Oats and Kroger experience negative margins and are not performing on par with WFM and Ruddick, who have found success at controlling expenses to inflate the bottom line.



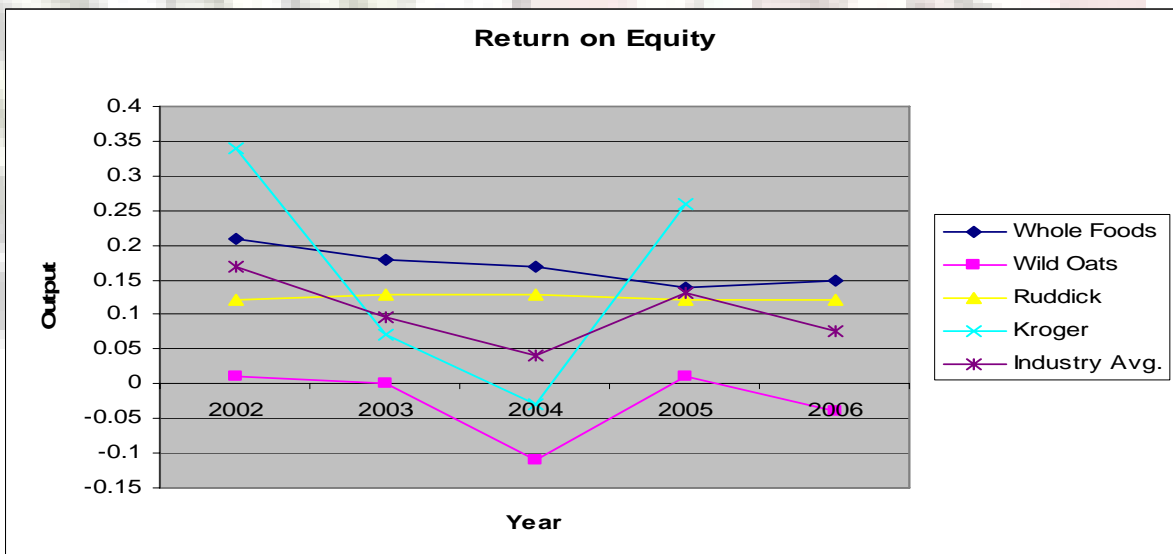
Asset Turnover

Asset Turnover has not fluctuated in the industry due to the nature of grocery stores. WFM still maintains the dominant position in the market in terms of asset turnover; however the margins are slimmer in comparison with other ratios. The industry average and the ratio results for the individual players stay consistent and close to the mean.



Return on Assets

Whole Foods is employing its assets more efficiently than the industry average. In 2006, WFM's return on assets was eleven percent, compared with Ruddick's six percent and the industry average of four percent. Wild Oats continues to suffer from earnings problems and Kroger's ROA for 2005 was five percent. Whole Foods' operating performance is clearly superior to that of its competitors, interpreted by the high ROA.



Return on Equity

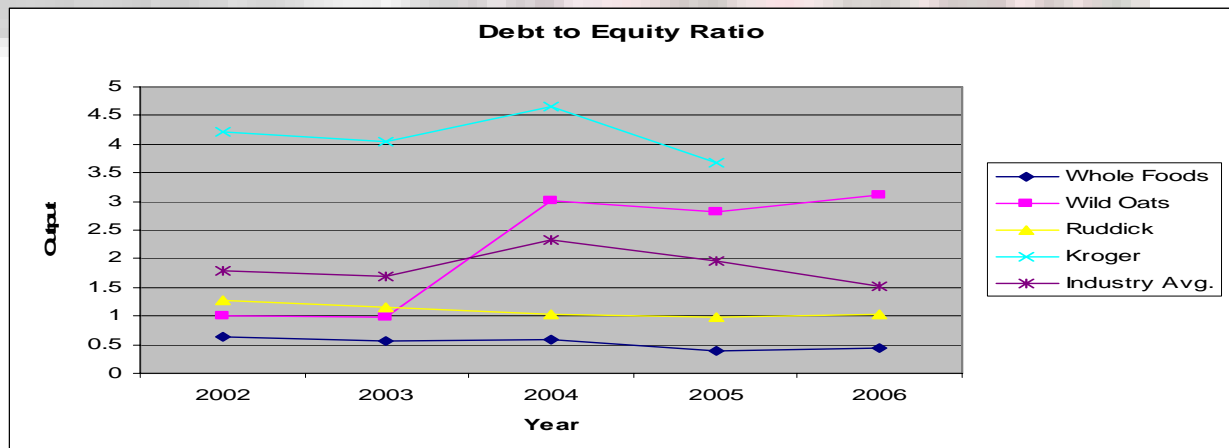
In 2006, WFM's return on equity nearly doubled that of the industry. Economic theory regarding competition suggests that high ROEs will fall due to competition

being attracted to the industry because of high profitability. Whole Foods Market is in a different developmental and structural position than existing industry players, continually expanding its equity base. As long as earnings growth keeps pace with investment growth in the same proportion, WFM will be able to sustain such growth. However, ROE's above an established benchmark tend to be mean-reverting, and while sales continue to increase, they are doing so at a diminishing rate.

The profitability of WFM is strong due to high net profit margins and low expense ratios. High ROEs and ROAs imply that the company is efficiently employing its equity and its assets. These ratios will remain high so long as WFM continues to reap high profit margins, which will be subject to changes in the competitive landscape.

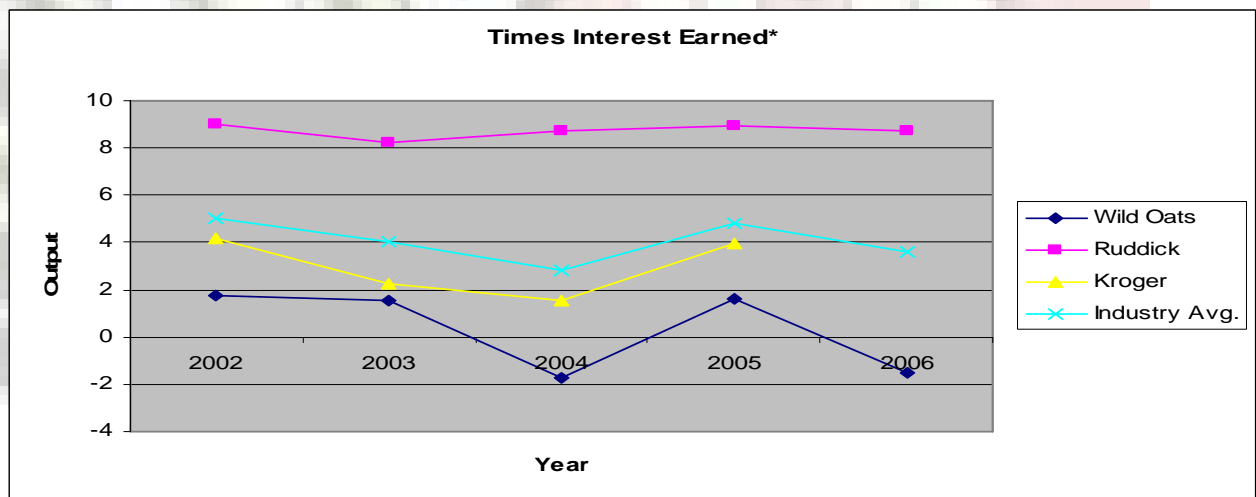
Capital Structure Analysis

Capital Structure Cross-Sectional Analysis is important because it shows how Whole Food's is operating in comparison to competitors in the industry. This allows us to specifically observe where Whole Food's is below and above industry standards. It also allows for a more in depth analysis of the overall valuation of Whole Foods.



Debt to Equity Ratio

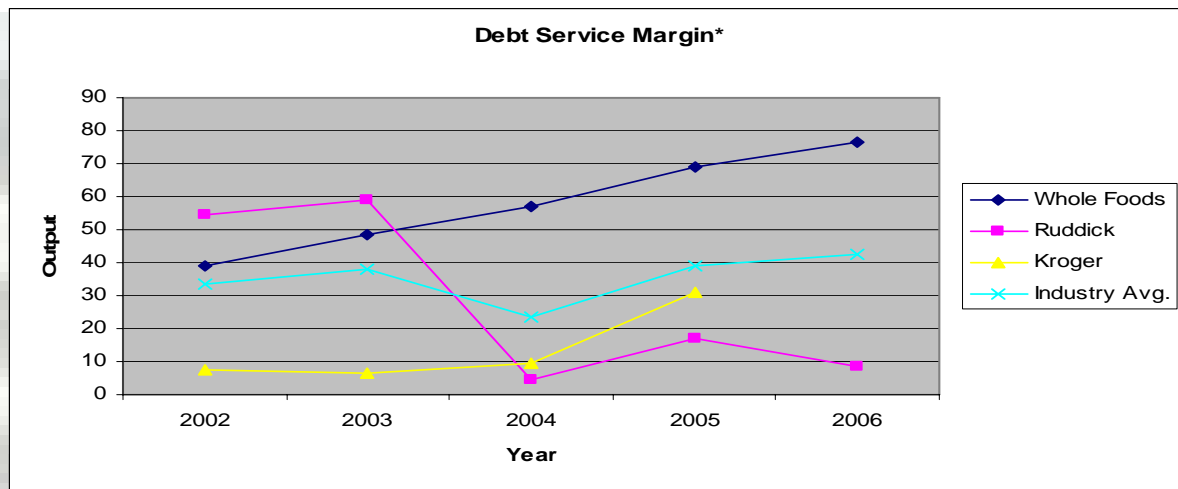
From looking at the results of the cross sectional analysis on the debt to equity ratio we can see that Whole Foods has the lowest ratio compared to the competition. Not only are they well below the industry average but they are below all the companies in the graph. Having a low debt to equity ratio means that Whole Foods is rather conservative in financing their growth with debt. This low debt to equity ratio is not necessarily a bad thing for Whole Foods because it will help act as a liquidity cushion incase their current ratio or quick asset ratio were to decrease more. For example, look at Kroger. Kroger has a very high debt to equity ratio and a very low current ratio. This means that Kroger is badly exposed to liquidity problems. Because they use so much debt to finance their projects, they should have a high current ratio so that their current assets can be used to help payoff the large amounts of debt coming due. Wild Oats is also exposed to this same problem.



Times Interest Earned

Looking at the industry's time's interest earned ratios, Whole Foods was considered to be a major outlier. Whole Foods has had a major increase in their times interest earned ratio over the past years, and significantly outnumbered

their competitors in the industry. Therefore, we decided to remove Whole Foods as an outlier in this ratio graph because the averages were completely thrown off by Whole Foods' high numbers. Judging from the huge difference in numbers, Whole Foods hasn't had near the amount of difficulty paying their interest expense from the operating income.



Debt Service Margin

The debt service margin ratio was another one in which we had to remove a company due to unrealistic numbers. We decided to remove Wild Oats because they were an outlier causing the industry average to be skewed. The debt service margin is calculated to measure how well cash provided by operations is allocated to payoff current accounts payable. The higher or more upward sloping the ratio, the more cash a company will have available to draw down its current accounts payable, which is favorable. As you can see, Whole Foods is greatly superior to the competitors in the industry and has been constantly on the rise since 2002.

Overall, Whole Foods proves to be an industry leader in comparison to the competitors in the industry. The cross-sectional analysis was slightly interrupted due to a few outliers for each ratio, including Whole Foods in Times Interest

Earned. However, once these outliers were removed it was easy to compare Whole Food's ratios to others. Whole Food's ratios show that their debt financing is well under control compared to the other competitors in the industry.

Forecasting Analysis

Income Statement

While forecasting the income statement we used multiple forecasting tools. In order to find sales we started with a 9.6% growth rate. We derived this number by finding the industry average, including Whole Foods, which has experienced high growth in the past five years. As we do expect Whole Foods to continue growing, their current level of growth is unsustainable. We expect the growth rate to finally level out by 2010, as we forecasted their growth rate to equal that of the industry.

Historic Total Sales Growth					
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Whole Foods growth	2,690,475,000	3,148,593,000 0.170	3,864,950,000 0.228	4,701,289,000 0.216	5,607,376,000 0.193
Wild Oats growth	919,130,000	969,204,000 0.054	1,048,164,000 0.081	1,123,957,000 0.072	1,183,022,000 0.053
Ruddick growth	2,644,198,000	2,724,739,000 0.030	2,868,597,000 0.053	2,964,655,000 0.033	3,265,856,000 0.102
Kroger growth	51,760,000,000	53,791,000,000 0.039	56,434,000,000 0.049	60,553,000,000 0.073	66,111,000,000 0.092

Historical 5-Year Growth Average

Whole Foods	0.202
Wild Oats	0.065
Ruddick	0.055
Kroger	0.063

Industry 5-Year Growth Average= 0.096

Industry 5-Year Growth Average= 0.061
(w/o Whole Foods)

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
0.096	0.083	0.071	0.061	0.061	0.061	0.061	0.061	0.061	0.061

*sales growth expected to come down to industry average in 2010

SGR was not taken in to account when forecasting sales because for the year 2006 we had a negative SGR. In order to forecast out gross profit margin we assumed a constant rate of 34.75%. The industry average for the past five years is about .30. In general, our gross profit stayed the same over the past five years so we used a historical five-year average. Once we computed sales and gross profit, we were able to compute our cost of goods sold by subtracting gross profit from sales. Because general and administrative and direct store expense has been relatively stable for the past five years, we took the average in order to forecast it out. We decided that we could not forecast interest expense because of its rapid decline. It has gone from about -.39% to -.0006% within the past five years. It is not practical to think that interest expense will not come back up, but we do not have the resources to say by how much or when it will. In Whole Foods 10-K they stated that the reason the interest expense went down at such a rapid pace was because it "reflects decreases in the carrying amount of our convertible subordinated debentures resulting from the voluntary conversion by debenture holders to shares of Company common stock over the three-year period." Our method for forecasting our pre-opening and relocation cost was somewhat complicated. Due to many factors, including and increasing average construction costs per square foot and an increasing average store size, we took many number from the 2006 10-k to help us forecast these costs. We took the average pre-opening cost, per store, and divided it by the average square footage of new stores in development, for 2006. Using 2007 forecasted numbers from the 10-k, we did the same for 2007 and averaged them to find a

consistent growth rate in store size and average cost per square foot. The average store size has been increasing fast, making our average unrealistic to use. However, as stated from the 10-k, Whole Foods plans on building bigger stores to attract more customers and create bigger barriers to entry. We found through research that the average size store of a Wal-Mart is slightly over 100,000 square feet. The largest store Whole Foods has now is close to 80,000



square feet, but their current growth strategy has stores being built around 65,000 square feet. We decided to find a growth rate that would increase the size of their stores to a little over 80,000 square feet by 2016, which we believe is a reasonable estimation. To get the final value of 'pre-opening and relocation costs', we multiplied the forecasted average cost per square foot by the forecasted average size of each store. The number of stores was estimated using information from the 2006 10-K of Whole Foods. As reported, Whole Foods expects to build about 80 stores by 2010. The growth strategy of Whole Foods is strong and we expect the rate of expansion to slow down. Although this calculation can add noise, we felt the growth strategy as discussed in the 2006 10-K needed to be taken in to consideration.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
# of Stores, Beginning of Year	126	135	145	163	175										
# of Stores, End of Year	135	145	163	175	186	206	226	246	266	285	303	320	336	351	366
Stores Opened	11	12	12	15	13										
Acquired Stores	3	0	7	0	1										
Relocations and Closures	-5	-2	-1	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3
Net # of Stores Opened	9	10	18	12	11	20	20	20	20	19	18	17	16	15	15
% Increase in # of Stores	7.14%	7.41%	12.41%	7.36%	6.29%	10.75%	9.71%	8.85%	8.13%	7.14%	6.32%	5.61%	5.00%	4.46%	4.27%
Average Size of New Stores in Develop Gross Square Feet	41,000	45,000	49,000	55,000	56,000	65,000	66,950	68,959	71,027	73,158	75,353	77,613	79,942	82,340	84,810
% Increase in Avg. Size of New Stores		9.76%	8.89%	12.24%	1.82%	16.07%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Average Pre-Opening Cost				1,900,000.00	2,400,000.00	2,570,880.00	2,727,446.59	2,893,548.09	3,069,765.17	3,256,713.87	3,455,047.74	3,665,460.15	3,888,686.67	4,125,507.69	
Avg. Pre-Opening Cost per Sq. Ft.				33.92857143	36.92307692	38.4	39.552	40.73856	41.9607168	43.2195383	44.51612445	45.85160819	47.22715643	48.64397113	

Once we got this number we were able to calculate our total operating income. In order to calculate this number we took gross profit less direct store expense, general and administrative expenses, and pre-opening and relocation costs. We took the average of our investment and other income in order to forecast out that line item. Forecasting this number helped derive the income before taxes.

We assumed that there was a .2% growth rate for net income. We implied underlying growth into our forecasted net income for many reasons. As discussed in the Whole Foods 2006 10-k, Whole Foods plans on not only expanding heavily with increased store size, but moving to national suppliers. This will help add to their economies of scale, and possibly bargaining power. As Whole Foods becomes a bigger, more mature company, their efficiency should improve. As a result, net income as a percentage of total sales should increase. However, we did use a conservative growth rate. Food retailers in general have trouble retaining more than 4%, as 3% is a common benchmark. Although we did imply an underlying growth, net income as a percent of total sales maxes out at 3.57%. This is conservative considering Whole Foods retained 3.63% in 2006. Once we calculated net income we took net income less the Income before taxes which gave us our provision for income taxes.

'Retained Earnings' needs thorough explanation. We calculated retained earnings by taking the previous years retained earnings, adding net income, and subtracting dividends paid. Although producing smooth numbers initially, as the forecast progresses, the values are impractical. This is because of our difficulty forecasting dividends. Because dividends are so difficult to forecast, we assumed the 2006 value throughout our forecast. This is not logical because as a company grows, especially at the rate we predict Whole Foods to grow, dividends paid will indubitably increase. However, forecasting numbers based on little or no information only adds noise to our valuation. As a result, retained earnings is impractically high in the later years of our forecast. Because these

numbers are unrealistic, we did not let them affect total shareholders' equity or total shareholders' equity and liabilities.



INCOME STATEMENT

	ACTUAL INCOME STATEMENT					assume	FORECASTING									
	2002/09/28	2003/09/28	2004/09/24	2005/09/24	2006/09/24		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales	\$2,690,475,000	\$3,148,593,000	\$3,864,950,000	\$4,701,289,000	\$5,607,376,000		\$6,146,809,519.39	\$6,655,351,086.63	\$7,128,879,587.69	\$7,565,088,850.65	\$8,026,748,387.76	\$8,516,580,718.74	\$9,036,305,057.10	\$9,587,745,573.21	\$10,172,837,746.81	\$10,793,635,170.31
Cost of goods sold and occupancy costs	\$1,757,213,000	\$2,067,939,000	\$2,523,816,000	\$3,052,184,000	\$3,647,734,000		\$4,010,982,065.56	\$4,342,821,062.59	\$4,651,812,958.19	\$4,938,452,904.34	\$5,237,889,942.82	\$5,557,330,581.83	\$5,898,466,680.59	\$6,256,288,559.77	\$6,638,089,179.38	\$7,043,178,571.55
Gross profit	\$933,262,000	\$1,080,654,000	\$1,341,134,000	\$1,649,105,000	\$1,959,642,000		\$2,135,827,453.82	\$2,312,530,024.04	\$2,477,066,629.50	\$2,626,635,946.32	\$2,789,049,454.94	\$2,959,250,136.90	\$3,138,838,376.51	\$3,331,447,013.44	\$3,534,748,567.43	\$3,750,456,598.76
Direct store expenses	\$675,760,000	\$792,536,000	\$986,040,000	\$1,223,473,000	\$1,421,968,000		\$1,563,748,341.73	\$1,683,121,316.44	\$1,813,586,987.11	\$1,924,558,603.61	\$2,042,004,792.39	\$2,166,618,134.85	\$2,288,836,006.53	\$2,439,122,473.82	\$2,587,969,922.79	\$2,745,900,787.33
General and administrative expenses	\$95,871,000	\$100,693,000	\$119,800,000	\$158,864,000	\$181,244,000		\$202,230,033.19	\$218,981,050.75	\$234,540,138.44	\$248,891,423.19	\$264,080,022.29	\$280,195,505.65	\$297,294,436.38	\$315,436,829.36	\$334,686,361.87	\$355,110,597.10
Pre-opening and relocation costs	\$12,495,000	\$12,091,000	\$18,648,000	\$37,035,000	\$37,421,000		\$48,000,000.00	\$51,417,600.00	\$54,548,931.84	\$57,870,961.79	\$58,325,538.19	\$58,620,849.60	\$58,735,811.60	\$58,847,362.38	\$58,330,300.08	\$61,882,615.35
Operating income	\$149,146,000	\$175,334,000	\$216,646,000	\$229,733,000	\$319,009,000		\$321,849,078.90	\$349,030,056.85	\$374,390,592.12	\$397,314,957.74	\$424,638,102.07	\$453,815,646.81	\$484,972,122.00	\$518,240,347.87	\$553,761,982.69	\$587,562,598.98
Other income (expense)																
Interest expense	(\$10,384,000)	(\$8,114,000)	(\$7,249,000)	(\$2,223,000)	(\$32,000)											
Investment and other income	\$2,056,000	\$5,593,000	\$6,458,000	\$9,623,000	\$20,736,000											
Income before income taxes	\$132,857,000	\$164,858,000	\$215,853,000	\$237,133,000	\$339,713,000		\$321,849,078.90	\$349,030,056.85	\$374,390,592.12	\$397,314,957.74	\$424,638,102.07	\$453,815,646.81	\$484,972,122.00	\$518,240,347.87	\$553,761,982.69	\$587,562,598.98
Provision for income taxes	\$53,063	\$85,943	\$86,341,000	\$100,782,000	\$135,885,000		\$106,280,469.06	\$115,160,087.92	\$123,379,745.71	\$130,412,259.93	\$140,881,286.26	\$152,140,425.17	\$164,247,000.06	\$177,262,360.61	\$191,252,262.69	\$202,161,459.56
Net income	\$79,594,000	\$98,915,000	\$129,512,000	\$136,351,000	\$203,828,000		\$215,568,609.84	\$233,869,968.93	\$251,010,846.41	\$266,902,697.80	\$283,756,815.81	\$301,675,221.64	\$320,725,121.95	\$340,977,967.26	\$362,509,720.01	\$385,401,139.42

COMMON SIZE INCOME STATEMENT

	COMMON SIZE INCOME STATEMENT						FORECASTING										
	2002/09/28	2003/09/28	2004/09/24	2005/09/24	2006/09/24	assume	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Sales	100.0000%	100.0000%	100.0000%	100.0000%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of goods sold and occupancy costs	65.31%	65.68%	65.30%	64.92%	65.05%	65.25%	65.25%	65.25%	65.25%	65.25%	65.25%	65.25%	65.25%	65.25%	65.25%	65.25%	65.25%
Gross profit	34.69%	34.32%	34.70%	35.08%	34.95%	34.75%	34.75%	34.75%	34.75%	34.75%	34.75%	34.75%	34.75%	34.75%	34.75%	34.75%	34.75%
Direct store expenses	25.12%	25.17%	25.51%	26.02%	25.36%	25.44%	25.44%	25.44%	25.44%	25.44%	25.44%	25.44%	25.44%	25.44%	25.44%	25.44%	25.44%
General and administrative expenses	3.56%	3.20%	3.10%	3.38%	3.23%	3.29%	3.29%	3.29%	3.29%	3.29%	3.29%	3.29%	3.29%	3.29%	3.29%	3.29%	3.29%
Pre-opening and relocation costs	0.46%	0.38%	0.48%	0.79%	0.67%		0.78%	0.77%	0.77%	0.76%	0.73%	0.69%	0.65%	0.61%	0.57%	0.53%	0.50%
Operating income	5.54%	5.57%	5.61%	4.89%	5.69%		5.24%	5.24%	5.25%	5.25%	5.29%	5.33%	5.37%	5.41%	5.44%	5.44%	5.44%
Other income (expense):																	
Interest expense	-0.39%	-0.26%	-0.19%	-0.05%	-0.0006%												
Investment and other income	0.08%	0.18%	0.17%	0.20%	0.37%												
Income before income taxes	4.93%	5.24%	5.58%	5.04%	6.06%		5.24%	5.24%	5.25%	5.25%	5.29%	5.33%	5.37%	5.41%	5.44%	5.44%	5.44%
Provision for income taxes	0.00%	0.00%	2.23%	2.14%	2.42%		1.73%	1.73%	1.73%	1.72%	1.76%	1.79%	1.82%	1.85%	1.88%	1.88%	1.88%
Net income	2.96%	3.14%	3.35%	2.90%	3.63%	2% growth	3.51%	3.51%	3.52%	3.53%	3.54%	3.54%	3.55%	3.56%	3.56%	3.56%	3.56%



Balance Sheet

In order to keep things consistent throughout our forecasting we forecasted our balance sheet with the same methods we used for our income statement. In order to forecast our total assets, we took our asset turnover ratio average which was about 2.65 and divided it by our forecasted sales from our income statement. We then took the average percentage of our total current assets and multiplied it by our total assets. This gave us our amount for total current assets. We then simply took the difference between total assets and total current assets to get our non-current assets.

'Merchandise inventory' and 'total assets' are the only line items in which we used ratios to derive a suitable number. For some line items, such as 'trade accounts receivable' and 'property and equipment', we used a historical average of the values off the common sized balance sheet to forecast future amount. This method assumes that the particular line items move in direct proportion to total assets, with no underlying growth. This method is the best to use when no predictable growth rate, except that used for total assets, can be justified. For line items such as 'total current liabilities' and 'accrued payroll, benefits, and other benefits due' we used the method discussed above, but included and underlying growth rate. The growth rate was calculated by averaging the percent increases over the past five years. We used this method when noticing an increase (or decrease) in the percentages on the common sized balance sheet. The final method used was a simple historical average of the actual value. This technique was used on 'other assets', as we saw no apparent relationship between other assets and total assets. Furthermore, 'other assets' has been relatively steady, excluding the 2004 value. Throughout the pro-forma balance sheet, we used one of the three methods discussed above to forecast every predictable line item. We used our best judgment and reasoning in deciding which method to use for each line item.

COMMON SIZE BALANCE SHEET

COMMON SIZE BALANCE SHEET							forecasting									
	2002/09/28	2003/09/28	2004/09/24	2005/09/24	2006/09/24	assume	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Assets																
Current Assets:																
Cash and cash equivalents	1.34%	13.85%	12.80%	16.33%	0.11%	NF										
Short-term investments- available for sale securities					9.49%	NF										
Restricted cash			1.76%	1.95%	2.94%	2.22%	2.22%	2.22%	2.22%	2.22%	2.22%	2.22%	2.22%	2.22%	2.22%	2.22%
Trade accounts receivable	3.27%	3.84%	4.27%	3.53%	4.02%	3.77%	3.77%	3.77%	3.77%	3.77%	3.77%	3.77%	3.77%	3.77%	3.77%	3.77%
Merchandise inventory	11.47%	10.35%	10.05%	9.25%	9.97%	9.58%	9.58%	9.58%	9.58%	9.58%	9.58%	9.58%	9.58%	9.58%	9.58%	9.58%
Prepaid expenses and other current assets	0.95%	1.04%	1.10%	2.43%	1.65%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%
Deferred income taxes	1.22%	1.30%	1.97%	2.10%	2.36%	1.79%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%
Total current assets	18.25%	30.39%	31.96%	35.60%	30.54%	29.35%	29.40%	29.40%	29.40%	29.40%	29.40%	29.40%	29.40%	29.40%	29.40%	29.40%
Non Current Assets																
Property and equipment, net of Accum and de	68.35%	60.01%	57.42%	55.82%	60.51%	58.16%	58.16%	58.16%	58.16%	58.16%	58.16%	58.16%	58.16%	58.16%	58.16%	58.16%
Long-term investments	0.47%	0.18%	0.00%	0.00%	0.00%	NF										
Goodwill	8.54%	6.73%	7.38%	5.95%	5.56%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Intangible assets	2.43%	2.22%	1.63%	1.16%	1.70%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%
Deferred income taxes	0.78%	0.00%	0.28%	1.19%	1.44%	1.31%	1.31%	1.31%	1.31%	1.31%	1.31%	1.31%	1.31%	1.31%	1.31%	1.31%
Other assets	0.87%	0.47%	1.33%	0.28%	0.25%	0.27%	0.27%	0.27%	0.27%	0.27%	0.27%	0.27%	0.27%	0.27%	0.27%	0.27%
Net assets of discontinued operations	0.32%	0.00%	0.00%	0.00%	0.00%	NF										
Total non-current assets	81.75%	69.61%	68.04%	64.40%	69.46%	70.65%	70.60%	70.60%	70.60%	70.60%	70.60%	70.60%	70.60%	70.60%	70.60%	70.60%
Total assets	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Liabilities and shareholders' equity																
Current liabilities:																
Current installments of long term debt	0.61%	0.49%	0.39%	0.31%	0.00%	NF										
Trade accounts payable	6.33%	6.08%	5.97%	5.47%	5.96%	5.72%	5.72%	5.72%	5.72%	5.72%	5.72%	5.72%	5.72%	5.72%	5.72%	5.72%
Accrued payroll, bonus and other benefits due	6.29%	5.92%	6.61%	6.72%	7.49%	7.11%	7.11%	7.11%	7.11%	7.11%	7.11%	7.11%	7.11%	7.11%	7.11%	7.11%
Dividends payable	0.00%	0.00%	0.62%	0.91%	0.00%	NF										
Other current liabilities	5.45%	7.54%	8.44%	8.73%	11.50%	10.11%	10.11%	10.11%	10.11%	10.11%	10.11%	10.11%	10.11%	10.11%	10.11%	10.11%
Total current liabilities	18.69%	20.02%	22.02%	22.14%	24.95%	23.55%	23.55%	23.55%	23.55%	23.55%	23.55%	23.55%	23.55%	23.55%	23.55%	23.55%
Long term debt, less current installments	17.17%	13.61%	10.83%	0.68%	0.42%	NF										
Deferred rent liabilities	1.28%	1.12%	4.61%	4.86%	5.89%	5.38%	5.38%	5.38%	5.38%	5.38%	5.38%	5.38%	5.38%	5.38%	5.38%	5.38%
Other long term liabilities	0.40%	0.19%	0.10%	0.03%	0.00%	NF										
Deferred income taxes	0.00%	0.21%	0.00%	0.00%	0.00%	NF										
Total non-current liabilities	18.85%	15.13%	15.54%	5.57%	6.32%	10.30%	10.30%	10.30%	10.30%	10.30%	10.30%	10.30%	10.30%	10.30%	10.30%	10.30%
Total liabilities	37.54%	35.15%	37.57%	27.72%	31.27%	33.85%	33.85%	33.85%	33.85%	33.85%	33.85%	33.85%	33.85%	33.85%	33.85%	33.85%
Shareholders Equity																
Common stock	36.25%	35.37%	35.18%	46.31%	56.19%	51.25%	51.25%	51.25%	51.25%	51.25%	51.25%	51.25%	51.25%	51.25%	51.25%	51.25%
Common stock in treasury, at cost	0.00%	0.00%	0.00%	0.00%	0.00%	NF										
Accumulated other comprehensive income	-0.04%	0.14%	0.13%	0.23%	0.34%	NF										
Retained earnings	26.25%	29.35%	27.12%	25.74%	17.10%	21.42%	21.69%	26.85%	32.07%	37.37%	42.53%	47.52%	52.36%	57.05%	61.59%	65.98%
Total shareholders equity	62.46%	64.85%	62.43%	72.28%	68.73%	66.15%	66.15%	66.15%	66.15%	66.15%	66.15%	66.15%	66.15%	66.15%	66.15%	66.15%
Total liabilities & shareholders	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Cash Flow

In forecasting operating cash flows, we chose the forecasting method we deemed most suitable for each line item. The net income came directly from the forecasted income statement. For 'depreciation and amortization', the historical value has been increasing in direct proportion with net income, for the obvious reason that for the more total sales, generally the more plant, property, and equipment, which will result in higher depreciation and amortization. To derive a healthy estimate, we averaged the last two years' values off the common sized cash flow statement. The result was 33.54%, which we used consistently through our forecast, implying no underlying growth. 'Loss on disposal of fixed assets' was calculated in the same manner, except we used a historical five-year average because the numbers have been more volatile. 'Trade accounts receivable' appeared to be independent of net income or net cash flow provided by operating activities as well. Usually a company wants to minimize its accounts receivable, regardless of its sales volume. This is also true with 'trade accounts payable' and 'accrued payroll, bonus, and other'. To calculate these values, we took the current year's value and subtracted it from last year's value. The resulting (increase) or decrease is our value. The same method was used for 'merchandise inventories'. Many of the line items in the statement of cash flows were unpredictable because of the volatility of the historical values.

STATEMENT OF CASH FLOWS

	ACTUAL CASH FLOWS						FORECASTING										
	2002/09/26	2003/09/26	2004/09/24	2005/09/24	2006/09/24	assume	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Cash flows from operating activities																	
Net income	\$84,491,000	\$103,687,000	\$129,512,000	\$136,351,000	\$203,828,000	US	\$215,568,609.84	\$233,869,968.93	\$251,010,846.41	\$266,902,697.80	\$283,756,815.81	\$301,675,221.64	\$320,725,121.95	\$340,977,967.26	\$362,509,720.01	\$385,401,139.42	
Adjustments to reconcile net income to net cash provided by operating activities:																	
Depreciation and amortization	\$85,869,000	\$97,986,000	\$115,157,000	\$133,759,000	\$156,223,000		\$166,406,752.01	\$180,174,016.18	\$192,993,404.77	\$204,802,484.98	\$217,300,556.63	\$230,561,323.10	\$244,631,327.84	\$259,559,954.62	\$275,399,600.85	\$292,205,861.49	
Loss on disposal of fixed assets	\$3,138,000	\$771,000	\$5,769,000	\$15,886,000	\$6,291,000		\$8,582,851.02	\$9,292,932.65	\$9,954,125.19	\$10,563,208.50	\$11,207,828.30	\$11,891,786.03	\$12,617,482.27	\$13,387,464.12	\$14,204,434.12	\$15,071,259.71	
Share-based compensation			\$0	\$19,135,000	\$9,432,000												
Deferred income tax expense (benefit)	\$10,018,000	\$5,712,000	(\$682,000)	(\$27,873,000)	(\$15,521,000)												
Tax benefit related to exercise of team member stock options	\$23,890,000	\$25,917,000	\$35,583,000	\$62,843,000	\$0												
Excess tax benefit related to exercise of team member stock options	\$0	\$0	\$0	\$0	(\$52,008,000)												
Interest accretion on long-term debt	\$7,048,000	\$7,339,000	\$7,551,000	\$4,120,000	\$460,000												
Deferred rent			\$11,109,000	\$16,080,000	\$26,607,000												
Other	\$4,011,000	\$10,102,000	(\$1,133,000)	\$1,317,000	\$693,000												
Net change in current assets and liabilities:																	
Trade accounts receivable	(\$6,115,000)	(\$15,209,000)	(\$19,158,000)	(\$2,027,000)	(\$17,720,000)		(\$5,150,183.10)	(\$7,221,496.09)	(\$6,724,296.38)	(\$6,194,348.09)	(\$6,555,752.43)	(\$6,955,817.22)	(\$7,380,295.96)	(\$7,830,678.52)	(\$8,308,545.68)	(\$8,815,574.68)	
Merchandise inventories	(\$3,096,000)	(\$17,714,000)	(\$27,868,000)	(\$21,486,000)	(\$32,200,000)		(\$17,874,219.09)	(\$18,333,646.24)	(\$17,071,375.45)	(\$15,725,963.88)	(\$16,643,482.79)	(\$17,659,151.33)	(\$18,736,801.04)	(\$19,880,214.32)	(\$21,093,404.40)	(\$22,380,629.40)	
Prepaid expenses and other current assets	\$194,000	(\$1,755,000)	(\$2,940,000)	(\$4,151,000)	(\$7,849,000)		(\$6,808,946.82)	(\$7,372,268.73)	(\$7,896,805.95)	(\$8,380,003.89)	(\$8,891,393.62)	(\$9,433,990.92)	(\$10,009,700.22)	(\$10,620,542.17)	(\$11,268,660.76)	(\$11,956,330.78)	
Trade accounts payable	\$5,859,000	\$13,005,000	\$12,515,000	\$12,597,000	\$18,509,000		10,345,360.44	11,002,435.37	10,189,027.06	9,386,020.00	9,933,639.91	10,539,840.29	11,183,034.04	11,865,478.69	12,589,569.53	13,357,848.01	
Accrued payroll, bonus and other benefits due team member	\$17,609,000	\$11,516,000	\$29,646,000	\$26,445,000	\$26,033,000		\$11,282,260	\$13,592,658	\$12,656,804	\$11,659,309	\$12,339,562	\$13,092,584	\$13,891,559	\$14,739,291	\$15,638,756	\$16,593,111	
Other accrued expenses	(\$3,381,000)	\$8,100,000	\$35,279,000	\$38,023,000	\$129,886,000												
Net cash provided by operating activities	\$229,145,000	\$279,457,000	\$330,340,000	\$410,819,000	\$452,664,000		\$496,210,595.52	\$537,263,390.98	\$575,489,703.15	\$610,703,362.77	\$647,971,535.48	\$687,513,998.43	\$729,469,540.19	\$773,985,418.88	\$821,217,879.06	\$871,332,700.13	
Cash flows from investing activities																	
Development costs of new store locations	(\$100,000,000)	(\$89,007,000)	(\$156,728,000)	(\$207,792,000)	(\$208,588,000)												
Other property, plant and equipment expenditures	(\$61,385,000)	(\$84,103,000)	(\$109,739,000)	(\$116,318,000)	(\$131,614,000)												
Proceeds from hurricane insurance			\$0	\$0	\$3,308,000												
Acquisition of intangible assets	(\$1,241,000)	(\$6,456,000)	\$0	(\$1,500,000)	(\$16,332,000)												
Change in notes receivable	\$0	\$0	(\$13,500,000)	\$13,500,000	\$0												
Purchase of available-for-sale securities	\$0	\$0	\$0	\$0	(\$555,095,000)												
Sale of available-for-sale securities	\$0	\$0	\$0	\$0	\$362,209,000												
Increase in restricted cash	\$0	\$0	(\$26,790,000)	(\$10,132,000)	(\$23,143,000)												
Payment for purchase of acquired entities, net of cash acquired	(\$35,978,000)	\$0	(\$18,873,000)	\$0	\$0												
Other investing activities	(\$4,753,000)	\$3,763,000	\$1,332,000	\$0	\$0												
Net cash used in investing activities	(\$203,357,000)	(\$175,803,000)	(\$324,298,000)	(\$322,242,000)	(\$569,255,000)		(\$56,242,465.50)	(\$52,370,174.04)	(\$48,242,830.09)	(\$51,057,519.82)	(\$54,173,304.97)	(\$57,479,230.91)	(\$60,986,900.97)	(\$64,708,626.61)	(\$68,657,470.54)		

COMMON SIZE STATEMENT CASH FLOWS

	ACTUAL CASH FLOWS						FORECASTING									
	2002/09/26	2003/09/26	2004/09/24	2005/09/24	2006/09/24	assume	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net income	36.87%	37.10%	39.21%	33.19%	45.03%		43.44%	43.53%	43.62%	43.70%	43.79%	43.88%	43.97%	44.05%	44.14%	44.23%
Adjustments to reconcile net income to net cash provided by operating activities:																
Depreciation and amortization	37.47%	35.06%	34.86%	32.56%	34.51%	33.54%	33.54%	33.54%	33.54%	33.54%	33.54%	33.54%	33.54%	33.54%	33.54%	33.54%
Loss on disposal of fixed assets	1.37%	0.28%	1.75%	3.87%	1.39%	1.73%	1.73%	1.73%	1.73%	1.73%	1.73%	1.73%	1.73%	1.73%	1.73%	1.73%
Share-based compensation	0.00%	0.00%	0.00%	4.66%	2.08%	NF										
Deferred income tax expense (benefit)	4.37%	2.04%	-0.21%	-6.78%	-3.43%	NF										
Tax benefit related to exercise of team member stock options	10.43%	9.27%	10.77%	15.25%	0.00%	NF										
Excess tax benefit related to exercise of team member stock options	0.00%	0.00%	0.00%	0.00%	-11.49%	NF										
Interest accretion on long-term debt	3.08%	2.63%	2.29%	1.00%	0.10%	NF										
Deferred rent	0.00%	0.00%	3.36%	3.91%	5.88%	NF										
Other	1.75%	3.61%	-0.34%	0.32%	0.15%	NF										
Net change in current assets and liabilities:																
Trade accounts receivable	-2.67%	-5.44%	-5.80%	-0.49%	-3.91%		-1.04%	-1.34%	-1.17%	-1.01%	-1.01%	-1.01%	-1.01%	-1.01%	-1.01%	-1.01%
Merchandise inventories	-1.35%	-6.34%	-8.44%	-5.23%	-7.11%		-3.60%	-3.41%	-2.97%	-2.58%	-2.57%	-2.57%	-2.57%	-2.57%	-2.57%	-2.57%
Prepaid expenses and other current assets	0.08%	-0.63%	-0.89%	-1.01%	-1.73%	-1.37%	-1.37%	-1.37%	-1.37%	-1.37%	-1.37%	-1.37%	-1.37%	-1.37%	-1.37%	-1.37%
Trade accounts payable	2.56%	4.65%	3.79%	3.07%	4.09%		2.08%	2.05%	1.77%	1.54%	1.53%	1.53%	1.53%	1.53%	1.53%	1.53%
Accrued payroll, bonus and other benefits due team member	7.68%	4.12%	8.97%	6.44%	5.75%		2.27%	2.53%	2.20%	1.91%	1.90%	1.90%	1.90%	1.90%	1.90%	1.90%
Other accrued expenses	-1.48%	13.63%	10.68%	9.26%	28.69%	NF										
Net cash provided by operating	100.00%	100.00%	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Ratio Analysis

When forecasting the ratio analysis all we did was take each formula and plug in the numbers that we forecasted from the Balance Sheet, Income Statement, and Statement of Cash Flows. We were unable to forecast Times interest earned and debt service margin because we were unable to forecast those line items on the previous statements. For the most part, the numbers we calculated fell into the average of the industry.

RATIO ANALYSIS							FORECASTING									
							2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Liquidity Analysis		2002	2003	2004	2005	2006	Average									
Current Ratio		0.98	1.52	1.45	1.61	1.22	1.45	1.269622	1.269622	1.269622	1.269622	1.269622	1.269622	1.269622	1.269622	1.269622
Quick Asset Ratio		0.25	0.88	0.78	0.9	0.55	0.67									
Inventory Turnover		24.87	16.71	16.51	17.46	17.91	17.29	18	18	18	18	18	18	18	18	18
Days Supply of Inventory		14.68	21.84	22.11	20.91	20.39	19.99	20.28	20.28	20.28	20.28	20.28	20.28	20.28	20.28	20.28
Receivables Turnover		87.1	68.53	59.49	70.5	68.27	70.78									
Days Sales Outstanding		4.19	5.33	6.14	5.18	5.35	5.24									
Working Capital Turnover		-647.22	25.9	25.57	18.5	49.1	-105.63									
Profitability Analysis																
Gross Profit Margin		0.35	0.34	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Operating Expense Ratio		0.04	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Net Profit Margin		0.03	0.03	0.03	0.03	0.04	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Asset Turnover		2.85	2.59	2.54	2.49	2.74	2.64	2.64	2.64	2.64	2.64	2.64	2.64	2.64	2.64	2.64
Return on Assets		0.09	0.08	0.09	0.07	0.1	0.09									
Return on Equity		0.14	0.13	0.14	0.1	0.15	0.13									
Capital Structure Analysis																
Debt to Equity Ratio		0.63	0.56	0.6	0.38	0.45	0.52	0.45	0.4	0.36	0.32	0.28	0.22	0.17	0.12	0.08
Times Interest Earned																
Debt Service Margin		3.84	3.84	3.64	3.98	3.71	3.80									

REGRESSION & WACC

Cost of Capital

In order to find the cost of capital, we used the CAPM formula, which stands for Capital Asset Pricing Model. To calculate the cost of capital, we had to find several variables that are included in the formula, including cost of equity(K_e), cost of debt(K_d), Beta(B), and the risk free rate(R_f), and the market risk premium(MRP). The cost of capital is important to calculate because it stands as a discount rate when finding abnormal operating ROA and abnormal ROE. It will also be used in some of the valuation models, such as Discounted Free Cash Flow Valuation, in order to value the company.

Cost of Equity

We were able to come up with a reasonable beta that had the highest adjusted r squared from the regression series. We chose to analyze the 10 year, 7 year, 5 year, 1 year, and 3 month regression series because these had the most variation in numbers. The other regression series we ran were too close in numbers to differentiate. The beta that we used in the formula, .9663, came from the 3 month regression series, with a 15.01% adjusted r squared. We assumed an MRP of 6.84% by subtracting the most recent S&P500 market return rate of 1% from the most recent risk free rate from the 3 month treasury series of 5.16%. We then multiplied that number by 12, then by 100, to change it to an annual percentage. Once these three numbers were found, we were able to calculate cost of equity(K_e):

$$K_e = R_f + (B * MRP)$$

$$K_e = .0516 + (.9663 * .0684)$$

$$K_e = 0.11770$$

$$K_e = 11.77\%$$

The Cost of Equity variations in the 3 Month Regression are shown below:

3 Month Regression			
	Beta	R Squared	Ke
72 Month	0.966305928	0.15008045	0.11770
60 Month	0.83026985	0.10527237	0.10839
48 Month	0.941314759	0.04211028	0.11599
36 Month	1.524353616	0.08240253	0.15587
24 Month	0.706268241	-0.0243276	0.09991

Assume Market Risk Premium 6.84%
Assume Risk Free Rate 5.16%

The cost of equity calculations, along with the beta and adjusted R squared, have an extreme variation in numbers. However, the numbers from the 72 Month were chosen because of the high adjusted R squared. The Nasdaq currently shows a beta measurement for Whole Foods of .79. We cannot rely on the market's measurement for beta because we don't where the numbers came from that brought about this certain number. However, we simply chose to use it as a comparison to the numbers we calculated.

Cost of Debt

In order to find the cost of debt(Kd), we took a weighted average of Whole Foods' current liabilities and long-term liabilities. As shown below, the weighted line items of the current liabilities and long-term liabilities come directly from the 10K. The weights of the line items were calculated as a percentage of total liabilities. After the weights were found, we multiplied those by the long-term fixed interest rate, 7.29%, found in the 10K and the most recent AA Nonfinancial Commercial Paper Rate, 5.20%, for the short-term liabilities. Once we added all of the weights together, we calculated a cost of debt of 5.62%.

Cost Of Debt			
	Weight	Interest Rate	Weighted Interest Rate
Current liabilities:			
Current installments of long term debt	0.0000767	7.29%	0.0000056
Trade accounts payable	0.1907434	5.20%	0.0099187
Accrued payroll, bonus and other benefits due	0.2395136	5.20%	0.0124547
Other current liabilities	0.3676120	5.20%	0.0191158
(Assume 5.20% (2 Month AA Nonfinancial Commercial Paper Rate) on Short Term Debt)			
Total Weighted Current Liabilities			0.0414948
Long term debt, less current installments	0.0134710	7.29%	0.0009820
Deferred rent liabilities	0.1884956	7.29%	0.0137413
Other long term liabilities	0.0000877	7.29%	0.0000064
(Assume 7.29% Interest (from 10K) on Long-Term Debt)			
Total Weighted Long-Term Liabilities			0.0147298
Cost of Debt			0.0562245

WACC Before Tax (**Weighted Average Cost of Capital**)

After finding the cost of equity and cost of debt, we were then able to calculate cost of capital. The other variables that are used in the WACC equation are the value of the firm(V_f), the value of debt(V_d), and the value of equity(V_e). We took V_e and V_d directly from the balance sheet on the 10K, using total liabilities and total equity. V_f was found by simply adding these two numbers together. We calculated WACC as follows:

WACC
Assume $K_e = 11.77\%$
Assume $K_d = 5.62\%$
$V_d = \$638,853$
$V_e = \$1,404,143$
$V_f = \$2,042,996$
$WACC(\text{Before Tax}) = V_d/V_f(K_d) + V_e/V_f(K_e)$
$WACC = (638,853/2,042,996) * (.0562) + (1,404,143/2,042,996) * (.1177)$
$WACC = (638,853/2,042,996)(.0562) + (1,404,143/2,042,996)(.1177)$
$WACC = .017574 + .080895$
$WACC = 9.85\%$

Intrinsic Valuation Methods

Dividend Discount Model

The dividend discount valuation model takes numerous factors into account which are based off of estimations about the future. We began calculating this model by taking our forecasted future dividends per share and multiplying them by a present value factor to get them into present value terms. From there we had to determine a dividend value and appropriate growth rate for our perpetuity. Because Whole Foods began paying dividends in 2004 and has kept them fairly constant around 45 cents per share, we chose to use this value for our perpetuity and not increase its growth. When viewing our dividend discount model on the spreadsheet, one will see that the dividend per share for 2006 is \$2.57. This large dividend value is due to the fact that Whole Foods paid a one-time special dividend in that year which we do not expect to occur again. Once we determined the value for our perpetuity, we discounted it at our calculated cost of equity (11.77%) and added to it the total present value of forecasted future dividends. This gave us our estimated value per share of \$3.20. Whole Foods actual price per share is \$45.14. Judging from this model alone, we have found Whole Foods to be extremely over-valued. Due to the fact that this model is derived from dividends alone, it is a rather poor and unreliable valuation method to use and will be treated as so.

Sensitivity Analysis

		g			
		0	0.01	0.03	0.05
Ke	0.09	\$5.00	\$5.26	\$6.06	\$ 7.64
	0.10	\$4.50	\$4.69	\$5.24	\$ 6.23
	0.1177	\$3.82	\$3.94	\$4.25	\$ 4.75
	0.13	\$3.46	\$3.55	\$3.77	\$ 4.10
	0.15	\$3.00	\$3.05	\$3.19	\$ 3.37

We have conducted a sensitivity analysis to show different values of the firm using different cost of equity and growth inputs. Because these inputs are

estimations and are subject to error, having a sensitivity analysis provides us with a view of the firm featuring slightly different rates. From the sensitivity chart above it is obvious that a cost of equity lower than .09 coupled with a growth rate larger than .05 would be required to obtain Whole Food's observed share price of \$45.15. This chart again represents Whole Foods as being extremely over-valued.

Abnormal Earnings Growth

To begin the Abnormal Earnings Growth (AEG) valuation, we forecasted Net Income and Total Dividends. Both of these forecasted numbers were found by assuming equal shares outstanding through the forecasted years. Then, the DRIP was found by multiplying the previous year's Total Dividends by the Cost of Equity (K_e), 11.77%. Cumulated-Dividend Earnings was found by adding the Net Income and the DRIP. Then, we found Normal Earnings by multiplying the previous year's Net Income by $(1 + K_e)$, 1.1177. Finally AEG is found by subtracting the Cum-Div Earnings from the Normal Earnings. Each AEG calculation is then brought back to present value, 2007, by multiplying them by the corresponding Present Value Factor.

After these calculations are found, we could then begin to measure the perpetuity and, eventually, the intrinsic value per share. We chose to use an AEG perpetuity of \$0.00. By choosing a number higher than zero as perpetuity, we would assume that the company would always outperform their cost of equity, which is not realistic. Although the company has primarily positive AEG measures, this will not always be the case. The present value of the terminal value was found by dividing the continuing terminal value (perpetuity/ k_e -growth rate) by AEG of 2016. The Total Average EPS Perpetuity, \$2.42, was found by adding Core EPS, Total PV of AEG, and Total PV of Terminal Value. Finally Intrinsic Value Per Share is found by dividing Total Average EPS Perpetuity by

Ke. We found an Intrinsic Value per Share of \$23.85 using our original Ke, 11.77%, and a -10% growth rate. The negative growth rates, along with \$0.00 perpetuity, assume that the company's growth will not remain indefinite. By observing the sensitivity analysis, it is clear that the company is considerably overvalued. Most of the numbers are very similar, which means that this valuation method is a good indication of how the company is valued.

		Sensitivity Analysis			
		g			
		-0.1	-0.2	-0.3	-0.4
Ke	0.7000	\$49.07	\$45.22	\$43.45	\$42.43
	0.0900	\$34.79	\$32.76	\$31.64	\$31.03
	0.1000	\$30.03	\$28.42	\$27.62	\$27.13
	0.1100	\$26.26	\$25.01	\$24.38	\$23.99
	0.1177	\$23.85	\$22.83	\$22.29	\$21.96

Overvalue \$40.51 Undervalu \$49.51

Free Cash Flow Analysis

The Free Cash Flow Valuation, unlike the other valuation models, uses WACC for its discount rate. We estimated Whole Foods' WACC to be 9.85%. Once we got WACC, we calculated the growth rate we were going to use for this model. Since we have a declining growth rate, we used the growth rate from years 2005-2006. Once we calculated both our WACC and our growth rate, in order to get free cash flow, we took our Cash Flow from investing activities from our Cash Flow from Operations. In the free cash flow model, we use our WACC as our beginning discount rate. Once we have our beginning discount rate we plug it in the formula $1/(1+WACC)^t$. We used the previous year's free cash flow for our perpetuity. The reason we found the perpetuity was because it allows us to find our continuing value assuming no growth. In order to find our present values of free cash flows we took our discount rates times our free cash flows. We did this for each year through the year 2016. We retrieved our book value of debt from yahoo finance. In order to find the overall value of our firm we added our present value of our continuing value to our Total present value of annual cash

flow. Finding these numbers enabled us to find the total present value of annual cash flows. Once we found these numbers, we were able to find the overall value of equity for 2006 which was about \$15 million dollars. Finding all of these numbers allowed us to find all the present values of our firm, which helps us to value the overall value of the firm. We took our value of equity divided by the number of shares outstanding which gave us an estimated value per share of \$105.00.

SENSITIVITY ANALYSIS						
		GROWTH				
		0.04	0.05	0.0631	0.07	0.08
	0.08	\$96.11	\$118.93	\$189.68	\$301.48	N/A
WACC	0.09	\$82.48	\$96.11	\$129.45	\$164.57	\$301.48
	0.0985	\$74.46	\$84.11	\$105.00	\$123.71	\$175.67
	0.11	\$66.77	\$73.29	\$86.04	\$96.11	\$118.93
	0.12	\$61.88	\$66.77	\$75.78	\$82.42	\$96.11

As previously state, the discounted free cash flow model gave us an estimated value of \$105.00. Our actual price per share is \$45.14. Our sensitivity analysis shows that our company is extremely undervalued. It is likely that the reason this is happening is because our company is not very stable since it is somewhat of a new, growing company. Due to the huge differences in our actual price per share and our estimated price per share, we do not believe that using the discounted free cash flow is a good method of valuing our company.

Residual Income

Residual Income	
Book Value of Equity 2006, per share	9.99
Total PV of Residual Income (end 2006)	1.5
Continual Terminal Value	-0.34
PV of Terminal Value (end 2006)	0.003
Published Beta – value 2007 per share	11.49
Estimated Beta – value 2007 per share	11.81

The Residual Income model for WFM requires forecasting of earnings per share ten years into the future. This relies on many assumptions and consistencies in the WFM business model, which leads to an inaccurate determination of stock price. Book value of the prior year is multiplied by K_e and deducted from the forecasted earnings per share. A terminal value perpetuity is also taken consideration in the value components used in residual income. The PV of WFM's residual income for the next ten years is 1.5. The terminal value is -.34, suggesting a decrease in stock value. The difference in estimates based on a published beta and estimated beta are minimal, implying that Beta is properly estimated. Therefore, growth factors and K_e contribute to the error in forecasting proper stock prices and book values.

Sensitivity Analysis

	Ke				
g	0.08	0.1	0.1177	0.13	0.15
0.01	17.875	13.746	11.815	10.864	9.628
0.02	17.87	13.744	11.815	10.865	9.63
0.04	17.862	13.741	11.815	10.867	9.634
0.06	17.854	13.738	11.816	10.869	9.64
0.07	17.85	13.736	11.816	10.87	9.64

The sensitivity analysis reveals that the change in growth rate has little effect on changing the valuation of WFM. The table below demonstrates that the model is not sensitive to changes in growth. Also, the market price is unattainable with our current K_e .

Long-run Residual Income Perpetuity

The next model we utilized to estimate the intrinsic value of Whole Foods is the long-run residual income perpetuity. We began this model by forecasting the ROE values along with the growth in the book value of equity from 2007 to 2016. At this point it is important to acknowledge the fact that our ROE forecasts are decreasing over time. Realistically, there should be an opposite occurrence. In reality, our dividend payout should be higher because as our earnings continue

to increase our dividends paid should as well. However we cannot accurately forecast out Whole Food's future dividends paid due to their volatility coupled with the fact that they have only recently begun paying dividends. Forecasting un-forecastable numbers just adds noise to our valuation and is therefore misleading. A large amount of our net income is going into retained earnings because of our non-growing dividend. This causes owners equity to increase at a rate disproportional to our growth of net income. Due to the discrepancy, we have selected an implied long run ROE of 13% because this number is hovering just around the average ROE from 2007 to 2016. In order to calculate the long-run residual income perpetuity value we used the following formula:

$$\text{LRResInc. Perp.} = \text{BPS} * (1 + (\text{ROE} - \text{Ke}) / (\text{Ke} - g))$$

By entering the proper numbers into the formula we calculated a long-run perpetuity value of \$19.76, suggesting Whole Foods to be over-valued. Because of the fact that estimated numbers are being utilized to calculate this value, and those estimations are subject to error, we have conducted a sensitivity analysis.

		g					
		9.00%	11.00%	13.00%	15.00%	17.00%	
Ke	0.08	6.13	NA	NA	NA	NA	
	0.1	30.2	NA	NA	NA	NA	
	0.1177	NA	3.98	20.32	36.65	52.98	
	0.14	NA	1.44	7.36	13.28	19.2	
	0.16	NA	0.92	4.7	8.48	12.26	

In analyzing the results of the sensitivity analysis, it is evident that by increasing the growth by one or two percent and keeping the cost of equity the same, Whole Foods would be closer to being fairly valued or even under-valued.

Method of Comparables

The method of comparables valuation model is very simplistic and easy to understand. It takes the industry average of an informative ratio, which is derived from current financial data of similar companies, and compares it directly

to the ratios of the company to be valued. The main benefit of this method of valuation is the short time and ease with which it takes to complete. However, it lacks depth in that it is essentially a snap shot of the industry. As the valuation only goes one year back, it is possible to include numbers not ordinarily seen by companies. Although outliers are omitted from the industry average, it is not the most reliable method of valuation. However, it is quick to implement and does provide empirical evidence to support the final valuation of a company.

When applying the method of comparables to Whole Foods, we used 10 different methods. Included are price to earnings (forward looking), price to earnings (trailing), price to book, price to sales, dividends to price, price to earnings to earnings growth rate, price to earnings before interest and taxes, price to earnings before interest, taxes, depreciation, and amortization, price to free cash flows, and enterprise value to earnings before interest, taxes, depreciation, and amortization. All of the valuations are on a per share basis.

<u>Method of Comparable</u>	<u>Intrinsic Value (per share)</u>
Market Price	\$45.14
P/E (forward)	\$7.55
P/E (trailing)	\$20.02
P/B	\$39.74
P/S	\$5.47
D/P	\$0.34
P.E.G.	\$26.24
P/EBIT	\$26.05
P/EBITDA	\$21.90
P/FCF	\$30.96
EV/EBITDA	\$25.98

Price to Earnings (Forward)

WFMI	118.09 (outlier)	Industry Avg. = 19.73
OATS	N/A	WFMI EPS_{FWD} = 0.382
RDK	20.44	
KR	19.02	Intrinsic Value = \$7.55

From this method of comparables, Whole Foods is greatly overvalued. With a market price of \$45.14, the estimated share price of \$7.55 falls extremely short. Wild Oats was omitted from the industry average calculation due to a negative net income in 2006. Whole Foods is the apparent outlier, with a P/E ratio near six times the industry average. This is the result of a large number of shares outstanding relative to net income.

Price to Earnings (Trailing)

WFMI	158.34 (outlier)	Industry Avg. = 22.11
OATS	166.44 (outlier)	WFMI EPS_{TR} = 0.285
RDK	21.52	
KR	22.70	Intrinsic Value = \$6.30

From these calculations, Whole Foods is again overvalued. There can be debate as to who the outliers are, but given the fact that Whole Foods is not considered in the industry average, we felt that considering Ruddick and Kroger the outliers would only leave us with Wild Oats for an industry average. Furthermore, given the volatile nature and poor overall performance of Wild Oats in comparison to the proven profitability and stability of established companies Ruddick and Kroger, we felt our decision was justified.

Price to Book

WFMI	4.37	Industry Avg. = 3.84
OATS	5.01	WFMI BPS = 10.34
RDK	2.21	
KR	4.31	Intrinsic Value = \$39.74

The price to book method of comparable valuation proved to be the closest to the observed market value. However, Whole Foods is again overvalued based on this intrinsic valuation technique. Although RDK's P/B ratio is somewhat skewed due to a high book value per share, we decided to include it in the industry average as it is not too far from the norm.

Price to Sales

WFMI	3.39 (outlier)	Industry Avg. = 0.41
OATS	0.46	WFMI SPS = 13.31
RDK	0.45	
KR	0.32	Intrinsic Value = \$5.47

The price to sales comparable is not the best method to use when valuing a company. The capital structure of each company is different, and with Whole Foods having a large number of shares outstanding relative to the overall size of the company, Whole Foods becomes an outlier. Furthermore, the amount of sales is not nearly as important as much more relevant line items, such as net income. Sales volume is the starting line item in the income statement, so it is a key driver of a company's success. However, a company can sell as much product as possible, but without an effective business plan, the sales dollars may

not make it down to the bottom of the income statement. Once again, Whole Foods is severely overvalued.

Dividends to Price

WFMI	0.054	Industry Avg. = 0.008
OATS	0.000	WFMI PPS = 45.14
RDK	0.014	
KR	0.009	Intrinsic Value = \$0.34

Dividends to Price yielded a poor evaluation overall. The lack of dividends paid by Wild Oats did not help the industry average, and in turn the intrinsic value. Whole Foods has a high D/P ratio due to special dividends declared in 2006. This model seems to be flawed as dividends to price will undoubtedly be less than one. In using this ratio to derive an intrinsic value, the stock must be overvalued. Furthermore, many companies do not pay dividends regularly. Thus, the D/P average will include numbers not normally experienced by the industry. This method made Whole Foods look severely overvalued.

Price Earnings Growth

WFMI	3.76	Industry Avg. = 1.97
OATS	N/A	WFMI SPS = 13.31
RDK	2.89	
KR	1.05	Intrinsic Value = \$26.24

Although this method generated a value closer to the market price than many of the others, it is still a poor valuation model. A negative net income by Wild Oats in 2006 yielded their numbers useless. An industry average including only two

numbers, especially when the two numbers are not similar to one another, jeopardizes the validity of this valuation. Whole Foods is once again overvalued.

Price to Earnings before Interest and Taxes

WFMI	18.68	Industry Avg.= 10.78
OATS	N/A	WFMI EBIT =2.42
RDK	12.08	
KR	9.48	Intrinsic Value = \$26.05

This method came close to the observed market price of \$45.14 when compared to all the other methods of comparables. Wild Oats again plagued the valuation by not being included in the industry average due to a negative net income in 2006. Whole Foods is again overvalued.

Price to Earnings before Interest, Taxes, Depreciation, and Amortization

WFMI	18.68	Industry Avg.= 9.06
OATS	N/A	WFMI EBITDA=2.42
RDK	12.08	
KR	6.05	Intrinsic Value = \$21.90

The only difference between this model and the previous one is the inclusion of depreciation and amortization. However, GoogleFinance reported that only Kroger had depreciation and amortization on their balance sheet. This is most likely due to the use of operational leases when capital leases are more appropriate. However, Whole Foods is still overvalued. If capital leases were used, Whole Foods would just be more overvalued.

Price to Free Cash Flows

WFMI	153.54	Industry Avg. = 105.31
OATS	105.31	WFMI FCF = 0.29
RDK	N/A	
KR	N/A	Intrinsic Value = \$30.96

Although this intrinsic valuation comes close to the observed market price, it is not a good valuation. The free cash flows of Ruddick and Kroger were negative, rendering Wild Oats the industry average. Free cash flow, which equals cash flow from operations, plus cash flow from investing activities, plus/minus cash flow from financing activities, is a very important number. One would expect a failing company like Wild Oats to have a negative free cash flow, not established companies like Ruddick and Kroger. While Ruddick and Kroger have positive cash flows from operation, their free cash flows from financing activities negate all of it. Whole Foods is again overvalued.

Enterprise Value to Earnings before Interest, Taxes, Depreciation, and Amortization

WFMI	18.64	Industry Avg. = 10.75
OATS	N/A	WFMI EBITDA = 2.42
RDK	13.70	
KR	7.80	Intrinsic Value = \$25.98

Whole Foods is overvalued once again. Enterprise Value, which equals the market value of equity, plus long-term debt, plus preferred stock, minus cash equivalents, is a good measure as to how much the company is actually worth. This method is often used to discover the 'payback period' on an investment.

Whole Foods has a large amount of equity, pushing their ratio up. Whole Foods is overvalued judging by this method of comparables.

Conclusion

Judging from this valuation system, Whole Foods is overvalued. Although the method of comparables valuation technique is not the most reliable, when every method yields Whole Foods to be overvalued, it is convincing evidence against Whole Foods. Once again, although not the best valuation system, the overwhelming consensus that Whole Foods is overvalued will be taken into consideration.

Altman Z-Score

The Altman Z-Score is the sum of five different financial ratios, all differently weighted, to assess the financial health of a company. The Altman Z-Score can highly predict the chance of a company entering bankruptcy. If the score is above 3.0, the risk of bankruptcy is unlikely. Below 1.8 is very unfavorable, with bankruptcy likely in two years or less. Between 1.8 and 3.0 is a gray area. This formula, developed by a famous financial economist, has a 72%-80% reliability of forecasting bankruptcy and is widely used by bankers.

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
3.765	3.557	3.572	3.498	3.655

Whole Foods' Z-Score is highly desirable. These high outputs are accredited to a high sales to asset ratio. This is somewhat manipulated considering Whole Foods uses operational leases, which understates their total assets. However, Whole Foods has a high Z-Score regardless. Whole Foods is in good financial health judging from the highly regarded Altman Z-Score.

A high Altman Z-Score lays way for many financial benefits. Mainly, Whole Foods will be loaned money at a considerably lower interest rate, due to

their apparent low-risk of defaulting on the loan. However, Whole Foods is not a company that utilizes its borrowing powers. Whole Foods has little debt and a large amount of equity on the balance sheet, as compared to its competitors.

Overall Conclusions:

After extensive analysis of Whole Foods, we have come to find out that Whole Foods is overvalued. Out of the five models we have used (Long Run Perpetuity, Residual Income, Dividend Discount, Free Cash Flow, and Abnormal Earnings Growth), all but one showed that the company was extremely overvalued. The dividend discount model showed the lowest cost of \$3.20 and the Free Cash Flow Model showed a stock price of \$105.00. The distortions in our valuations could come from a variety of different things. It is likely that the largest distortions come from using operating leases rather than capital leases. Other problems could be because of aggressively forecasting out Whole Foods' future.

Our Z-score shows that we are in great standing not only in our industry, but also within our company. Whole Foods has a Z-score of 3.65, which proves that we are not likely to go bankrupt. Overall, although overvalued, Whole Foods seems to be in a great standing in their industry and shows to only have room to grow in the oncoming years.

APPENDIX #1- SCREENING RATIOS

WHOLE FOODS	2001	2002	2003	2004	2005	2006
Sales Manipulation Diagnostics						
net sales/cash from sales	1.00	1.00	1.00	1.00	1.00	1.00
net sales/net accounts receivable	91.40	87.10	68.53	59.49	70.50	68.27
net sales/inventory	23.04	24.87	25.41	25.28	26.89	27.52
Core Expense Manipulation Diagnostics						
sales/assets	2.74	2.85	2.59	2.54	2.49	2.74
CFFO/OI	1.55	1.54	1.59	1.52	1.79	1.42
CFFO/NOA	0.27	0.30	0.33	0.32	0.33	0.31
WILD OATS						
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	
Sales Manipulation Diagnostics						
net sales/cash from sales	1.00	1.00	1.00	1.00	1.00	
net sales/net accounts receivable	307.36	364.16	240.02	271.55	280.57	
net sales/inventory	16.52	19.48	20.79	19.07	17.82	
Core Expense Manipulation Diagnostics						
sales/assets	2.27	2.54	2.60	2.58	2.68	
CFFO/OI	-0.43	1.85	5.92	-1.86	2.96	
CFFO/NOA	0.14	0.21	0.23	0.07	0.13	

APPENDIX #2-CORE FINANCIAL RATIOS

		2002	2003	2004	2005	2006			2002	2003	2004	2005	2006
Liquidity Analysis							Profitability Analysis						
Current Ratio	Whole Foods	0.98	1.52	1.45	1.61	1.22	Gross Profit Margin	Whole Foods	35.00%	34.00%	35.00%	35.00%	35.00%
<u>current assets</u>	Wild Oats	0.71	0.66	0.81	0.92	0.92	<u>gross profit</u>	Wild Oats	30.00%	29.00%	28.00%	29.00%	30.02%
<u>current liabilities</u>	Ruddick	1.64	1.58	1.73	1.46	1.3	<u>sales</u>	Ruddick	29.00%	29.00%	29.00%	29.00%	30.00%
	Kroger	0.99	1.01	1.01	0.96			Kroger	26.95%	26.31%	25.33%	24.75%	
	Industry Av	1.08	1.19	1.25	1.24	1.15		Industry Av	30.24%	29.58%	29.33%	29.44%	31.67%
Quick Asset Ratio	Whole Foods	0.25	0.88	0.78	0.90	0.55	Operating Expense Rat	Whole Foods	0.04	0.03	0.03	0.03	0.03
<u>cash+securities+A/R</u>	Wild Oats	0.15	0.18	0.35	0.40	0.41	<u>operating expenses</u>	Wild Oats	0.06	0.07	0.06	0.06	0.05
<u>current liabilities</u>	Ruddick	0.55	0.67	0.45	0.48	0.36	<u>sales</u>	Ruddick	0.25	0.25	0.25	0.25	0.26
	Kroger	0.15	0.15	0.21	0.21			Kroger	0.19	0.19	0.19	0.18	
	Industry Av	0.28	0.47	0.45	0.50	0.44		Industry Av	0.13	0.14	0.13	0.13	0.11
Inventory Turnover	Whole Foods	24.87	16.71	16.51	17.46	17.91	Operating Profit Margi	Whole Foods	5.69%	4.89%	5.61%	5.32%	5.24%
<u>cost of goods sold</u>	Wild Oats	13.65	14.66	13.67	12.63	12.22	<u>operating income</u>	Wild Oats	2.16%	0.81%	-0.85%	0.94%	-0.95%
<u>inventory</u>	Ruddick	8.41	9.1	8.82	8.48	8.63	<u>sales</u>	Ruddick	3.55%	3.75%	3.92%	3.89%	3.77%
	Kroger	8.47	8.82	8.91	9.33			Kroger	4.97%	2.50%	1.49%	3.36%	
	Industry Av	13.85	12.32	11.98	11.97	12.92		Industry Av	3.80%	2.98%	2.54%	3.38%	2.69%
Days Supply of Inventor	Whole Foods	14.68	21.84	22.11	20.91	20.39	Net Profit Margin	Whole Foods	3.00%	3.00%	3.00%	3.00%	4.00%
<u>365</u>	Wild Oats	26.75	24.90	26.70	28.90	29.87	<u>net income</u>	Wild Oats	1.00%	0.00%	-4.00%	0.00%	-1.40%
<u>inventory turnover</u>	Ruddick	43.38	40.13	41.40	43.03	42.28	<u>sales</u>	Ruddick	2.00%	2.00%	2.00%	2.00%	2.00%
	Kroger	43.10	41.37	40.96	39.14			Kroger	2.33%	0.53%	-0.18%	1.58%	
	Industry Av	31.98	32.06	32.79	32.99	30.85		Industry Av	2.08%	1.38%	0.20%	1.65%	1.53%
Receivables Turnover	Whole Foods	87.10	68.53	59.49	70.50	68.27	Asset Turnover	Whole Foods	2.85	2.59	2.54	2.49	2.74
<u>sales</u>	Wild Oats	364.16	240.02	271.55	280.57	156.05	<u>sales</u>	Wild Oats	2.54	2.60	2.58	2.68	2.65
<u>accounts receivable</u>	Ruddick	39.36	41.40	40.98	37.92	36.87	<u>total assets</u>	Ruddick	2.55	2.55	2.58	2.46	2.40
	Kroger	76.45	79.81	85.38	89.05			Kroger	2.57	2.67	2.75	2.96	
	Industry Av	141.77	107.44	114.35	119.51	87.06		Industry Av	2.63	2.60	2.61	2.65	2.60
Days Sales Outstanding	Whole Foods	4.19	5.33	6.14	5.18	5.35	Return on Assets	Whole Foods	0.10	0.10	0.11	0.09	0.11
<u>365</u>	Wild Oats	1.00	1.52	1.34	1.30	2.34	<u>net income</u>	Wild Oats	0.01	0.00	-0.11	0.01	-0.04
<u>receivables turnover</u>	Ruddick	9.27	8.82	8.91	9.63	9.90	<u>total assets</u>	Ruddick	0.06	0.06	0.06	0.06	0.06
	Kroger	4.77	4.57	4.28	4.10		(of previous year)	Kroger	0.06	0.01	-0.01	0.05	
	Industry Av	4.81	5.06	5.17	5.05	5.86		Industry Av	0.06	0.04	0.01	0.05	0.04
Working Capital Turnover	Whole Foods	-647.22	25.90	25.57	18.50	49.10	Return on Equity	Whole Foods	0.21	0.18	0.17	0.14	0.15
<u>sales</u>	Wild Oats	-35.99	-27.26	-42.03	-106.02	-95.06	<u>net income</u>	Wild Oats	0.01	0.00	-0.11	0.01	-0.04
<u>working capital</u>	Ruddick	15.92	16.86	15.26	22.10	33.28	<u>owners' equity</u>	Ruddick	0.12	0.13	0.13	0.12	0.12
	Kroger	-1232.38	1630.03	794.85	-243.18		(of previous year)	Kroger	0.34	0.07	-0.03	0.26	
	Industry Av	-474.92	411.38	198.41	-77.15	-4.23		Industry Av	0.17	0.10	0.04	0.13	0.08
Capital Structure Analysis													
		2002	2003	2004	2005	2006							
Debt to Equity Ratio	Whole Foods	0.63	0.56	0.60	0.38	0.45							
<u>total liabilities</u>	Wild Oats	1.00	0.99	3.01	2.82	3.11							
<u>owners' equity</u>	Ruddick	1.27	1.15	1.02	0.98	1.03							
	Kroger	4.22	4.03	4.66	3.67								
	Industry Av	1.78	1.68	2.32	1.96	1.53							
Times Interest Earned	Whole Foods	13.78	21.32	30.78	107.67	10617							
<u>NIBIT</u>	Wild Oats	1.79	1.54	-1.71	1.60	-1.51							
<u>interest expense</u>	Ruddick	9.04	8.24	8.69	8.90	8.71							
	Kroger	4.16	2.22	1.51	3.99								
	Industry Av	7.19	8.33	9.82	30.54	3541.41							
Debt Service Margin	Whole Foods	38.91	48.54	56.90	68.78	76.31							
<u>operating cash flow</u>	Wild Oats	2.81	300.11	1185.50	77.63	52.75							
<u>current notes payable</u>	Ruddick	54.28	59.20	4.28	16.93	8.41							
(of previous year)	Kroger	7.30	6.29	9.40	30.87								
	Industry Av	25.83	103.54	314.02	48.55	45.82							
	Outlier: Kroger						Outlier: Whole Foods						
	Whole Foods	-647.22	25.90	25.57	18.50	49.10	Wild Oats	1.54	-1.71	1.60	-1.51		
	Wild Oats	-35.99	-27.26	-42.03	-106.02	-95.06	Ruddick	8.24	8.69	8.90	8.71		
	Ruddick	15.92	16.86	15.26	22.10	33.28	Kroger	2.22	1.51	3.99			
	Industry Av	-222.43	5.17	-0.40	-21.81	-4.23	Industry Av	4.00	2.83	4.83	3.60		
	Without Kroger and						Outlier: Wild Oats						
	Whole						Whole Foods	48.54	56.90	68.78	76.31		
	Foods						Ruddick	59.20	4.28	16.93	8.41		
	2002						Kroger	6.29	9.40	30.87			
	Whole Foods		25.90	25.57	18.50	49.10	Industry Av	38.01	23.53	38.86	42.36		
	Wild Oats		-35.99	-27.26	-42.03	-106.02							
	Ruddick		15.92	16.86	15.26	22.10							
	Industry Av		-10.04	5.17	-0.40	-21.81							

APPENDIX #3- COST OF CAPITAL

3 Month Regression 72 Month

Regression Statistics		
Multiple R	0.40255776	
R Square	0.162051153	
Adjusted R Square	0.150080455	15.01%
Standard Error	0.084797964	
Observations	72	

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.097342726	0.097343	13.53732	0.000455612
Residual	70	0.503348624	0.007191		
Total	71	0.60069135			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.026846003	0.00999389	2.686242	0.009018	0.006913818	0.04677819	0.006913818	0.046778188
X Variable 1	0.966305928	0.262632408	3.67931	0.000456	0.442502114	1.49010974	0.442502114	1.490109742

60 Month

Regression Statistics		
Multiple R	0.347040692	
R Square	0.120437242	
Adjusted R Square	0.105272366	10.53%
Standard Error	0.08059651	
Observations	60	

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.051588682	0.051589	7.941855	0.006595461
Residual	58	0.376756246	0.006496		
Total	59	0.428344928			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.016922881	0.010431501	1.622286	0.110166	-0.003958037	0.0378038	-0.003958037	0.037803799
X Variable 1	0.83026985	0.294617328	2.81813	0.006595	0.240529197	1.4200105	0.240529197	1.420010502

48 Month

Regression Statistics		
Multiple R	0.249981816	
R Square	0.062490908	
Adjusted R Square	0.042110276	4.21%
Standard Error	0.087735337	
Observations	48	

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.023601971	0.023602	3.066191	0.086602897
Residual	46	0.354084508	0.007697		
Total	47	0.377686479			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.012150105	0.013502952	0.899811	0.372907	-0.015029927	0.03933014	-0.015029927	0.039330136
X Variable 1	0.941314759	0.537570314	1.751054	0.086603	-0.140758142	2.02338766	-0.140758142	2.02338766

36 Month

Regression Statistics		
Multiple R	0.329574878	
R Square	0.1086196	
Adjusted R Square	0.08240253	8.24%
Standard Error	0.08950627	
Observations	36	

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.033191812	0.033192	4.143087	0.049658766
Residual	34	0.27238666	0.008011		
Total	35	0.305578472			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.009599903	0.015099251	0.635787	0.529172	-0.021085467	0.04028527	-0.021085467	0.040285272
X Variable 1	1.524353616	0.748899786	2.035457	0.049659	0.002406147	3.04630109	0.002406147	3.046301085

24 Month

Regression Statistics		
Multiple R	0.142156138	
R Square	0.020208368	
Adjusted R Square	-0.024327616	-2.43%
Standard Error	0.097148341	
Observations	24	

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.004282437	0.004282	0.453754	0.507573639
Residual	22	0.207631605	0.009438		
Total	23	0.211914042			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.00471083	0.020104851	0.234313	0.816909	-0.036984079	0.04640574	-0.036984079	0.046405739
X Variable 1	0.706268241	1.048478629	0.673612	0.507574	-1.468143339	2.88067982	-1.468143339	2.88067982

1 Year Regression

72 Month

Regression Statistics		
Multiple R	0.40204219	
R Square	0.16163792	
Adjusted R Square	0.14966132	14.97%
Standard Error	0.08481887	
Observations	72	

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.0970945	0.097095	13.49614	0.000464057
Residual	70	0.50359685	0.007194		
Total	71	0.60069135			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.02706477	0.00999603	2.707552	0.008511	0.007128319	0.0470012	0.007128319	0.047001226
X Variable 1	0.96502232	0.262683338	3.67371	0.000464	0.441116931	1.4889277	0.441116931	1.488927716

60 Month

Regression Statistics		
Multiple R	0.34574624	
R Square	0.11954047	
Adjusted R Square	0.10436013	10.44%
Standard Error	0.08063759	
Observations	60	

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.051204552	0.051205	7.874691	0.006814013
Residual	58	0.377140376	0.006502		
Total	59	0.428344928			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.01713461	0.010431889	1.642523	0.105893	-0.003747081	0.0380163	-0.00374708	0.03801631
X Variable 1	0.8266705	0.29458842	2.806188	0.006814	0.236987711	1.4163533	0.236987711	1.416353283

48 Month

Regression Statistics		
Multiple R	0.24790916	
R Square	0.06145895	
Adjusted R Square	0.04105589	4.11%
Standard Error	0.08778361	
Observations	48	

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.023212216	0.023212	3.012241	0.089333261
Residual	46	0.354474263	0.007706		
Total	47	0.377686479			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.01245307	0.013463998	0.924917	0.359836	-0.014648547	0.0395547	-0.01464855	0.039554697
X Variable 1	0.93237146	0.53721003	1.735581	0.089333	-0.148976228	2.0137191	-0.14897623	2.013719149

36 Month

Regression Statistics		
Multiple R	0.32694754	
R Square	0.10689469	
Adjusted R Square	0.08062689	8.06%
Standard Error	0.08959283	
Observations	36	

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.032664717	0.032665	4.069419	0.051616514
Residual	34	0.272913754	0.008027		
Total	35	0.305578472			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.01002711	0.01508522	0.664698	0.510727	-0.020629744	0.040684	-0.02062974	0.040683968
X Variable 1	1.51034014	0.748701263	2.01728	0.051617	-0.011203883	3.0318842	-0.01120388	3.031884163

24 Month

Regression Statistics		
Multiple R	0.13949227	
R Square	0.01945809	
Adjusted R Square	-0.025112	-2.51%
Standard Error	0.09718553	
Observations	24	

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.004123443	0.004123	0.436573	0.515641102
Residual	22	0.207790599	0.009445		
Total	23	0.211914042			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.00487085	0.020083854	0.242526	0.810619	-0.03678051	0.0465222	-0.03678051	0.046522217
X Variable 1	0.6918823	1.047137764	0.660737	0.515641	-1.479748501	2.8635131	-1.4797485	2.863513093

**5 Year Regression
72 Month**

Regression Statistics	
Multiple R	0.398419309
R Square	0.158737945
Adjusted R Square	0.146719916
Standard Error	0.084965442
Observations	72

14.60%

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.095352511	0.09535251	13.20832	0.000527805
Residual	70	0.505338839	0.00721913		
Total	71	0.60069135			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.027903458	0.010015388	2.78605859	0.00686	0.007928396	0.04787852	0.007928396	0.047878519
X Variable 1	0.955304905	0.262856221	3.63432488	0.000528	0.431054709	1.4795551	0.431054709	1.479555101

60 Month

Regression Statistics	
Multiple R	0.34149578
R Square	0.116619368
Adjusted R Square	0.101388667
Standard Error	0.080771241
Observations	60

10.14%

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.049953315	0.04995331	7.656862	0.007576844
Residual	58	0.378391613	0.00652399		
Total	59	0.428344928			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.017828116	0.010436391	1.70826446	0.092935	-0.00306259	0.03871882	-0.00306259	0.038718822
X Variable 1	0.815178638	0.294596369	2.76710348	0.007577	0.225479941	1.40487734	0.225479941	1.404877336

48 Month

Regression Statistics	
Multiple R	0.24195773
R Square	0.058543543
Adjusted R Square	0.038077098
Standard Error	0.087919847
Observations	48

3.81%

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.022111105	0.0221111	2.860465	0.097546628
Residual	46	0.355575374	0.0077299		
Total	47	0.377686479			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.013209789	0.013375229	0.98763083	0.3285	-0.013713151	0.04013273	-0.013713151	0.040132728
X Variable 1	0.914541143	0.540735585	1.69129084	0.097547	-0.173903119	2.00298541	-0.173903119	2.002985405

36 Month

Regression Statistics	
Multiple R	0.319824231
R Square	0.102287538
Adjusted R Square	0.075884231
Standard Error	0.089823618
Observations	36

7.59%

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.03125687	0.03125687	3.874043	0.057235933
Residual	34	0.274321602	0.00806828		
Total	35	0.305578472			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.010721619	0.015083762	0.71080539	0.482053	-0.019932273	0.04137551	-0.019932273	0.041375512
X Variable 1	1.47019618	0.746952688	1.96825877	0.057236	-0.047794311	2.98818667	-0.047794311	2.988186671

24 Month

Regression Statistics	
Multiple R	0.134552469
R Square	0.018104367
Adjusted R Square	-0.026527253
Standard Error	0.097252593
Observations	24

-2.65%

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.00383657	0.00383657	0.40564	0.530763017
Residual	22	0.208077472	0.00945807		
Total	23	0.211914042			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.004966684	0.020092229	0.24719426	0.80705	-0.036702048	0.04663542	-0.036702048	0.046635415
X Variable 1	0.664794601	1.043799627	0.63689868	0.530763	-1.499913324	2.82950253	-1.499913324	2.829502526

7 Year Regression

72 Month

Regression Statistics	
Multiple R	0.39790961
R Square	0.15833206
Adjusted R Square	0.14630823
Standard Error	0.08498594
Observations	72

14.63%

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.0951087	0.095109	13.16819	0.000537387
Residual	70	0.50558265	0.007223		
Total	71	0.60069135			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.02815214	0.010019453	2.809748	0.006423	0.008168972	0.048135312	0.008168972	0.048135312
X Variable 1	0.95405143	0.262910982	3.6288	0.000537	0.42969202	1.478410844	0.42969202	1.478410844

60 Month

Regression Statistics	
Multiple R	0.34084103
R Square	0.11617261
Adjusted R Square	0.1009342
Standard Error	0.08079166
Observations	60

10.09%

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.049761947	0.049762	7.623673	0.007700746
Residual	58	0.378582981	0.006527		
Total	59	0.428344928			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.01803751	0.010436207	1.728358	0.089245	-0.002852832	0.038927845	-0.00285283	0.038927845
X Variable 1	0.81354245	0.294644325	2.7611	0.007701	0.223747755	1.40333714	0.223747755	1.40333714

48 Month

Regression Statistics	
Multiple R	0.24119114
R Square	0.05817317
Adjusted R Square	0.03769867
Standard Error	0.08793714
Observations	48

3.77%

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.021971219	0.021971	2.84125	0.098645649
Residual	46	0.35571526	0.007733		
Total	47	0.377686479			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.0134134	0.013344329	1.005176	0.320071	-0.013447345	0.040274138	-0.01344734	0.040274138
X Variable 1	0.91325946	0.541800542	1.685601	0.098646	-0.17732845	2.003847368	-0.17732845	2.003847368

36 Month

Regression Statistics	
Multiple R	0.31870508
R Square	0.10157293
Adjusted R Square	0.0751486
Standard Error	0.08985936
Observations	36

7.51%

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.0310385	0.031038	3.843917	0.058161358
Residual	34	0.274539972	0.008075		
Total	35	0.305578472			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.0109281	0.015077999	0.724771	0.473551	-0.019714079	0.041570284	-0.01971408	0.041570284
X Variable 1	1.46354296	0.746480465	1.960591	0.058161	-0.053487859	2.980573775	-0.05348786	2.980573775

24 Month

Regression Statistics	
Multiple R	0.13401435
R Square	0.01795985
Adjusted R Square	-0.0266783
Standard Error	0.09725975
Observations	24

-2.67%

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.003805944	0.003806	0.402343	0.532422869
Residual	22	0.208108098	0.009459		
Total	23	0.211914042			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.00499711	0.020088257	0.248758	0.805856	-0.036663382	0.046657606	-0.03666338	0.046657606
X Variable 1	0.66174439	1.043259263	0.634305	0.532423	-1.501842886	2.825331673	-1.50184289	2.825331673

10 Year Regression

72 Month

Regression Statistics	
Multiple R	0.397706434
R Square	0.158170408
Adjusted R Square	0.146144271
Standard Error	0.084994097
Observations	72

14.60%

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.095011596	0.095011596	13.15222	0.000541251
Residual	70	0.505679754	0.007223996		
Total	71	0.60069135			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.028353338	0.010022094	2.829083064	0.006085	0.008364901	0.04834177	0.008364901	0.048341774
X Variable 1	0.953880041	0.263023298	3.626599047	0.000541	0.429296621	1.47846346	0.429296621	1.47846346

60 Month

Regression Statistics	
Multiple R	0.340270444
R Square	0.115783975
Adjusted R Square	0.100538871
Standard Error	0.080809423
Observations	60

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.049595478	0.049595478	7.59483	0.007810159
Residual	58	0.378749449	0.006530163		
Total	59	0.428344928			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.018220932	0.010436464	1.745891329	0.086125	-0.00266992	0.03911179	-0.00266992	0.039111785
X Variable 1	0.812350807	0.294770883	2.755871948	0.00781	0.222302782	1.40239883	0.222302782	1.402398832

48 Month

Regression Statistics	
Multiple R	0.24343989
R Square	0.05926298
Adjusted R Square	0.038357713
Standard Error	0.088283402
Observations	47

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.022094587	0.022094587	2.834835	0.099166005
Residual	45	0.350728159	0.007793959		
Total	46	0.372822746			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.01206269	0.013500531	0.893497434	0.376345	-0.015128775	0.03925416	-0.015128775	0.039254155
X Variable 1	0.917248773	0.544782637	1.683696782	0.099166	-0.179999766	2.01449731	-0.179999766	2.014497312

36 Month

Regression Statistics	
Multiple R	0.317414473
R Square	0.100751948
Adjusted R Square	0.074303476
Standard Error	0.08990041
Observations	36

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.030787626	0.030787626	3.809367	0.059243253
Residual	34	0.274790846	0.008082084		
Total	35	0.305578472			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.011147413	0.01507306	0.739558699	0.464644	-0.019484731	0.04177956	-0.019484731	0.041779556
X Variable 1	1.456252573	0.746122737	1.951760081	0.059243	-0.060051254	2.9725564	-0.060051254	2.9725564

24 Month

Regression Statistics	
Multiple R	0.116525562
R Square	0.013578207
Adjusted R Square	-0.035742883
Standard Error	0.101999476
Observations	22

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.002864215	0.002864215	0.275302	0.605564667
Residual	20	0.208077862	0.010403893		
Total	21	0.210942077			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.005477432	0.022646582	0.241865727	0.811347	-0.041762511	0.05271737	-0.041762511	0.052717375
X Variable 1	0.630650023	1.20194208	0.524692523	0.605565	-1.876557214	3.13785726	-1.876557214	3.137857259

CAPM & Beta			
3 Month Regression			
	Beta	R Squared	Ke
72 Month	0.966305928	0.150080455	0.11770
60 Month	0.83026985	0.105272366	0.10839
48 Month	0.941314759	0.042110276	0.11599
36 Month	1.524353616	0.08240253	0.15587
24 Month	0.706268241	-0.024327616	0.09991
Assume Market Risk Premium	6.84%		
Assume Risk Free Rate	5.16%		
1 Year Regression			
	Beta	R Squared	Ke
72 Month	0.965022323	0.149661318	0.11767
60 Month	0.826670497	0.104360128	0.10804
48 Month	0.932371461	0.041055887	0.11539
36 Month	1.51034014	0.080626891	0.15562
24 Month	0.691882296	-0.025111994	0.09866
Assume Market Risk Premium	6.96%		
Assume Risk Free Rate	5.05%		
5 Year Regression			
	Beta	R Squared	Ke
72 Month	0.955304905	0.146719916	0.11703
60 Month	0.815178638	0.101388667	0.10677
48 Month	0.914541143	0.038077098	0.11404
36 Month	1.47019618	0.075884231	0.15472
24 Month	0.664794601	-0.026527253	0.09576
Assume Market Risk Premium	7.32%		
Assume Risk Free Rate	4.71%		
7 Year Regression			
	Beta	R Squared	Ke
72 Month	0.954051432	0.146308234	0.11694
60 Month	0.813542448	0.100934204	0.10665
48 Month	0.913259459	0.037698672	0.11395
36 Month	1.463542958	0.075148602	0.15423
24 Month	0.661744394	-0.026678343	0.09554
Assume Market Risk Premium	7.32%		
Assume Risk Free Rate	4.71%		
10 Year Regression			
	Beta	R Squared	Ke
72 Month	0.953880041	0.146144271	0.11702
60 Month	0.812350807	0.100538871	0.10666
48 Month	0.917248773	0.038357713	0.11434
36 Month	1.456252573	0.074303476	0.15380
24 Month	0.630650023	-0.035742883	0.09336
Assume Market Risk Premium	7.32%		
Assume Risk Free Rate	4.72%		

APPENDIX #4- METHOD OF COMPARABLES

	<u>WFMI</u> <u>Whole Foods</u>	<u>OATS</u> <u>Wild Oats</u>	<u>RDK</u> <u>Ruddick</u>	<u>KR</u> <u>Kroger</u>		
PPS	45.140	18.270	31.090	30.080		
Market Price	45.140	18.27	31.09	30.08		
EPS (forward)	0.382	N/A	1.521	1.582		
Net Income	53.76	-16.59	72.34	1115		
Shares Outstanding	140.58	29.8	47.56	705		
EPS (trailing)	0.285	0.110	1.445	1.325		
Net Income	39.8	3.19	68.6	958		
Shares Outstanding	139.61	29.06	47.49	723		
BPS	10.342	3.644	14.098	6.983		
Total Equity	1453.9	108.6	670.52	4923		
Shares Outstanding	140.58	29.8	47.56	705		
SPS	13.307	39.699	68.668	93.774		
Sales	1870.73	1183.02	3265.86	66111		
Shares Outstanding	140.58	29.8	47.56	705		
DPS	2.45	0	0.44	0.26		
Dividends	344.421	0	20.9264	183.3		
Shares Outstanding	140.58	29.8	47.56	705		
EBIT per share	2.417	N/A	2.575	3.172		
Earnings Before Interest and Taxes	339.74	-11.19	122.45	2236		
Shares Outstanding	140.58	29.8	47.56	705		
EBITDA per share	2.417	N/A	2.575	4.976		
Earnings Before Interest, Tax, Depreciation, and Amortization	339.74	-11.19	122.45	3508		
Shares Outstanding	140.58	29.8	47.56	705		
FCF per share	0.294	0.173	N/A	N/A		
CFFO+CFPI+-CFFF	41.33	5.17	-20	-21		
Shares Outstanding	140.58	29.8	47.56	705		
Enterprise Value per share	45.055	21.869	35.276	38.809		
MVE+LT Debt+Preferred Stk.-Cash Equivalents	6333.866	651.686	1677.72	27360.4		
Shares Outstanding	140.58	29.8	47.56	705		
PPS	45.010	18.270	31.090	30.080	Industry Average 26.480	
P/E (forward)	118.039	N/A	20.440	19.019	19.730	
PPS	45.140	18.270	31.090	30.080		
EPS (forward)	0.382	N/A	1.521	1.582		
P/E (trailing)	158.342	166.435	21.523	22.701	70.220	With Out Outlier Wild Oats 22.112
PPS	45.140	18.270	31.090	30.080		
EPS (trailing)	0.285	0.110	1.445	1.325		
P/B	4.365	5.013	2.205	4.308	3.842	
PPS	45.140	18.270	31.090	30.080		
BPS	10.342	3.644	14.098	6.983		
P/S	3.392	0.460	0.453	0.3208	0.411	
PPS	45.140	18.270	31.090	30.080		
SPS	13.307	39.699	68.668	93.774		
D/P	0.054	0.000	0.014	0.009	0.008	
DPS	2.45	0	0.44	0.26		
PPS	45.140	18.270	31.090	30.08		
P.E.G.	3.757	N/A	2.895	1.048	1.972	
(PPS/EPS)	118.039	N/A	20.440	19.019		
(1-Yr. ahead Earnings Growth Rate)	31.42	-627.7	7.06	18.14		
P/EBIT	18.678	N/A	12.075	9.484	10.780	
PPS	45.140	18.270	31.090	30.08		
EBITPS	2.417	N/A	2.575	3.172		
P/EBITDA	18.678	N/A	12.075	6.045	9.060	
PPS	45.140	18.270	31.090	30.08		
EBITDAPS	2.417	N/A	2.575	4.976		
P/FCF	153.539	105.309	N/A	N/A	105.309	
PPS	45.140	18.270	31.090	30.08		
FCFPS	0.294	0.173	N/A	N/A		
Enterprise Value per share / EBITDA	18.643	N/A	13.701	7.799	10.750	
Enterprise Value per share	45.055	21.869	35.276	38.809		
EBITDA per share	2.417	N/A	2.575	4.976		
Valuation Of Whole Foods	P/E (forward) 7.545	P/E (trailing) 20.018	P/B 39.735	P/S 5.473		
		Considering Outlier: 6.304				
	D/P 0.343	P.E.G. 26.240	P/EBIT 26.051	P/EBITDA 21.896		
	P/FCF 30.960	EV/EBITDA 25.980				

APPENDIX #5- VALUATION MODELS

ABNORMAL EARNINGS GROWTH

Abnormal Earnings Growth												
Shares Outstanding 2006(Used to forecast through 2016)			1	2	3	4	5	6	7	8	9	
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 Perp	
Net Income	203,828,000	223,481,084	242,018,651	259,290,135	275,210,880	292,064,025	309,949,209	328,929,633	349,072,364	370,448,580	393,133,816	
Total Dividends		66,072,600	66,072,600	66,072,600	66,072,600	66,072,600	66,072,600	66,072,600	66,072,600	66,072,600	66,072,600	
DRIP			7,776,745	7,776,745	7,776,745	7,776,745	7,776,745	7,776,745	7,776,745	7,776,745	7,776,745	
Cum-Dividend Earnings			249,795,396	267,066,880	282,987,625	299,840,770	317,725,954	336,706,378	356,849,109	378,225,325	400,910,561	
Normal Earnings			249,784,808	242,018,651	259,290,135	275,210,880	292,064,025	309,949,209	328,929,633	349,072,364	370,448,580	
Abnormal Earning Growth (AEG)			10,588	25,048,230	23,697,489	24,629,890	25,661,930	26,757,168	27,919,476	29,152,961	30,461,981	32,000,000
PV Factor			0.8947	0.8005	0.7162	0.6408	0.5733	0.5129	0.4589	0.4106	0.3673	
PV of AEG			\$9,473	\$20,050,561	\$16,971,748	\$15,781,979	\$14,711,707	\$13,724,251	\$12,812,401	\$11,969,628	\$11,190,020	\$0.00
			Total Dollars	Per Share								
Core earnings			\$223,481,084	\$1.59							146,991,272	
PV YBY AEG			\$117,221,769	\$0.83								
PV AEG Perp			\$53,996,336	\$0.38								
Total Average EPS Perp				\$2.81								
cap rate				11.77%								
Intrinsic value				\$23.85								
Core EPS		1.59										
Total PV of AEG		\$117,221,768.51										
Continuing Terminal Value											0	
PV of Terminal Value		\$0.00										
Total Average EPS Perp		\$117,221,770.10										
Capitalization Rate (perpetuity)		0.12										
Intrinsic Value Per Share		\$995,936,874.23										
Ke		11.77%										
g		-10%										
			Sensitivity Analysis									
						g						
						-0.1	-0.2	-0.3	-0.4			
Ke			0.7000	\$49.07	\$45.22	\$43.45	\$42.43					
			0.0900	\$34.79	\$32.76	\$31.64	\$31.03					
			0.1000	\$30.03	\$28.42	\$27.62	\$27.13					
			0.1100	\$26.26	\$25.01	\$24.38	\$23.99					
			0.1177	\$23.85	\$22.83	\$22.29	\$21.96					
			Overvalued (< 90%)	\$40.51	Undervalued (>110%)	\$49.51						

DISCOUNTED FREE CASH FLOWS

DISCOUNTED FREE CASH FLOW											
ASSUMPTIONS:											
WACC	0.0985										
Growth Rate	0.0631										
Estimated Shares Outstanding	140,600,000										
Actual Price Per Share	45.14										
		1	2	3	4	5	6	7	8	9	10
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Cash Provided by Operating Activities		\$496,210,595.52	\$537,263,390.98	\$575,489,703.15	\$610,703,362.77	\$647,971,535.48	\$687,513,998.43	\$729,469,540.19	\$773,985,418.88	\$821,217,879.06	\$871,332,700.13
Cash Provided by Investing Activities		(\$64,386,805.92)	(\$75,720,458.65)	(\$84,049,709.10)	(\$93,295,177.10)	(\$103,557,646.59)	(\$83,599,263.79)	(\$90,287,204.89)	(\$97,510,181.28)	(\$105,310,995.79)	(\$113,735,875.45)
Free Cash Flow		\$560,597,401.44	\$612,983,849.63	\$659,539,412.25	\$703,998,539.87	\$751,529,182.06	\$771,113,262.22	\$819,756,745.08	\$871,495,600.16	\$926,528,874.85	\$985,068,575.58
Discount Rate	9.85%	0.910	0.829	0.754	0.687	0.625	0.569	0.518	0.472	0.429	0.391
	Free cash flow growth		9.34%	7.59%	6.74%	6.75%	2.61%	6.31%	6.31%	6.31%	6.32%
Present Value of Free Cash Flow		\$510,329,905.73	\$507,982,685.57	\$497,554,397.66	\$483,472,207.21	\$469,835,191.10	\$438,851,720.16	\$424,702,258.00	\$411,021,659.91	\$397,794,163.82	\$385,004,541.45
Total Present Value of Annual Cash Flow	\$4,526,548,731										
Continuing (Terminal) Value (assume no c	\$10,000,696,199										\$27,826,795,920.37
Present Value of Continuing (Terminal) Va	\$10,875,834,504	\$8,535,203,416									
Value of the Firm (end of 2006)	\$15,402,383,235						SENSITIVITY ANALYSIS				
Book Value of Debt and Preferred Sto	638,853,000						GROWTH				
Value of Equity (end of 2006)	\$14,763,530,235					0.04	0.05	0.0631	0.07	0.08	
Estimated Value per Share	\$105.00	89.37			0.08	\$96.11	\$118.93	\$189.68	\$301.48	N/A	
					WACC	0.09	\$82.48	\$96.11	\$129.45	\$164.57	\$301.48
						0.0985	\$74.46	\$84.11	\$105.00	\$123.71	\$175.67
						0.11	\$66.77	\$73.29	\$86.04	\$96.11	\$118.93
						0.12	\$61.88	\$66.77	\$75.78	\$82.42	\$96.11

Discounted Dividend Valuation

Years from valuation date		1	2	3	4	5	6	7	8	9	10	Perpetuity	
Forecast Years		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Dividends per share		2.57	\$0.45	\$0.45	\$0.45	\$0.45	\$2.00	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45
Present Value Factor		1	0.895	0.800	0.716	0.641	0.573	0.513	0.459	0.411	0.367	0.329	
Present Value of Future Dividends		\$2.57	\$0.40	\$0.36	\$0.32	\$0.29	\$1.15	\$0.23	\$0.21	\$0.18	\$0.17	\$0.15	
Total Present Value of Forecast Future Dividends	\$3.05												
Continuing (Terminal) Value												\$3.82	
Present Value of Continuing (Terminal) Value	\$1.26												
Estimated Value per Share	\$4.31												
Observed Value	45.14												
Diff	-40.83												
Earnings Per Share	-1.11												
Dividends per share	2.57	\$0.45	\$0.45	\$0.45	\$0.45	\$2.00	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	
Book Value Per Share													
Actual Price per share	\$45.14												
Cost of Equity Estimated in Class	0.1177												
growth rate	0												
Estimated Price	\$4.31	Sensitivity Analysis											
		g											
		0 0.01 0.03 0.05											
		0.09	\$5.59	\$5.86	\$6.65	\$	8.23						
		0.10	\$5.05	\$5.25	\$5.80	\$	6.79						
Ke	0.1177	\$4.31	\$4.43	\$4.74	\$	5.24							
		0.13	\$3.90	\$3.99	\$4.21	\$	4.54						
		0.15	\$3.38	\$3.43	\$3.56	\$	3.75						

RESIDUAL INCOME VALUATION

Residual Income	Shares	140,580,000										
	0	1	2	3	4	5	6	7	8	9	10	
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Net Income		\$215,568,609.84	\$233,869,968.93	\$251,010,846.41	\$266,902,697.80	\$283,756,815.81	\$301,675,221.64	\$320,725,121.95	\$340,977,967.26	\$362,509,720.01	\$385,401,139.42	
EPS (Earnings Per Share)		\$1.59	\$1.72	\$1.84	\$1.96	\$2.08	\$2.20	\$2.34	\$2.48	\$2.64	\$2.80	
Dividends Paid		63261000	63261000	63261000	63261000	63261000	63261000	63261000	63261000	63261000	63261000	
DPS (Dividends Per Share)		\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	
Beginning BPS (Book Per Share)		9.99	\$11.13	\$12.40	\$13.79	\$15.30	\$16.93	\$18.68	\$20.57	\$22.61	\$24.79	
BPS (Book Per Share)	\$9.99	\$11.13	\$12.40	\$13.79	\$15.30	\$16.93	\$18.68	\$20.57	\$22.61	\$24.79	\$27.14	
Book Value of Equity		\$1,564,363,084.38	\$1,743,120,735.23	\$1,939,149,870.61	\$2,151,099,750.33	\$2,379,902,775.12	\$2,626,590,984.46	\$2,892,259,617.08	\$3,178,070,981.04	\$3,485,258,560.92	\$3,815,131,376.42	
ke	0.1177											
EPS (Earnings Per Share)		\$1.59	\$1.72	\$1.84	\$1.96	\$2.08	\$2.20	\$2.34	\$2.48	\$2.64	\$2.80	
Normal Income		\$1.18	\$1.31	\$1.46	\$1.62	\$1.80	\$1.99	\$2.20	\$2.42	\$2.66	\$2.92	
Residual Income		\$0.41	\$0.41	\$0.39	\$0.33	\$0.28	\$0.21	\$0.14	\$0.06	-\$0.03	-\$0.12	
PV Factor		0.8947	0.8005	0.7162	0.6408	0.5733	0.5129	0.4589	0.4106	0.3673	0.3287	
PV of Residual Income		\$0.37	\$0.33	\$0.28	\$0.21	\$0.16	\$0.11	\$0.06	\$0.03	-\$0.01	-\$0.04	
Total PV of Annual Residual Income	\$1.50	0.130335816										
Continual Terminal Value Perpetuity												-\$0.34
PV of Terminal Value Perp	0.00320	\$0.00028										
BPS	9.99	\$0.87										
Estimated Price per share	\$11.490873	100%		g	0.08	0.1	Ke	0.1177	0.13	0.15		
Implied 4/2/2007 price	11.81501683			0.01	17.875	13.746		11.815	10.864	9.628		
				0.02	17.87	13.744		11.815	10.865	9.63		
Logical Test for Growth in Perpetuity		g	0	0.04	17.862	13.741		11.815	10.867	9.634		
				0.06	17.854	13.738		11.816	10.869	9.64		
Observed Market Price 4/30/2007	45.14			0.07	17.85	13.736		11.816	10.87	9.64		
Initial Ke	0.1177											

Long Run Residual Income Perpetuity

	Shares	140,580,000										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Net Income		\$215,568,609.84	\$233,869,968.93	\$251,010,846.41	\$266,902,697.80	\$283,756,815.81	\$301,675,221.64	\$320,725,121.95	\$340,977,967.26	\$362,509,720.01	\$385,401,139.42	
EPS (Earnings Per Share)		\$1.59	\$1.72	\$1.84	\$1.96	\$2.08	\$2.20	\$2.34	\$2.48	\$2.64	\$2.80	
Dividends Paid		63261000	63261000	63261000	63261000	63261000	63261000	63261000	63261000	63261000	63261000	
DPS (Dividends Per Share)		\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	
Beginning BPS (Book Per Share)		9.99	\$11.13	\$12.40	\$13.79	\$15.30	\$16.93	\$18.68	\$20.57	\$22.61	\$24.79	
BPS (Book Per Share)	\$9.99	\$11.13	\$12.40	\$13.79	\$15.30	\$16.93	\$18.68	\$20.57	\$22.61	\$24.79	\$27.14	
Book Value of Equity		\$1,564,363,084.38	\$1,743,120,735.23	\$1,939,149,870.61	\$2,151,099,750.33	\$2,379,902,775.12	\$2,626,590,984.46	\$2,892,259,617.08	\$3,178,070,981.04	\$3,485,258,560.92	\$3,815,131,376.42	
ke		0.1177										
ROE		15.35%	14.95%	14.40%	13.76%	13.19%	12.68%	12.21%	11.79%	11.41%	11.06%	
Growth in Book Value of Equity		11.39%	11.43%	11.25%	10.93%	10.64%	10.37%	10.11%	9.88%	9.67%	9.46%	
						Sensitivity Analysis						
Implied Long Run ROE	13.00%											
Average ROE	13.08%					g						
Average Growth in Book Value of Equity	10.51%			9.00%	11.00%	13.00%	15.00%	17.00%				
			0.08	6.13	NA	NA	NA	NA				
LRResinc Perp Value	\$19.76		0.1	30.2	NA	NA	NA	NA				
Implied 4/2/2007 price	\$20.32	Ke	0.1177	NA	3.98	20.32	36.65	52.98				
			0.14	NA	1.44	7.36	13.28	19.2				
Observed Price per Share (Close on 4/2/2007)	\$45.14		0.16	NA	0.92	4.7	8.48	12.26				



APPENDIX #6- ALTMAN Z-SCORE

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	
Total Assets	943.2	1,229.44	1,521.01	1889.3	2043	
Working Capital	-4.16	121.29	151.15	254.15	114.21	
Retained Earnings	247.57	335.93	412.48	486.3	349.26	
EBIT	146.56	172.97	223.1	239.35	339.74	
MV of Equity	21.945	23.94	46.155	61.105	58.39	
BV of Liabilities	354.12	468.59	571.37	523.62	638.85	
Sales	2690.47	3,148.59	3864.95	4,701.29	5,607.38	
						<u>Multiple</u>
WC/TA	-0.004411	0.098655	0.099375	0.134521	0.055903	1.2
RE/TA	0.262479	0.273238	0.271188	0.257397	0.170954	1.4
EBIT/TA	0.155386	0.14069	0.146679	0.126687	0.166295	3.3
MVE/BVL	0.061971	0.051089	0.08078	0.116697	0.091399	0.6
Sales/TA	2.852492	2.560995	2.541042	2.488377	2.744679	1
Z-Score	3.765	3.557	3.572	3.498	3.655	

Reference Page:

1. Whole Foods Website: www.wholefoods.com
 2. Wild Oats Website: www.wildoats.com
 3. Google Finance: www.finance.google.com/finance
 4. Yahoo Finance: www.finance.yahoo.com
 5. Moore, Mark. Financial Statement Analysis. Spring 2007
 6. Edgarscan.com
 - WFMI (10-K) 2002-2006
 - OATS (10-K) 2002-2006
 - RDK (10-K) 2002-2006
 - KR (10-K) 2002-2006
 7. Palepu, Healy, & Bernard, *Business Analysis & Valuation* (Ohio: Thomson-Southwestern, 3rd Edition, 2004)
- Damodaran Online: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/ACCPrimer/lease.htm