



# Yale SCHOOL of MANAGEMENT

**Food Retail: Company Report**  
*October 17, 2005*

*Initiate Coverage*

## Whole Foods Market, Inc. (WFMI)

**Whole Foods, Whole People, Whole Planet, Whole Price?**

**Abiodun Aina**  
(718) 807 5948  
Abiodun.Aina@yale.edu

**Bill Cruise**  
(713) 805 1300  
Bill.Cruise@yale.edu

---

*Initiating Coverage with a rating of Sell<sup>1</sup>*

---

- Whole Foods is an amazing company, but the current valuation is unsustainable.
- Only unrealistic same-store sales growth and store expansion justify current price of \$135.28.
- Competition looms, yet the market seems to forecast perpetual hegemony.
- Quantitative and qualitative factors give rise to bearish outlook.

---

<sup>1</sup> Please see important disclaimer at the end of this document.

# TABLE OF CONTENTS

Investment Thesis.....	1
Company Analysis	
Overview.....	1
Sales Drivers and Risk Analysis.....	3
Stock Price Statistics.....	5
Valuation	
Valuation Models.....	7
Other Factors and Investment Recommendation....	13
Exhibits	
1: Projected Market.....	14
2: Assumptions.....	15
3: Projected Income Statements.....	21
4: Common-sized Income Statements.....	23
5: Balance Sheets.....	26
6: DCF.....	28
7: Sensitivity Analysis.....	29

## INVESTMENT THESIS

Whole Foods Market, Inc. has almost single-handedly defined the natural and organic market. The company, which has grown leaps and bounds over the past fifteen years, boasts a focused management team, high employee morale, excellent customer service, and excellent products. Furthermore, the company has posted stellar financial and operating performance and appears to be positioned well for future growth. However, the current share price seems to be discounting a best-case scenario, and one misstep could result in a severe price correction. This analysis discusses Whole Foods' current environment and prospects for the future, and uses this analysis to quantitatively and qualitatively ascertain fundamental value. All of our results indicate that despite our positive outlook for Whole Foods as a company, the current share price makes it a poor investment, leading to our sell recommendation.

## OVERVIEW

Whole Foods Market, Inc. (NASDAQ: WFMI) owns and operates the largest chain of organic and natural food stores in the United States. The Company had sales of \$3.9 billion in fiscal year 2004 and operated from 171 stores in the United States, Canada and the United Kingdom.

Per Whole Foods' 2004 Form 10-K/A:

Natural foods can be defined as foods that are minimally processed, largely or completely free of artificial ingredients, preservatives and other non-naturally occurring chemicals and as near to their whole, natural state as possible. Organic products are grown through methods intended to support and enhance the earth's natural balance. Generally, organic food products are produced using:

- agricultural management practices intended to promote and enhance eco-system health;
- no genetically-engineered seeds or crops, sewage sludge, long-lasting pesticides, herbicides or fungicides;
- livestock management practices intended to promote healthy, humanely treated animals by providing organically-grown feed, fresh air and outdoor access while using no antibiotics or growth hormones; and
- food processing practices intended to protect the integrity of the organic product and disallow irradiation, genetically modified organisms ("GMOs") or synthetic preservatives.<sup>2</sup>

It is also important to note that in 2002, the USDA's "Organic Rule" was implemented into Federal Law. The rule requires that all products labeled "organic" must be certified by the

---

<sup>2</sup> Whole Foods 2004 Form 10-K/A.

USDA and that all retailers which handle, store, or sell organic products must implement measures which:

- prevent the commingling of organic and conventional products,
- protect organic products from contact with prohibited substances,
- ensure organic products are clearly and properly labeled, and
- require proper record keeping regarding organic handling procedures and vendor relationships.

Whole Foods has had substantial influence in the development of national standards, and the only retail representative involved with the drafting of the organic rule was a Whole Foods executive.<sup>3</sup>

As the organic foods industry mushrooms, Whole Foods is growing rapidly by building and acquiring new stores. Whole Foods plans to open at least 53 stores in the two year period following FY 2004. It is also expanding across the Atlantic, via the 2004 acquisition of Fresh & Wild Holdings Limited, a chain of seven natural and organic foods stores in the UK.

### Competitors

Whole Foods' competitors are of 2 categories:

**Traditional Grocers** – Kroger's, Albertson's, Safeway, Winn-Dixie, etc.

**Organic Food Retailers** – Including GNC, Trader Joe's, and Wild Oats Markets.

Whole Foods is the largest of the organic food retailers, with greater than 30% of organic food sales in 2004. It also enjoys higher sales margins and trades at a valuation premium to both classes of retailers.

### Business Model

Whole Foods pioneered the supermarket concept in organic food retailing. The basic idea is to provide a wide variety of fresh, mainly perishable, organically grown food produce to an increasingly wider customer base. The company operates out of 28 states in the U.S., three Canadian stores, and seven stores in the U.K.

Store design and location: According to its recent 10-K, Whole Foods does not have a standard store design model. Instead, each store's design is customized to fit the size and configuration of the particular location and community in which it is located. However, the average store size has been increasing over the last 5 years, from 27,179 square feet in 2000 to 32,110 square feet in 2005.<sup>4</sup> These stores are mostly located in large, metropolitan areas, where most of Whole Foods' target customers are located.

Purchasing and Distribution: United Natural Foods is Whole Foods' single largest supplier, representing approximately 20% of purchases, and the two companies recently signed a five-

---

<sup>3</sup> Whole Foods 2004 Form 10-K/A.

<sup>4</sup> Whole Foods website, [www.wholefoods.com](http://www.wholefoods.com).

year renewal contract.<sup>5</sup> Whole Foods represents 26% of United's revenues. The company owns two produce procurement centers, three seafood processing and distribution facilities, and a specialty coffee roaster and distributor. Other products are typically procured through a combination of specialty wholesalers and direct distributors. WFMI also operates 10 regional distribution centers, distributing a full range of products to stores across the U.S., Canada and the United Kingdom.

**Product Range:** Whole Foods product categories include produce, seafood, grocery, meat and poultry, bakery, prepared foods and catering, specialty (beer, wine and cheese), whole body (nutritional supplements, vitamins, body care and educational products such as books), floral, pet products, and household products. Perishable products accounted for 67% of total sales in 2004, against 57% in 1994.<sup>6</sup> Within these categories, Whole Foods has established its own proprietary brands: 365 Organic, 365 Everyday Value, Whole Kids, and a line of frozen products including Whole Catch (fish and seafood), Whole Treat (candy, snacks, and frozen desserts), Whole Ranch (meat and poultry), and Whole Kitchen (frozen prepared foods). These products accounted for over 1,000 SKUs and 14% of total sales in 2004,<sup>7</sup> and are a big reason for Whole Foods' strong margins. Given the lack of national brands in the natural and organic marketplace, these proprietary products should drive healthy margins for a sustainable period.

**Marketing and Advertising:** Whole Foods spends relatively little on advertising, relying instead on word of mouth and customer referrals. Historically, the company spends less than 0.5% of sales on advertising and marketing.

## **SALES DRIVERS AND RISK ANALYSIS**

Whole Foods states that their growth strategy is "to expand through a combination of new store openings and, to a lesser extent, acquisitions of existing stores."<sup>8</sup> Within these stores, several factors drive adoption and growth of Whole Foods' products.

**a) Demographic desires:** In the U.S., there has been increasing consumer concern over the purity and safety of food due to the presence of pesticide residues, growth hormones, artificial ingredients and other chemicals, and genetically engineered ingredients. As the population becomes better educated, and with the median age increasing each year, awareness and concern about the health impact of food and how it is grown should lead to higher demand for organic and natural foods.

**b) Industry leader and brand recognition:** Whole Foods has a significant first-mover advantage and remains the industry leader with approximately 31% of industry sales in 2004. It has a strong brand identity and a loyal core-customer base. As a result, brand awareness continues to expand through the voice of supporters and cost-effective word-of-mouth advertising. Overall momentum continues to improve, and new stores are opening with

---

<sup>5</sup> United Natural Foods 2004 Form 10-K.

<sup>6</sup> Whole Foods Markets Inc.'s Form 10-K/A, as filed with the SEC, September 26, 2005.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

stronger sales. At the end of 2004, for example, Whole Foods had 53 new stores in development and scheduled for launch within 17 months, on average. This compares with an average of 11 new (non-acquired) stores per annum in each of the previous 4 years.

**c) Stable price premiums of organic products over conventional produce:** A recent study found that these price premiums have remained steady or increased in some cases, in spite of rapid growth in the size of the industry. Such premiums drive production, contribute to growth in certified organic farmland, and, ultimately, market expansion in an industry that was formerly supply constrained.<sup>9</sup> Although the laws of supply and demand suggest that these premiums cannot exist as the market matures in the long run, the study suggests that these premiums will exist in the short to medium term, which is the time frame of our analysis.

Below is a table that shows the organic food industry vis-à-vis the conventional food industry.

Year	Organic Food Sales	Organic Food Growth	Total Food Sales	Total Food Growth
2000	6,104	-	589,900	-
2001	7,359	20.6	618,300	4.8
2002	8,624	17.2	627,400	1.5
2003	10,381	20.4	639,800	2.0
2004 (E)	12,450	20	650,000	1.6

Source: The OTA 2004 Manufacturer Survey Overview and author's calculations

The industry is projected to maintain its historic CAGR of ~20% over the near term.<sup>10</sup>

The following are business risks we see facing Whole Foods in the near future:

**a) Entry by conventional grocery retailers:** Conventional supermarkets have begun to expand their offerings of organic and natural products.<sup>11</sup> This is troubling when one considers that the largest complaint about Whole Foods is that it is not a one-stop shop for groceries. Furthermore, multiple traditional supermarkets have a substantially larger footprint and greater financial resources for promotion and sourcing than Whole Foods. The ensuing competition could erode Whole Foods' margins, which are currently much higher than traditional supermarkets. It should be noted that while we expect increased competition from traditional supermarkets, Whole Foods should not feel the pressure that conventional grocers are currently feeling from Wal-Mart and club stores such as Sam's and Costco. This is due to the fact that Whole Foods primarily sells perishables, which are not

<sup>9</sup> Price Premiums Hold on as U.S. Organic Produce Market Expands, Lydia Oberholtzer, Carolyn Dimitri, and Catherine Greene, USDA Publication, VGS-308-01, May 2005

<sup>10</sup> 'USDA National Organic Program – Value through Verification', a presentation by Barbara Robinson, Deputy Administrator, USDA, 2004.

<sup>11</sup> "An Identity Crisis for Supermarkets." Melanie Warner, The New York Times, October 6, 2005.

the type of goods consumers buy in bulk. Further, Whole Foods target market differs substantially from that of Wal-Mart.

**b) Competition from other channels:** While we have uncovered no current plans, Whole Foods could face competition in the organic market from other major channels. Because an increasing number of American meals are consumed outside the home, a particular challenge could come from organic restaurants. Indeed, if the organic market continues its strong growth, there could be a significant appeal for organic “fast food” outlets. Whole Foods has a strong prepared foods line which should harbor them to some extent.

**c) Potential for labor unions:** Unlike traditional grocers, Whole Foods has been able to remain union-free. We believe current management will be able to maintain this environment, as they are committed to their team members as evidenced by Whole Foods’ 8-year streak amongst Fortune magazine’s “100 Best Companies to Work For.” However, there have been a handful of attempts by unions to organize certain stores. While unlikely, we consider the unionization of Whole Foods’ workforce a significant threat to profitability and morale.

**d) The organic explosion may be a fad:** We believe that Whole Foods’ business model is strong and that population demographics and the general desire for longevity will fuel long-term sustainable growth in the organic sector. However, there is a risk that, like many other “health kicks” such as the Atkins Diet and the home fitness craze, the popularity of organic food could be temporary. Further, if significant scientific evidence showed that organic and natural foods had no impact on health, Whole Foods’ appeal could be in jeopardy. We believe this risk is extremely low; however, if the organic wave is as sustainable as we believe, it is likely that more players will want their share.

**e) Organic goes mainstream:** There is considerable scientific focus on organic foods and farming now, and mainstream food suppliers such as ConAgra are likely hoping to get a piece of this market. If scientific developments were such that organic food could be supplied as readily as traditional supermarket fare, the organic food sector would boom. However, in such a case, all traditional players would have access, and there would cease to be pricing premiums similar to what Whole Foods currently enjoys. In such a world, Whole Foods would simply be another commodity supplier, losing the differentiation and competitive advantage it currently holds.

## STOCK PRICE STATISTICS

Whole Foods’ stock price has been on an upward trajectory since October 21, 2004, when it traded at a split-adjusted price of \$79.03. It closed at \$135.28 on October 21, 2005. Below is a split-adjusted price-volume chart showing Whole Foods’ stock price over the period. The spikes in trading volume are mainly during announcements of quarterly results. Whole Foods has met or beat market EPS expectations in each of the last 4 quarters.



Whole Foods has outperformed the DJIA, S&P 500, and the NASDAQ indexes over the past 9 months. An indexed-chart comparing Whole Foods to the DJIA, S&P and the NASDAQ over the last 12 months is shown below:



Below are some key statistics on Whole Foods' shares:

Average Volume (3 month)	938,633
Shares Outstanding	67.28M
Float:	66.03M
% Held by Insiders	1.15%
% Held by Institutions	88.20%
Shares Short (as of 12-Sep-05)	3.50M
Short Ratio (as of 12-Sep-05)	4.6
Short % of Float (as of 12-Sep-05)	5.30%
Shares Short (prior month)	3.83M

Source: Yahoo! Finance, as of 21 October, 2005.



Whole Foods' average trading volume and float show that the stock is relatively liquid, hence, we can make major movements in the stock without a major impact on the share price. The short ratio, while higher than that of comparable grocery companies (Kroger = 2.10%, Safeway = 3.50%) can either be interpreted as reflecting investor's sentiments that Whole Foods is currently overvalued, or it might be due to convertible arbitrage. Whole Foods had 8.070M options outstanding as at September 2004.<sup>12</sup>

## VALUATION

Our primary valuation of Whole Foods used a discounted cash flow model based on projected income statements and balance sheets through the year 2021. In addition, we used several qualitative methods to provide a sanity check on our DCF.

### DCF Assumptions

We began our valuation by modeling future sales for Whole Foods. The primary top-line drivers we identified were store count and comparable store sales growth. Whole Foods currently has 171 stores worldwide with new leases signed on approximately 53 stores under development. Also, the company's goal is to have 300 stores by the end of 2010. On average, new stores open 17 months after a lease has been signed,<sup>13</sup> and based on our analysis of past conference calls and company projections, Whole Foods generally realizes results in line with their issued guidance, though store openings have fallen behind stated goals on occasion (e.g. the company had a stated goal of opening 200 stores by the end of 2004).<sup>14</sup> Despite the fact that current goals require opening more than double the stores per year that Whole Foods has been able to open in the past, we decided that the company's current size could enable them to reach their optimistic projections, and therefore modeled store growth in line with goals. After six years of aggressive store growth, we taper store growth en route to reaching a total of 360 Whole Foods stores. This number will be further explained below.

In modeling comparable store growth, we relied on both historic evidence and company guidance. Generally, the company expects 8 – 10% same-store sales growth; however, the past two years have been particularly strong (14.9% for 2004 and greater than 15% for 2005). While the company does not expect this to continue over the long-term, they have guided above 11% for 2006. We modeled Whole Foods' same-store growth at above-average levels for the next four years before trending to a perpetual same-store growth rate of 5%, all rates which we believe are optimistic. Our explanation for why this is optimistic is explained below.

Using historical data since 1997, we backed into sales from new and existing stores and used these numbers to analyze weekly sales per square foot by new and mature stores. As expected, weekly sales per square foot for new stores are fairly constant, averaging

---

<sup>12</sup> 2004 Form 10-K/A

<sup>13</sup> 2004 Form 10-K/A.

<sup>14</sup> 1999 Annual Report.

approximately \$8.80, while mature stores exhibit an increasing trend. These data allowed us to project new-store sales each year based on projected square-footage increases (Whole Foods expects average new stores to be 50,000 square feet, and the properties under development are in line with this).<sup>15</sup> Mature store sales are forecasted using our projections for same-store sales growth.

The breakout between new and existing stores also allowed us to project expenses based on growth. New stores typically become profitable just inside one year,<sup>16</sup> so we assigned new-store COGS as 90% of sales. Also, we modeled rental expense based on the breakout and new-store additions, using the historic trend in annual rent per square foot as our basis. We grew rent per square foot at the historical trend before capping this cost at \$22 per foot in 2008. We believe this is reasonable, as Whole Foods is beginning to expand into less prominent markets where rental costs are lower (however, this assumption may lead to understated costs and overstated share values). Existing store costs were modeled using historic levels. This likely overstates margins given the increase in competition Whole Foods is likely to face; however, we believe the company may be able to maintain or increase margins through economies of scale (See Exhibit 4 for the robust margins we have projected).

Balance sheet items were modeled line-by-line using historical relationships to sales. The main exception to this was PP&E. Whole Foods relies almost exclusively on operating leases, so we grew PP&E at a rate below sales growth. In addition, intangibles and goodwill were held constant (amortization of intangibles was modeled as part of depreciation) as Whole Foods expects a significant decline in their acquisition activity.<sup>17</sup> In modeling capital structure, we assumed a constant debt-to-value of zero, as the company's prior debt was almost entirely convertible and has nearly all been converted. Furthermore, in the last three Form 10-Qs, the company states that they expect to fund future growth through internally generated funds. As this policy leaves value on the table, we performed a sensitivity analysis based on capital structures using up to 35% debt, in line with the grocery store industry. We used an equity beta of 1.01.

### Revenue Growth Explained

Whole Foods is a pioneer in a new market, and as such, it was difficult to know if our revenue drivers which powered our model were reasonable. Once we had forecasted sales through 2021, we decided to perform a reasonableness check (or perhaps an unreasonableness check). There is sparse existing data on total U.S. organic and natural food sales; however, we do know that total sales (through all channels) were \$6.1 billion in 2000 and \$10.4 billion in 2003, representing a CAGR of 19.4%. So we grew this total market at 20% per year for 11 years before trending down to a final growth rate of 10% per year. We believe this level of growth would be impressive. We then compared the resultant numbers to projected *total* U.S. food spend (organic and traditional) and found that our growth rates resulted in the organic food market representing over 20% of the total U.S. food market by 2021. Indeed, impressive. We then compared our revenue projections for Whole Foods

---

<sup>15</sup> Company website.

<sup>16</sup> Multiple Form 10-Ks.

<sup>17</sup> 2004 Form 10-K.

against the total U.S. organic market. The projections result in a decrease in Whole Foods' current market share of 31% to a 2021 market share of 15%. Despite Whole Foods' first-mover advantage, such a share after 15 years would certainly be optimistic, especially when one considers that the largest U.S. grocer, Kroger's, currently accounts for just 8.7% of total U.S. food sales (Exhibit 1).

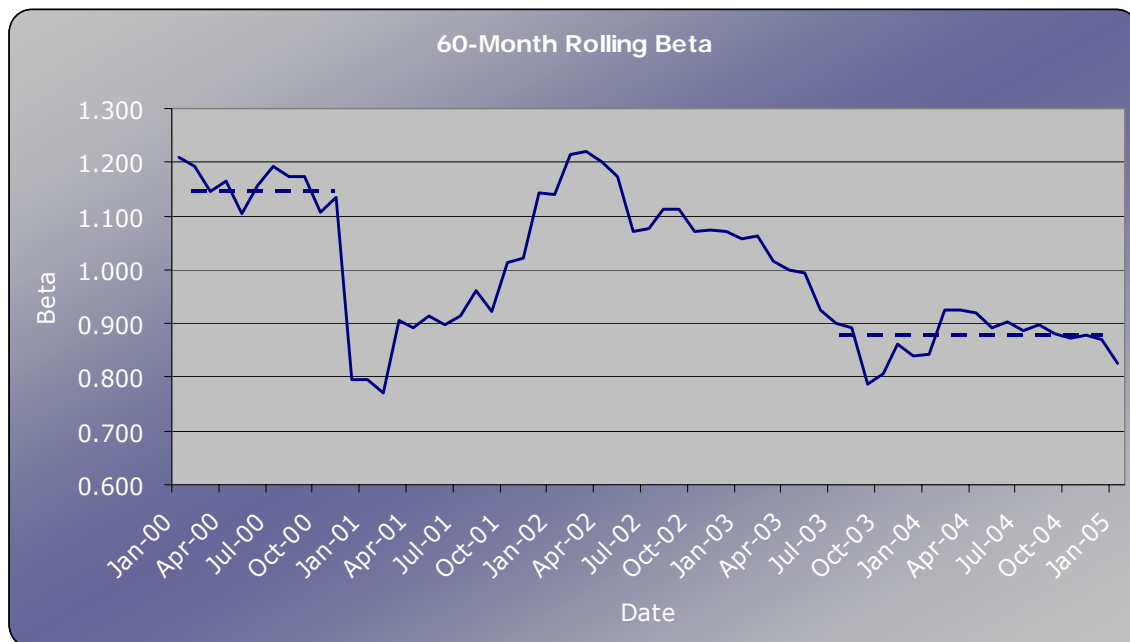
### DCF Valuation

Our (optimistic) projections were used to drive our DCF model. The following cost of capital assumptions were made:

### Beta

We estimated Whole Foods' beta by first measuring a raw beta by regressing Whole Foods' monthly returns against the value weighted returns on the S&P, AMEX and NASDAQ portfolios, using CRSP data. We then plotted Whole Foods' rolling 60-month beta to visually inspect for structural changes or short-term deviations.

Below is a plot of Whole Foods' rolling 60-month beta from January 1995 to December 2004, which is the most recent month for which CRSP has the value-weighted S&P, AMEX and NASDAQ returns.



Data Source: CRSP

Adjusted R-squared ranged between 0.057 and 0.2.

According to our regressions, Whole Foods' beta has a mean of 1.01 over the past 5 years, which we used in our valuation.<sup>18</sup>

#### Cost of Capital

Target pre-tax D/D+E (in MV)	0.00%	$r_f$ (10 year Treasury)	4.38%
Pre-tax E/D+E (in MV)	100.00%	Risk premium (for beta=1)	5.00%
Tax rate	40.00%		
		$r_D$ (Whole Foods' debt is rated BBB-)	6.38%
$\beta_D$	0.40	$r_E$	9.43%
$\beta_E$	1.01	Unlevered WACC	9.43%
$\beta_A$	1.01	After-tax levered WACC	9.43%

In addition, current option overhang was deducted to arrive at enterprise value, and future options grants were modeled to be 7.5% of forecasted net income, below company guidance of 10%.<sup>19</sup> Equity value was then adjusted for receipt (because cash flows don't really come at year-ends only), compounded forward by one month to today's date, and reduced by the dividend paid last month.

The DCF (see Exhibit 6) resulted in a per share value of \$122.82, 9.2% below current market levels. Given our generous assumptions, we feel it is clear that Whole Foods provides a wonderful opportunity to be long puts. Several sensitivity analyses were performed and are exhibited below.

#### Other Valuation Methods

In addition to our DCF, we looked at other proxies for valuation. The first method used a terminal P/E in conjunction with the projection portion of the DCF. The rationale for this method is that Whole Foods is currently a fast-growing company, but by its horizon date it will more closely resemble a traditional grocer. Thus, we use the forecast period discounted cash flows and add a different terminal value. The new terminal value discounts 2021 earnings times the harmonic-mean industry P/E of 17.5. The resultant value is \$95.43 per share which is also subjected to sensitivity analysis.

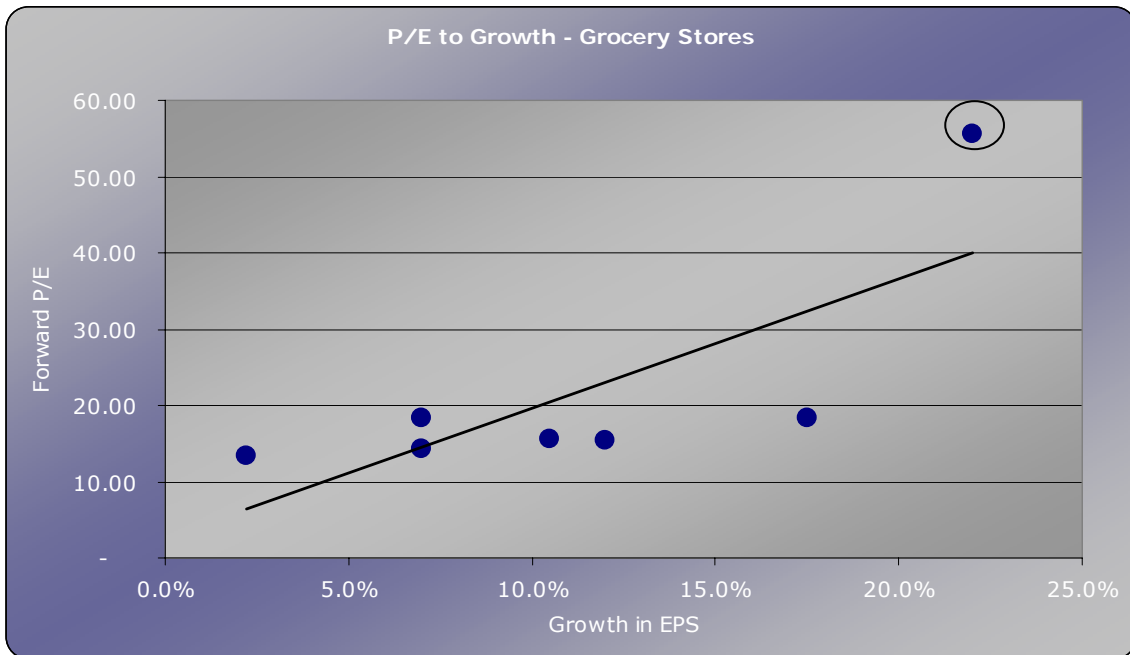
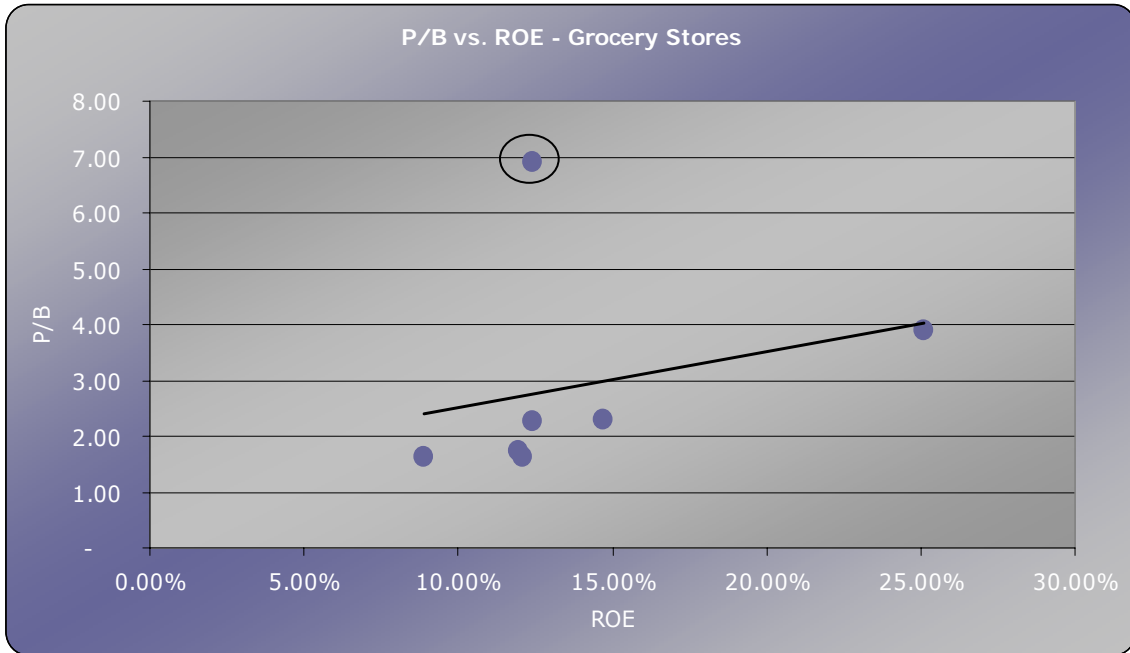
Second, we qualitatively looked at Whole Foods value relative to other companies. We compare Whole Foods to two potential peer groups: grocery stores and high-growth retailers. In each grouping, we graphically look at the companies using price-to-book versus ROE and forward P/E versus analyst consensus 5-year growth.<sup>20</sup> It can be mathematically shown that these relationships should be valid for fairly priced assets,<sup>21</sup> and each graph is expected to show a positive correlation between growth metrics and price.

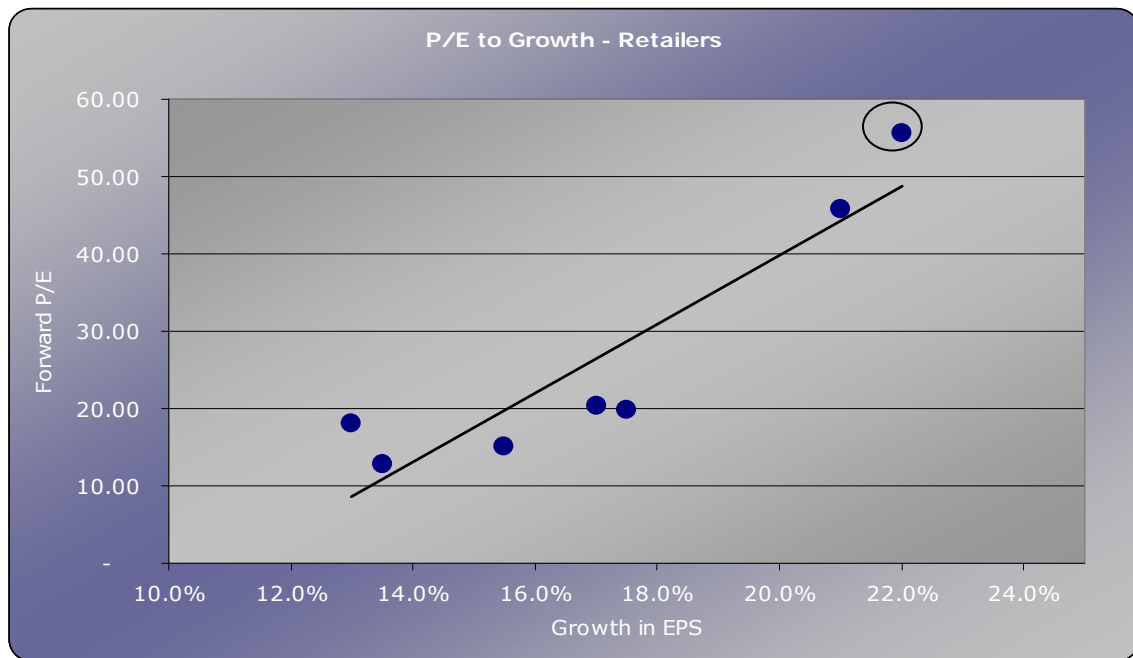
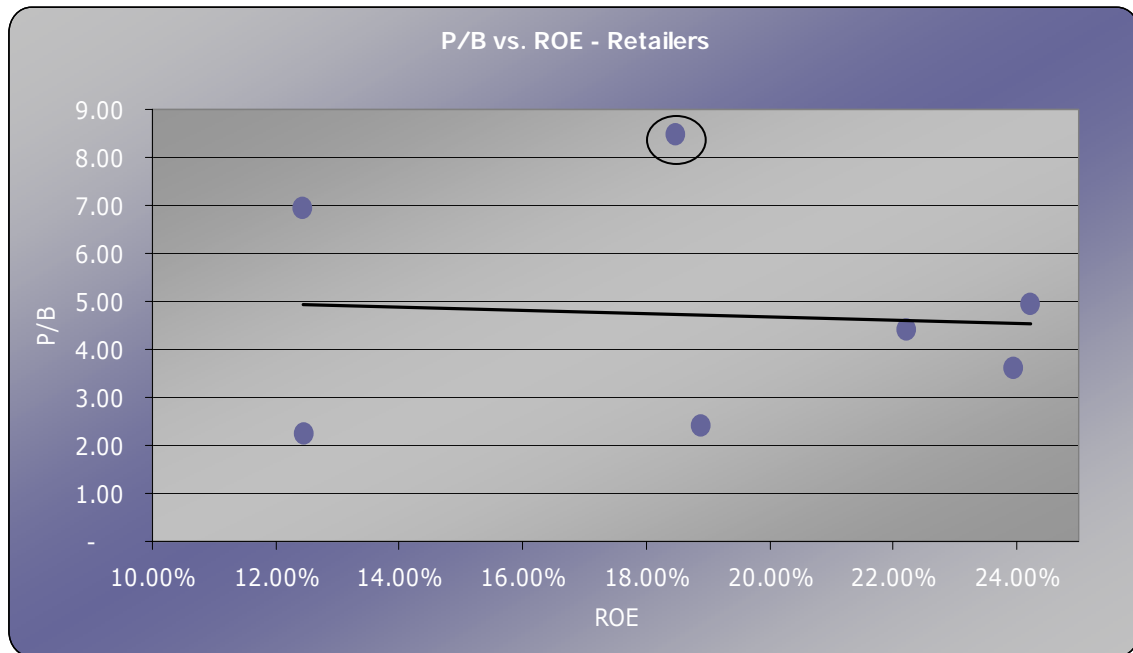
<sup>18</sup> We ran another set of regressions using the Wilshire 5000 index as our proxy for the market. Data on the Wilshire index was available from October 2000 to October 2005, not enough to calculate 60-month rolling betas. We calculated 60-week betas and had a value of 1.29 between August 2004 and October 2005, which is more consistent with our 1-year price-volume chart. We are however using the 60-month beta and checking the sensitivity of our valuation to a range of WACCs.

<sup>19</sup> Form 10-Q/A, Q3 2005.

<sup>20</sup> Figures from I/B/E/S and Compustat.

<sup>21</sup> Business Analysis & Valuation. Palepu, Healy, and Bernard.





The third graph is clearly of little use; however, the other three all exhibit the expected trend. Furthermore, in each case, Whole Foods (circled) is a clear outlier, consistently above the best-fit trend line. A fairly valued stock should lie on the line.

As a final qualitative method, we used our sensitivity table to provide a “Max-Min” range. The range is established by the averages from each sensitivity table and using the minimum and maximum of these averages:

<u>Table</u>	<u>Average Value</u>
DCF	115.18
Terminal P/E	89.67
Same Store Sales	117.12
Debt	134.52
Minimum	89.67
Maximum	134.52

This method provides a concise view of the sensitivity analyses performed and provides a range of reasonable values. In this case, the range is between \$89.67 and \$134.52, biased below the current market price.

## **OTHER FACTORS & INVESTMENT RECOMMENDATION**

While our valuation results in a sell rating despite using optimistic assumptions, we also examined subjective factors before issuing a sell recommendation. These factors included:

- An analysis of many SEC Form 4s, filed whenever a company insider buys or sells company stock or options, which show large and regular sell transactions and very few purchases. Most of these transactions are related to the exercise of stock options, and we realize that insiders have many legitimate reasons for selling stock. However, nearly all of the options exercised had several years left to expiration and had been available for exercise for a number of years. Further, several directors have made multiple large sell transactions.
- Increasing short interest on Whole Foods stock.
- The company's co-founder, Chairman, and CEO, John Mackey owns only 1% of Whole Foods stock. The combined ownership of all 23 directors and officers (including Mackey) amounts to only 2%.
- While Whole Foods has historically maintained some debt financing, no debt has been issued in the last two years. The company has instead issued equity, which is often a signal that management believes the stock is overvalued.
- While Whole Foods has repurchased shares in the past, no repurchases have been made in several years. Furthermore, the company has been authorized by its Board to repurchase up to 50 million shares, but no action has been taken.

Though none of these factors is a certain indication that Whole Foods' stock is overvalued, taken together they are certainly bearish. In our opinion, the combination of these factors along with our DCF, other valuation metrics, and sensitivity analysis, indicate that Whole Foods is currently overpriced. We initiate coverage with a Sell rating.

## Exhibit 1: Projected Market

Whole Foods Market -Statistics									
	<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>
Whole Foods Actual and Projected Sales	3,864,950	4,724,223	6,172,596	7,822,787	9,590,925	11,199,312	12,730,973	14,095,857	15,447,791
Total Forecasted US Retail Food Sales	650,000,000	664,812,536	679,625,071	693,192,785	706,760,498	720,941,268	734,803,880	748,287,824	761,776,477
US Organic Food Sales	12,457,200 20%	14,948,640 20%	17,938,368 20%	21,526,042 20%	25,831,250 20%	30,997,500 20%	37,197,000 20%	44,636,400 20%	53,563,680 20%
US Organic as a percent of Total US Food	1.92%	2.25%	2.64%	3.11%	3.65%	4.30%	5.06%	5.97%	7.03%
Whole Foods Share of Organic Food Sales	31.0%	31.6%	34.4%	36.3%	37.1%	36.1%	34.2%	31.6%	28.8%
Kroger's Current Share of Total US Food	8.68%								
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Whole Foods Actual and Projected Sales	16,798,694	18,138,354	19,455,910	20,739,959	22,001,788	23,230,572	24,392,100	25,611,705	26,892,291
Total Forecasted US Retail Food Sales	775,265,136	788,753,789	802,242,441	816,522,357	831,056,455	845,849,260	860,905,377	876,229,492	891,826,377
US Organic Food Sales	64,276,416 20%	77,131,699 20%	91,015,405 18%	105,577,870 16%	120,358,771 14%	134,801,824 12%	148,282,006 10%	163,110,207 10%	179,421,228 10%
US Organic as a percent of Total US Food	8.29%	9.78%	11.35%	12.93%	14.48%	15.94%	17.22%	18.62%	20.12%
Whole Foods Share of Organic Food Sales	26.1%	23.5%	21.4%	19.6%	18.3%	17.2%	16.4%	15.7%	15.0%



## Exhibit 2: Assumptions

### Income Statement Assumptions

#### Revenue Drivers

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Stores at beginning of year	68	75	87	100	117	126	135	145	163
Stores opened (new)	9	15	8	14	10	9	10	11	11
Stores opened (relocated)			1	3	2	2	2	1	3
Net new stores	9	15	9	17	12	11	12	12	14
Acquired stores	-	-	5	3	-	3	-	7	-
Closed stores (final)	-	-	-	-	(1)	(3)	-	-	-
Closed stores (relocated)	(2)	(3)	(1)	(3)	(2)	(2)	(2)	(1)	(3)
Stores at end of year	75	87	100	117	126	135	145	163	174
Domestic Stores	75	87	100	117	126	134	144	154	164
International Stores	-	-	-	-	-	1	1	9	10
Average Square Footage per New Store				35,059	46,444	55,556	44,700	33,333	40,187
Total Square Footage			2,584,000	3,180,000	3,598,000	4,098,000	4,545,000	5,145,000	5,587,059
Average Square Footage per Store			25,840	27,179	28,556	30,356	31,345	31,564	32,110
Weeks in fiscal year (assumed 52.5 after 2010)				52	53	52	52	52	52
Average Weekly Revenue per Square Foot				11.12	11.92	12.63	13.32	14.45	16.26
Y/Y Change					7.16%	5.96%	5.52%	8.44%	12.56%
Comparable store sales increase				8.6%	9.2%	10.0%	8.6%	14.9%	17.0%
Sales	1,117,346	1,308,070	1,492,519	1,838,630	2,272,231	2,690,475	3,148,593	3,864,950	
Sales from existing stores			1,298,492	1,620,876	2,007,784	2,499,454	2,921,856	3,617,733	4,521,992
Sales from new stores			194,027	217,754	264,447	191,021	226,737	247,217	202,232
Average weekly sales per square foot, existing stores				12.06	11.91	13.36	13.71	15.31	16.90
Average weekly sales per square foot, new stores				7.03	11.94	7.35	9.75	7.92	8.80
<b>Total Revenue</b>	<b>1,117,346</b>	<b>1,308,070</b>	<b>1,492,519</b>	<b>1,838,630</b>	<b>2,272,231</b>	<b>2,690,475</b>	<b>3,148,593</b>	<b>3,864,950</b>	<b>4,724,223</b>
<b>Cost of Goods Sold</b>									
Cost of Goods Sold	720,398	837,908	946,600	1,158,148	1,425,528	1,690,081	1,990,134	2,431,116	2,942,678
Cost of Goods Sold, existing stores			771,975	962,169	1,187,526	1,518,162	1,786,071	2,208,621	2,760,669
Cost of Goods Sold, new stores			174,625	195,979	238,002	171,919	204,063	222,495	182,008
Rent	29,153	35,180	38,400	47,100	57,300	68,200	80,200	92,700	106,796
<b>Total Cost of Goods Sold</b>	<b>749,551</b>	<b>873,088</b>	<b>985,000</b>	<b>1,205,248</b>	<b>1,482,828</b>	<b>1,758,281</b>	<b>2,070,334</b>	<b>2,523,816</b>	<b>3,049,473</b>
Cost of Goods Sold, existing stores (Percent of Sales)			59.45%	59.36%	59.15%	60.74%	61.13%	61.05%	61.05%
Cost of Goods Sold, new stores (Percent of Sales)			90.00%	90.00%	90.00%	90.00%	90.00%	90.00%	90.00%
Rent per square foot				16.34	16.91	17.72	18.56	19.13	19.90
<b>Operating Expenses</b>									
Direct store expenses (Percent of Sales)					21.93%	21.93%	22.06%	22.56%	22.60%
General and administrative expenses (Percent of Sales)					3.63%	3.56%	3.20%	3.10%	3.20%
Pre-opening and relocation costs (per new store)	582.56	265.27	657.11	609.00	829.33	1,177.55	1,041.17	954.08	1,521.45
<b>Total Operating Expenses</b>	<b>25.81%</b>	<b>25.01%</b>	<b>25.85%</b>	<b>25.59%</b>	<b>26.55%</b>	<b>25.98%</b>	<b>25.65%</b>	<b>25.95%</b>	<b>26.25%</b>
Investment and other income (Percent of Cash)		6.28%	50.25%	-2029.11%	88.33%	16.26%	3.37%	3.25%	3.25%
<b>Corporate Tax Rate</b>									40.0%
<b>Long-term Growth Rate</b>									5.0%

## Exhibit 2 (cont.)

	2006	2007	2008	2009	2010	2011	2012	2013
<u>Revenue Drivers</u>								
Stores at beginning of year	174	207	236	262	282	300	315	327
Stores opened (new)	33	29	26	20	18	15	12	10
Stores opened (relocated)	1	1	1	1	1	1	1	1
Net new stores	34	30	27	21	19	16	13	11
Acquired stores	-	-	-	-	-	-	-	-
Closed stores (final)	-	-	-	-	-	-	-	-
Closed stores (relocated)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Stores at end of year	207	236	262	282	300	315	327	337
Domestic Stores	196	223	247	265	281	294	305	314
International Stores	11	13	15	17	19	21	22	23
Average Square Footage per New Store	49,000	49,000	50,000	50,000	50,000	50,000	50,000	50,000
Total Square Footage	7,220,949	8,656,066	9,969,387	10,981,336	11,892,395	12,652,754	13,262,587	13,262,587
Average Square Footage per Store	34,884	36,678	38,051	38,941	39,641	40,167	40,558	39,355
Weeks in fiscal year (assumed 52.5 after 2010)	52	53	52	52	52	52.5	52.5	52.5
Average Weekly Revenue per Square Foot	16.46	17.07	18.51	19.62	20.59	21.23	22.19	23.79
Y/Y Change	1.22%	3.69%	8.48%	5.99%	4.96%	3.07%	4.55%	7.22%
Comparable store sales increase	15.0%	16.0%	15.0%	12.0%	10.0%	8.0%	7.6%	7.3%
<u>Sales</u>								
Sales from existing stores	5,432,857	7,160,212	8,996,205	10,741,836	12,319,244	13,749,450	15,170,666	16,567,756
Sales from new stores	739,740	662,576	594,720	457,477	411,729	346,407	277,125	230,938
Average weekly sales per square foot, existing stores	18.70	18.71	19.99	20.72	21.57	22.02	22.84	23.79
Average weekly sales per square foot, new stores	8.80	8.80	8.80	8.80	8.80	8.80	8.80	8.80
<u>Total Revenue</u>	<u>6,172,596</u>	<u>7,822,787</u>	<u>9,590,925</u>	<u>11,199,312</u>	<u>12,730,973</u>	<u>14,095,857</u>	<u>15,447,791</u>	<u>16,798,694</u>
<u>Cost of Goods Sold</u>								
Cost of Goods Sold								
Cost of Goods Sold, existing stores	3,316,751	4,371,299	5,492,170	6,557,875	7,520,881	8,394,020	9,261,670	-
Cost of Goods Sold, new stores	665,766	596,318	535,248	411,729	370,556	311,766	249,413	207,844
Rent	132,757	171,143	204,880	230,458	251,611	269,997	285,069	-
<u>Total Cost of Goods Sold</u>	<u>4,115,274</u>	<u>5,138,759</u>	<u>6,232,298</u>	<u>7,200,062</u>	<u>8,143,048</u>	<u>8,975,782</u>	<u>9,796,151</u>	<u>63.7%</u>
Cost of Goods Sold, existing stores (Percent of Sales)	61.05%	61.05%	61.05%	61.05%	61.05%	61.05%	61.05%	61.05%
Cost of Goods Sold, new stores (Percent of Sales)	90.00%	90.00%	90.00%	90.00%	90.00%	90.00%	90.00%	90.00%
Rent per square foot	20.73	21.56	22.00	22.00	22.00	22.00	22.00	22.00
<u>Operating Expenses</u>								
Direct store expenses (Percent of Sales)	22.50%	22.86%	23.21%	23.57%	23.93%	24.29%	24.64%	25.00%
General and administrative expenses (Percent of Sales)	3.20%	3.25%	3.30%	3.35%	3.40%	3.45%	3.50%	3.50%
Pre-opening and relocation costs (per new store)	1,521.45	1,521.45	1,521.45	1,521.45	1,521.45	1,521.45	1,521.45	1,521.45
<u>Total Operating Expenses</u>	<u>1,638,143</u>	<u>2,088,010</u>	<u>2,584,103</u>	<u>3,047,017</u>	<u>3,508,139</u>	<u>3,933,951</u>	<u>4,367,229</u>	<u>4,804,364</u>
Investment and other income (Percent of Cash)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

## Exhibit 2 (cont.)

	2014	2015	2016	2017	2018	2019	2020	2021
<u>Revenue Drivers</u>								
Stores at beginning of year	337	345	351	355	358	360	360	360
Stores opened (new)	8	6	4	3	2	-	-	-
Stores opened (relocated)	1	1	1	1	1	1	1	1
Net new stores	9	7	5	4	3	1	1	1
Acquired stores	-	-	-	-	-	-	-	-
Closed stores (final)	-	-	-	-	-	-	-	-
Closed stores (relocated)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Stores at end of year	345	351	355	358	360	360	360	360
Domestic Stores	322	328	332	335	337	337	337	337
International Stores	23	23	23	23	23	23	23	23
Average Square Footage per New Store	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Total Square Footage	13,262,587	13,262,587	13,262,587	13,262,587	13,262,587	13,262,587	13,262,587	13,262,587
Average Square Footage per Store	38,442	37,785	37,359	37,046	36,841	36,841	36,841	36,841
Weeks in fiscal year (assumed 52.5 after 2010)	52.5	52.5	52.5	52.5	52.5	52.5	52.5	52.5
Average Weekly Revenue per Square Foot	25.78	27.74	29.65	31.50	33.30	35.03	36.78	38.62
Y/Y Change	8.36%	7.60%	6.89%	6.22%	5.71%	5.21%	5.00%	5.00%
Comparable store sales increase	6.9%	6.5%	6.1%	5.8%	5.4%	5.0%	5.0%	5.0%
<u>Sales</u>								
Sales from existing stores	17,953,604	19,317,347	20,647,584	21,932,507	23,184,384	24,392,100	25,611,705	26,892,291
Sales from new stores	184,750	138,563	92,375	69,281	46,188	-	-	-
Average weekly sales per square foot, existing stores	25.78	27.74	29.65	31.50	33.30	35.03	36.78	38.62
Average weekly sales per square foot, new stores	8.80	8.80	8.80	8.80	8.80	8.80	8.80	8.80
<u>Total Revenue</u>	<u>18,138,354</u>	<u>19,455,910</u>	<u>20,739,959</u>	<u>22,001,788</u>	<u>23,230,572</u>	<u>24,392,100</u>	<u>25,611,705</u>	<u>26,892,291</u>
<u>Cost of Goods Sold</u>								
Cost of Goods Sold	-	-	-	-	-	-	-	-
Cost of Goods Sold, existing stores	-	-	-	-	-	-	-	-
Cost of Goods Sold, new stores	166,275	124,706	83,138	62,353	41,569	-	-	-
Rent	-	-	-	-	-	-	-	-
<u>Total Cost of Goods Sold</u>	<u>64.0%</u>	<u>64.0%</u>	<u>64.0%</u>	<u>64.0%</u>	<u>64.0%</u>	<u>64.0%</u>	<u>64.0%</u>	<u>64.0%</u>
Cost of Goods Sold, existing stores (Percent of Sales)	61.05%	61.05%	61.05%	61.05%	61.05%	61.05%	61.05%	61.05%
Cost of Goods Sold, new stores (Percent of Sales)	90.00%	90.00%	90.00%	90.00%	90.00%	90.00%	90.00%	90.00%
Rent per square foot	22.00	22.00	22.00	22.00	22.00	22.00	22.00	22.00
<u>Operating Expenses</u>								
Direct store expenses (Percent of Sales)	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
General and administrative expenses (Percent of Sales)	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Pre-opening and relocation costs (per new store)	1,521.45	1,521.45	1,521.45	1,521.45	1,521.45	1,521.45	1,521.45	1,521.45
<u>Total Operating Expenses</u>	<u>5,183,124</u>	<u>5,555,584</u>	<u>5,918,496</u>	<u>6,276,595</u>	<u>6,625,277</u>	<u>6,953,270</u>	<u>7,300,858</u>	<u>7,665,824</u>
Investment and other income (Percent of Cash)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

## Exhibit 2 (cont.)

	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Balance Sheet Assumptions</b>									
Current Assets									
Cash (Percent of Sales)		2.80%	0.24%	0.02%	0.08%	0.47%	5.27%	5.13%	5.20%
Restricted cash (Percent of Sales)		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.60%	0.70%
A/R (Percent of Sales)		1.16%	1.19%	1.19%	1.06%	1.15%	1.46%	1.68%	1.43%
Inventories (Percent of Sales)		6.55%	5.06%	5.10%	4.34%	4.02%	3.94%	3.96%	3.95%
Prepaid expenses		0.68%	0.60%	0.48%	0.51%	0.33%	0.40%	0.43%	0.43%
Current Liabilities									
A/P (Percent of Sales)		2.48%	3.07%	2.72%	2.22%	2.22%	2.31%	2.35%	2.35%
Accrued payroll, bonus, and other benefits (Percent of Sales)		2.04%	1.98%	2.04%	1.82%	2.21%	2.25%	2.60%	2.60%
Other accrued expenses (Percent of Sales)		2.41%	2.36%	2.57%	2.58%	1.91%	2.97%	3.32%	3.32%
Property, Plant & Equipment		429,122	561,227	719,841	872,972	1,063,465	1,263,643	1,541,297	1,889,689
% of sales		32.81%	37.60%	39.15%	38.42%	39.53%	40.13%	39.88%	40.00%
Accumulated depreciation		137,644	187,271	251,163	329,986	418,777	520,348	636,472	779,497
% of sales		10.5%	12.5%	13.7%	14.5%	15.6%	16.5%	16.5%	16.5%
Long-term investments		0.00%	1.58%	0.52%	0.21%	0.16%	0.07%	0.00%	0.00%
Goodwill		2.74%	3.20%	3.80%	2.96%	2.99%	2.56%	2.90%	2.38%
Intangible assets		0.93%	0.95%	0.75%	0.69%	0.85%	0.84%	0.64%	0.45%
Other assets		1.63%	1.27%	0.85%	0.67%	0.30%	0.18%	0.53%	0.11%
Net assets of discontinued operations		0.00%	4.27%	1.58%	0.81%	0.11%	0.00%	0.00%	0.00%
Deferred rent liabilities		0.61%	0.63%	0.59%	0.51%	0.45%	1.92%	1.81%	1.81%
Other long-term liabilities		0.52%	0.29%	0.09%	0.05%	0.14%	0.07%	0.04%	0.04%
Taxes									
Permanent Differences									
Taxes at statutory rate							66,572	88,438	119,296
Provision for income taxes							66,571	88,438	119,296
Provision as % of statutory taxes							100.00%	100.00%	100.00%
Assumed tax rate applicable to EBIT on DCF to account for permanent differences									0.00%
Deferred taxes (due to temporary differences)									
Deferred taxes carried forward									29,449
Deferred tax asset (not from losses)									21,340
% of sales									0.45%
Deferred tax liability									7,736
% of sales									0.16%
Tax-loss carryforward									8,109
Preliminary Taxes (from DCF)									
Adjustments for deferred taxes (non-loss)									
Taxes before using loss-carryforwards									
Less available carryforward									
Debt									
Market Value of Equity (Year End)		558,156	441,491	1,461,304	1,731,131	2,484,206	3,328,505	5,385,124	8,670,000
Target debt/value (market) - Includes notes payable and long-term debt (inc. current portions)		22.2%	32.8%	17.3%	12.9%	6.3%	4.8%	3.1%	0.2%
Valuation Time Adjustment (months)									1
Dividends Paid During Interim									16,858

## Exhibit 2 (cont.)

	2006	2007	2008	2009	2010	2011	2012	2013
<b>Balance Sheet Assumptions</b>								
Current Assets								
Cash (Percent of Sales)	5.00%	4.78%	4.56%	4.33%	4.11%	3.89%	3.67%	3.44%
Restricted cash (Percent of Sales)	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%
A/R (Percent of Sales)	1.56%	1.56%	1.56%	1.56%	1.56%	1.56%	1.56%	1.56%
Inventories (Percent of Sales)	3.95%	3.95%	3.95%	3.95%	3.95%	3.95%	3.95%	3.95%
Prepaid expenses	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%
Current Liabilities								
A/P (Percent of Sales)	2.35%	2.35%	2.35%	2.35%	2.35%	2.35%	2.35%	2.35%
Accrued payroll, bonus, and other benefits (Percent of Sales)	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%
Other accrued expenses (Percent of Sales)	3.32%	3.32%	3.32%	3.32%	3.32%	3.32%	3.32%	3.32%
Property, Plant & Equipment	2,469,038	3,073,238	3,699,357	4,239,740	4,728,647	5,134,919	5,517,068	5,792,922
% of sales	40.00%	39.29%	38.57%	37.86%	37.14%	36.43%	35.71%	35.00%
Accumulated depreciation	1,018,478	1,290,760	1,582,503	1,847,887	2,100,610	2,325,816	2,548,886	2,676,330
% of sales	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%
Long-term investments	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Goodwill	FLAT							
Intangible assets	FLAT							
Other assets	0.11%	0.11%	0.11%	0.11%	0.11%	0.11%	0.11%	0.11%
Net assets of discontinued operations	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred rent liabilities	1.81%	1.81%	1.81%	1.81%	1.81%	1.81%	1.81%	1.81%
Other long-term liabilities	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%
Taxes								
Permanent Differences								
Taxes at statutory rate								
Provision for income taxes								
Provision as % of statutory taxes								
Assumed tax rate applicable to EBIT on DCF to account for permanent differences	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred taxes (due to temporary differences)								
Deferred taxes carried forward								
Deferred tax asset (not from losses)	27,883	35,337	43,324	50,589	57,508	63,673	69,780	75,882
% of sales	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%
Deferred tax liability	10,108	12,810	15,705	18,339	20,847	23,082	25,296	27,508
% of sales	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%
Tax-loss carryforward	-	-	-	-	-	-	-	-
Preliminary Taxes (from DCF)	66,717	122,739	184,543	264,651	319,047	370,742	409,741	453,113
Adjustments for deferred taxes (non-loss)	4,171	4,752	5,092	4,632	4,411	3,930	3,893	3,890
Taxes before using loss-carryforwards	70,888	127,491	189,634	269,283	323,458	374,672	413,634	457,003
Less available carryforward	62,779	127,491	189,634	269,283	323,458	374,672	413,634	457,003
Debt								
Market Value of Equity (Year End)								
Target debt/value (market) - Includes notes payable and long-term debt (inc. current portions)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

## Exhibit 2 (cont.)

	2014	2015	2016	2017	2018	2019	2020	2021
<b>Balance Sheet Assumptions</b>								
Current Assets								
Cash (Percent of Sales)	3.22%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Restricted cash (Percent of Sales)	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%
A/R (Percent of Sales)	1.56%	1.56%	1.56%	1.56%	1.56%	1.56%	1.56%	1.56%
Inventories (Percent of Sales)	3.95%	3.95%	3.95%	3.95%	3.95%	3.95%	3.95%	3.95%
Prepaid expenses	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%
Current Liabilities								
A/P (Percent of Sales)	2.35%	2.35%	2.35%	2.35%	2.35%	2.35%	2.35%	2.35%
Accrued payroll, bonus, and other benefits (Percent of Sales)	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%
Other accrued expenses (Percent of Sales)	3.32%	3.32%	3.32%	3.32%	3.32%	3.32%	3.32%	3.32%
Property, Plant & Equipment	6,082,568	6,386,696	6,706,031	7,041,333	7,393,399	7,763,069	8,151,223	8,558,784
% of sales	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%
Accumulated depreciation	2,810,146	2,950,654	3,098,186	3,253,096	3,415,750	3,586,538	3,765,865	3,954,158
% of sales	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%
Long-term investments	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Goodwill								
Intangible assets								
Other assets	0.11%	0.11%	0.11%	0.11%	0.11%	0.11%	0.11%	0.11%
Net assets of discontinued operations	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred rent liabilities	1.81%	1.81%	1.81%	1.81%	1.81%	1.81%	1.81%	1.81%
Other long-term liabilities	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%
Taxes								
Permanent Differences								
Taxes at statutory rate								
Provision for income taxes								
Provision as % of statutory taxes								
Assumed tax rate applicable to EBIT on DCF to account for permanent differences	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred taxes (due to temporary differences)								
Deferred taxes carried forward								
Deferred tax asset (not from losses)	81,934	87,885	93,685	99,385	104,936	110,183	115,692	121,476
% of sales	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%
Deferred tax liability	29,702	31,859	33,962	36,028	38,040	39,943	41,940	44,037
% of sales	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%
Tax-loss carryforward	-	-	-	-	-	-	-	-
Preliminary Taxes (from DCF)	472,225	509,706	537,043	570,964	603,671	634,337	666,083	699,416
Adjustments for deferred taxes (non-loss)	3,858	3,794	3,698	3,634	3,538	3,345	3,512	3,688
Taxes before using loss-carryforwards	476,082	513,500	540,740	574,597	607,209	637,682	669,595	703,103
Less available carryforward	476,082	513,500	540,740	574,597	607,209	637,682	669,595	703,103
Debt								
Market Value of Equity (Year End)								
Target debt/value (market) - Includes notes payable and long-term debt (inc. current portions)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

### Exhibit 3: Projected Income Statements

	2006	2007	2008	2009	2010	2011	2012	2013
Sales	6,172,596	7,822,787	9,590,925	11,199,312	12,730,973	14,095,857	15,447,791	16,798,694
Cost of Goods Sold	4,115,274	5,138,759	6,232,298	7,200,062	8,143,048	8,975,782	9,796,151	10,696,861
Gross Profit	2,057,323	2,684,028	3,358,627	3,999,250	4,587,925	5,120,075	5,651,640	6,101,833
Operating Expenses								
Direct store expenses	1,388,834	1,788,066	2,226,465	2,639,838	3,046,340	3,423,280	3,806,777	4,199,673
General and administrative expenses	197,580	254,300	316,559	375,228	432,892	486,329	540,673	587,954
Pre-opening and relocation costs	51,729	45,644	41,079	31,951	28,908	24,343	19,779	16,736
Amortization expense								
Asset disposal costs								
Merger expenses								
Store closure costs								
Total Operating Expenses	1,638,143	2,088,010	2,584,103	3,047,017	3,508,139	3,933,951	4,367,229	4,804,364
Operating Income/EBITDA	419,179	596,018	774,524	952,233	1,079,785	1,186,123	1,284,411	1,297,469
Depreciation & amortization (reclass)	238,982	272,282	291,743	265,384	252,724	225,206	223,069	127,444
EBIT	180,198	323,737	482,781	686,849	827,062	960,917	1,061,342	1,170,025
Interest expense	-	-	-	-	-	-	-	-
Investment and other income	-	-	-	-	-	-	-	-
Earnings Before Income Taxes	180,198	323,737	482,781	686,849	827,062	960,917	1,061,342	1,170,025
Income Taxes	72,079	129,495	193,112	274,740	330,825	384,367	424,537	468,010
Net Earnings	108,119	194,242	289,669	412,110	496,237	576,550	636,805	702,015

	2014	2015	2016	2017	2018	2019	2020	2021
Sales	18,138,354	19,455,910	20,739,959	22,001,788	23,230,572	24,392,100	25,611,705	26,892,291
Cost of Goods Sold	11,601,744	12,444,485	13,265,795	14,072,893	14,858,853	15,601,796	16,381,886	17,200,980
Gross Profit	6,536,610	7,011,425	7,474,164	7,928,896	8,371,719	8,790,305	9,229,820	9,691,311
Operating Expenses								
Direct store expenses	4,534,589	4,863,977	5,184,990	5,500,447	5,807,643	6,098,025	6,402,926	6,723,073
General and administrative expenses	634,842	680,957	725,899	770,063	813,070	853,724	896,410	941,230
Pre-opening and relocation costs	13,693	10,650	7,607	6,086	4,564	1,521	1,521	1,521
Amortization expense								
Asset disposal costs								
Merger expenses								
Store closure costs								
Total Operating Expenses	5,183,124	5,555,584	5,918,496	6,276,595	6,625,277	6,953,270	7,300,858	7,665,824
Operating Income/EBITDA	1,353,486	1,455,840	1,555,668	1,652,300	1,746,441	1,837,034	1,928,962	2,025,486
Depreciation & amortization (reclass)	133,816	140,507	147,533	154,909	162,655	170,788	179,327	188,293
EBIT	1,219,670	1,315,333	1,408,136	1,497,391	1,583,786	1,666,247	1,749,635	1,837,193
Interest expense	-	-	-	-	-	-	-	-
Investment and other income	-	-	-	-	-	-	-	-
Earnings Before Income Taxes	1,219,670	1,315,333	1,408,136	1,497,391	1,583,786	1,666,247	1,749,635	1,837,193
Income Taxes	487,868	526,133	563,254	598,956	633,515	666,499	699,854	734,877
Net Earnings	731,802	789,200	844,881	898,435	950,272	999,748	1,049,781	1,102,316



## Exhibit 4: Common-Sized Income Statements, Historical and Projects

### Whole Foods Market -Common Sized

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	67.1%	66.7%	66.0%	65.6%	65.3%	65.4%	65.8%	65.3%	64.5%
Gross Profit	32.9%	33.3%	34.0%	34.4%	34.7%	34.6%	34.2%	34.7%	35.5%
Operating Expenses									
Direct store expenses	0.0%	0.0%	0.0%	21.6%	21.9%	21.9%	22.1%	22.6%	22.6%
General and administrative expenses	24.9%	24.4%	24.8%	3.3%	3.6%	3.6%	3.2%	3.1%	3.2%
Pre-opening and relocation costs	0.5%	0.3%	0.4%	0.6%	0.4%	0.5%	0.4%	0.3%	0.5%
Amortization expense	0.0%	0.2%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
Asset disposal costs	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Merger expenses	0.4%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Store closure costs	0.0%	0.0%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%
Total Operating Expenses	25.8%	25.0%	25.9%	25.6%	26.5%	26.0%	25.7%	26.0%	26.3%
Operating Income/EBITDA	7.1%	8.2%	8.2%	8.9%	8.2%	8.7%	8.6%	8.7%	9.2%
Depreciation & amortization (reclass)	3.1%	3.0%	3.3%	3.5%	3.5%	3.3%	3.2%	3.0%	3.0%
EBIT	4.0%	5.2%	4.8%	5.4%	4.7%	5.4%	5.4%	5.7%	6.2%
Interest expense	-0.5%	-0.6%	-0.6%	-0.8%	-0.8%	-0.4%	-0.3%	-0.2%	-0.1%
Investment and other income	0.0%	0.2%	0.1%	-0.4%	0.1%	0.1%	0.2%	0.2%	0.2%
Earnings Before Income Taxes	3.5%	4.8%	4.4%	4.1%	4.0%	5.1%	5.3%	5.7%	6.3%
Income Taxes	1.1%	1.8%	1.7%	1.8%	1.6%	2.0%	2.1%	2.3%	2.5%
Equity in losses of unconsolidated affiliates	0.0%	0.0%	0.0%	0.8%	0.2%	0.0%	0.0%	0.0%	0.0%
Gain/(loss) from discontinued operations, net of taxes	0.0%	0.4%	0.1%	-0.5%	0.7%	0.0%	0.0%	0.0%	0.0%
Loss on disposal, net of income taxes	0.0%	0.0%	0.0%	-1.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Cumulative effect of change in accounting principle, net	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.3%
Net Earnings	2.4%	3.5%	2.8%	-0.3%	2.9%	3.0%	3.2%	3.4%	3.5%

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	66.7%	65.7%	65.0%	64.3%	64.0%	63.7%	63.4%	63.7%
Gross Profit	33.3%	34.3%	35.0%	35.7%	36.0%	36.3%	36.6%	36.3%
Operating Expenses								
Direct store expenses	22.5%	22.9%	23.2%	23.6%	23.9%	24.3%	24.6%	25.0%
General and administrative expenses	3.2%	3.3%	3.3%	3.4%	3.4%	3.5%	3.5%	3.5%
Pre-opening and relocation costs	0.8%	0.6%	0.4%	0.3%	0.2%	0.2%	0.1%	0.1%
Amortization expense	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Asset disposal costs	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Merger expenses	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Store closure costs	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Operating Expenses	26.5%	26.7%	26.9%	27.2%	27.6%	27.9%	28.3%	28.6%
Operating Income/EBITDA	6.8%	7.6%	8.1%	8.5%	8.5%	8.4%	8.3%	7.7%
Depreciation & amortization (reclass)	3.9%	3.5%	3.0%	2.4%	2.0%	1.6%	1.4%	0.8%
EBIT	2.9%	4.1%	5.0%	6.1%	6.5%	6.8%	6.9%	7.0%
Interest expense	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Investment and other income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Earnings Before Income Taxes	2.9%	4.1%	5.0%	6.1%	6.5%	6.8%	6.9%	7.0%
Income Taxes	1.2%	1.7%	2.0%	2.5%	2.6%	2.7%	2.7%	2.8%
Equity in losses of unconsolidated affiliates	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gain/(loss) from discontinued operations, net of taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loss on disposal, net of income taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cumulative effect of change in accounting principle, net	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Earnings	1.8%	2.5%	3.0%	3.7%	3.9%	4.1%	4.1%	4.2%

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	64.0%	64.0%	64.0%	64.0%	64.0%	64.0%	64.0%	64.0%
Gross Profit	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
Operating Expenses								
Direct store expenses	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
General and administrative expenses	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Pre-opening and relocation costs	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Amortization expense	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Asset disposal costs	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Merger expenses	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Store closure costs	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Operating Expenses	28.6%	28.6%	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%
Operating Income/EBITDA	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Depreciation & amortization (reclass)	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
EBIT	6.7%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%
Interest expense	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Investment and other income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Earnings Before Income Taxes	6.7%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%
Income Taxes	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Equity in losses of unconsolidated affiliates	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gain/(loss) from discontinued operations, net of taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loss on disposal, net of income taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cumulative effect of change in accounting principle, net	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Earnings	4.0%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%

## Exhibit 5: Projected Balance Sheets

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Assets</b>								
Current Assets								
Cash & cash equivalents	308,630	373,755	436,920	485,304	523,384	548,172	566,419	578,622
Restricted cash	43,208	54,760	67,136	78,395	89,117	98,671	108,135	117,591
Marketable securities	-	-	-	-	-	-	-	-
Trade accounts receivable	96,000	121,665	149,164	174,178	198,000	219,227	240,253	261,263
Merchandise inventories	243,558	308,671	378,438	441,902	502,338	556,194	609,539	662,842
Prepaid expenses and other current assets	26,674	33,805	41,446	48,397	55,016	60,914	66,756	72,594
Deferred income taxes, current	27,883	35,337	43,324	50,589	57,508	63,673	69,780	75,882
Total current assets	745,953	927,993	1,116,429	1,278,765	1,425,363	1,546,851	1,660,882	1,768,794
Gross property and equipment	2,469,038	3,073,238	3,699,357	4,239,740	4,728,647	5,134,919	5,517,068	5,792,922
Less accumulated depreciation and amortization	(1,018,478)	(1,290,760)	(1,582,503)	(1,847,887)	(2,100,610)	(2,325,816)	(2,548,886)	(2,676,330)
Net property and equipment	1,450,560	1,782,478	2,116,854	2,391,853	2,628,036	2,809,103	2,968,183	3,116,592
Long-term investments	-	-	-	-	-	-	-	-
Goodwill	112,482	112,482	112,482	112,482	112,482	112,482	112,482	112,482
Intangible assets, net of amortization	21,127	21,127	21,127	21,127	21,127	21,127	21,127	21,127
Deferred income taxes	-	-	-	-	-	-	-	-
Other assets	6,754	8,559	10,494	12,254	13,930	15,423	16,902	18,380
Net assets of discontinued operations	-	-	-	-	-	-	-	-
Total Assets	2,336,876	2,852,639	3,377,386	3,816,481	4,200,938	4,504,986	4,779,575	5,037,376
<b>Liabilities and Stockholders' Equity</b>								
Current Liabilities								
Current maturities of long-term debt	-	-	-	-	-	-	-	-
Trade accounts payable	144,936	183,683	225,200	262,966	298,930	330,978	362,722	394,442
Accrued payroll, bonus, and other benefits	160,563	203,488	249,481	291,319	331,161	366,665	401,832	436,972
Dividends payable	16,858	16,858	16,858	16,858	16,858	16,858	16,858	16,858
Other accrued expenses	204,950	259,742	318,450	371,854	422,710	468,029	512,917	557,772
Total current liabilities	527,307	663,771	809,989	942,997	1,069,659	1,182,529	1,294,329	1,406,043
Long-term debt and capital lease obligations, less current	-	-	-	-	-	-	-	-
Deferred rent liabilities	111,902	141,818	173,872	203,030	230,798	255,541	280,050	304,541
Deferred income taxes	10,108	12,810	15,705	18,339	20,847	23,082	25,296	27,508
Other long-term liabilities	2,525	3,200	3,923	4,581	5,208	5,766	6,319	6,872
Total Liabilities	651,842	821,599	1,003,490	1,168,947	1,326,511	1,466,919	1,605,994	1,744,964
Stockholders' Equity								
Common stock	1,024,206	1,169,214	1,213,832	1,213,832	1,213,832	1,213,832	1,213,832	1,213,832
Treasury stock	-	-	-	-	-	-	-	-
Accumulated other comprehensive income	3,147	3,147	3,147	3,147	3,147	3,147	3,147	3,147
Retained earnings/(deficit)	625,866	820,108	1,109,776	1,373,326	1,588,441	1,738,457	1,859,176	1,963,110
Total Stockholders' Equity	1,685,034	2,031,040	2,373,895	2,647,534	2,874,426	3,038,067	3,173,581	3,292,412
Total Liabilities and Stockholders' Equity	2,336,876	2,852,639	3,377,386	3,816,481	4,200,938	4,504,986	4,779,575	5,037,376
Total Capital	1,685,034	2,031,040	2,373,895	2,647,534	2,874,426	3,038,067	3,173,581	3,292,412

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<b>Assets</b>								
Current Assets								
Cash & cash equivalents	584,458	583,677	622,199	660,054	696,917	731,763	768,351	806,769
Restricted cash	126,968	136,191	145,180	154,013	162,614	170,745	179,282	188,246
Marketable securities	-	-	-	-	-	-	-	-
Trade accounts receivable	282,099	302,590	322,560	342,185	361,296	379,361	398,329	418,245
Merchandise inventories	715,703	767,691	818,357	868,146	916,631	962,463	1,010,586	1,061,115
Prepaid expenses and other current assets	78,383	84,077	89,626	95,079	100,389	105,408	110,678	116,212
Deferred income taxes, current	81,934	87,885	93,685	99,385	104,936	110,183	115,692	121,476
Total current assets	1,869,545	1,962,112	2,091,607	2,218,861	2,342,783	2,459,922	2,582,918	2,712,064
Gross property and equipment	6,082,568	6,386,696	6,706,031	7,041,333	7,393,399	7,763,069	8,151,223	8,558,784
Less accumulated depreciation and amortization	(2,810,146)	(2,950,654)	(3,098,186)	(3,253,096)	(3,415,750)	(3,586,538)	(3,765,865)	(3,954,158)
Net property and equipment	3,272,421	3,436,043	3,607,845	3,788,237	3,977,649	4,176,531	4,385,358	4,604,626
Long-term investments	-	-	-	-	-	-	-	-
Goodwill	112,482	112,482	112,482	112,482	112,482	112,482	112,482	112,482
Intangible assets, net of amortization	21,127	21,127	21,127	21,127	21,127	21,127	21,127	21,127
Deferred income taxes	-	-	-	-	-	-	-	-
Other assets	19,846	21,288	22,693	24,073	25,418	26,689	28,023	29,424
Net assets of discontinued operations	-	-	-	-	-	-	-	-
Total Assets	5,295,421	5,553,051	5,855,753	6,164,780	6,479,458	6,796,751	7,129,908	7,479,723
<b>Liabilities and Stockholders' Equity</b>								
Current Liabilities								
Current maturities of long-term debt	-	-	-	-	-	-	-	-
Trade accounts payable	425,898	456,835	486,985	516,613	545,466	572,739	601,376	631,445
Accrued payroll, bonus, and other benefits	471,819	506,092	539,493	572,316	604,279	634,493	666,218	699,529
Dividends payable	16,858	16,858	16,858	16,858	16,858	16,858	16,858	16,858
Other accrued expenses	602,253	646,000	688,635	730,531	771,331	809,898	850,393	892,912
Total current liabilities	1,516,828	1,625,784	1,731,970	1,836,318	1,937,934	2,033,988	2,134,844	2,240,744
Long-term debt and capital lease obligations, less current	-	-	-	-	-	-	-	-
Deferred rent liabilities	328,827	352,713	375,991	398,867	421,143	442,200	464,310	487,526
Deferred income taxes	29,702	31,859	33,962	36,028	38,040	39,943	41,940	44,037
Other long-term liabilities	7,420	7,959	8,484	9,000	9,503	9,978	10,477	11,001
Total Liabilities	1,882,776	2,018,315	2,150,407	2,280,213	2,406,620	2,526,108	2,651,571	2,783,306
Stockholders' Equity								
Common stock	1,213,832	1,213,832	1,213,832	1,213,832	1,213,832	1,213,832	1,213,832	1,213,832
Treasury stock	-	-	-	-	-	-	-	-
Accumulated other comprehensive income	3,147	3,147	3,147	3,147	3,147	3,147	3,147	3,147
Retained earnings/(deficit)	2,067,699	2,173,363	2,317,762	2,468,990	2,627,418	2,793,060	2,966,983	3,149,601
Total Stockholders' Equity	3,412,645	3,534,736	3,705,346	3,884,567	4,072,838	4,270,643	4,478,337	4,696,417
Total Liabilities and Stockholders' Equity	5,295,421	5,553,051	5,855,753	6,164,780	6,479,458	6,796,751	7,129,908	7,479,723
Total Capital	3,412,645	3,534,736	3,705,346	3,884,567	4,072,838	4,270,643	4,478,337	4,696,417

## Exhibit 6: Discounted Cash Flow Valuation

	<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>
<b>FCF to Debt &amp; Equity</b>									
Sales	4,724,223	6,172,596	7,822,787	9,590,925	11,199,312	12,730,973	14,095,857	15,447,791	16,798,694
<i>Y/Y Growth</i>		<i>30.66%</i>	<i>26.73%</i>	<i>22.60%</i>	<i>16.77%</i>	<i>13.68%</i>	<i>10.72%</i>	<i>9.59%</i>	<i>8.74%</i>
COGS	3,049,473	4,115,274	5,138,759	6,232,298	7,200,062	8,143,048	8,975,782	9,796,151	10,696,861
<i>% of Sales</i>		<i>66.67%</i>	<i>65.69%</i>	<i>64.98%</i>	<i>64.29%</i>	<i>63.96%</i>	<i>63.68%</i>	<i>63.41%</i>	<i>63.68%</i>
Operating Expenses	1,382,134	1,877,125	2,360,291	2,875,846	3,312,401	3,760,863	4,159,157	4,590,298	4,931,808
<i>% of Sales</i>		<i>30.41%</i>	<i>30.17%</i>	<i>29.99%</i>	<i>29.58%</i>	<i>29.54%</i>	<i>29.51%</i>	<i>29.71%</i>	<i>29.36%</i>
EBIT	292,615	180,198	323,737	482,781	686,849	827,062	960,917	1,061,342	1,170,025
<i>EBIT Margin</i>		<i>2.92%</i>	<i>4.14%</i>	<i>5.03%</i>	<i>6.13%</i>	<i>6.50%</i>	<i>6.82%</i>	<i>6.87%</i>	<i>6.96%</i>
EBIT adjusted for disclosed permanent differences		180,198	323,737	482,781	686,849	827,062	960,917	1,061,342	1,170,025
Pre-tax Options		13,404	16,889	21,424	25,221	29,444	34,062	36,989	37,242
EBIT adjusted for all permanent differences		166,793	306,847	461,357	661,628	797,618	926,855	1,024,353	1,132,783
Preliminary Taxes		66,717	122,739	184,543	264,651	319,047	370,742	409,741	453,113
Adjusted NOPAT		113,480	200,998	298,238	422,198	508,014	590,175	651,601	716,912
<i>NOPAT Margin</i>		<i>1.84%</i>	<i>2.57%</i>	<i>3.11%</i>	<i>3.77%</i>	<i>3.99%</i>	<i>4.19%</i>	<i>4.22%</i>	<i>4.27%</i>
<i>NOPAT Growth</i>			<i>77.12%</i>	<i>48.38%</i>	<i>41.56%</i>	<i>20.33%</i>	<i>16.17%</i>	<i>10.41%</i>	<i>10.02%</i>
Plus (D+E) <sub>BEG</sub>		1,344,741	1,685,034	2,031,040	2,373,895	2,647,534	2,874,426	3,038,067	3,173,581
Minus (D+E) <sub>END</sub>		(1,685,034)	(2,031,040)	(2,373,895)	(2,647,534)	(2,874,426)	(3,038,067)	(3,173,581)	(3,292,412)
<b>FCF to Debt &amp; Equity</b>		<b>(226,812)</b>	<b>(145,008)</b>	<b>(44,617)</b>	<b>148,560</b>	<b>281,122</b>	<b>426,534</b>	<b>516,087</b>	<b>598,081</b>
<i>Y/Y Growth</i>			<i>-36.07%</i>	<i>-69.23%</i>	<i>-432.97%</i>	<i>89.23%</i>	<i>51.73%</i>	<i>21.00%</i>	<i>15.89%</i>
Present Value of FCF		(207,267)	(121,093)	(34,048)	103,599	179,148	248,391	274,643	290,850
		<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Sales		18,138,354	19,455,910	20,739,959	22,001,788	23,230,572	24,392,100	25,611,705	26,892,291
<i>Y/Y Growth</i>		<i>7.97%</i>	<i>7.26%</i>	<i>6.60%</i>	<i>6.08%</i>	<i>5.58%</i>	<i>5.00%</i>	<i>5.00%</i>	<i>5.00%</i>
COGS		11,601,744	12,444,485	13,265,795	14,072,893	14,858,853	15,601,796	16,381,886	17,200,980
<i>% of Sales</i>		<i>63.96%</i>	<i>63.96%</i>	<i>63.96%</i>	<i>63.96%</i>	<i>63.96%</i>	<i>63.96%</i>	<i>63.96%</i>	<i>63.96%</i>
Operating Expenses		5,316,940	5,696,092	6,066,028	6,431,505	6,787,932	7,124,058	7,480,184	7,854,118
<i>% of Sales</i>		<i>29.31%</i>	<i>29.28%</i>	<i>29.25%</i>	<i>29.23%</i>	<i>29.22%</i>	<i>29.21%</i>	<i>29.21%</i>	<i>29.21%</i>
EBIT		1,219,670	1,315,333	1,408,136	1,497,391	1,583,786	1,666,247	1,749,635	1,837,193
<i>EBIT Margin</i>		<i>6.72%</i>	<i>6.76%</i>	<i>6.79%</i>	<i>6.81%</i>	<i>6.82%</i>	<i>6.83%</i>	<i>6.83%</i>	<i>6.83%</i>
EBIT adjusted for disclosed permanent differences		1,219,670	1,315,333	1,408,136	1,497,391	1,583,786	1,666,247	1,749,635	1,837,193
Pre-tax Options		39,108	41,067	65,529	69,981	74,610	80,405	84,429	88,654
EBIT adjusted for all permanent differences		1,180,562	1,274,266	1,342,607	1,427,409	1,509,176	1,585,842	1,665,207	1,748,540
Preliminary Taxes		472,225	509,706	537,043	570,964	603,671	634,337	666,083	699,416
Adjusted NOPAT		747,445	805,626	871,093	926,427	980,116	1,031,910	1,083,553	1,137,777
<i>NOPAT Margin</i>		<i>4.12%</i>	<i>4.14%</i>	<i>4.20%</i>	<i>4.21%</i>	<i>4.22%</i>	<i>4.23%</i>	<i>4.23%</i>	<i>4.23%</i>
<i>NOPAT Growth</i>		<i>4.26%</i>	<i>7.78%</i>	<i>8.13%</i>	<i>6.35%</i>	<i>5.80%</i>	<i>5.28%</i>	<i>5.00%</i>	<i>5.00%</i>
Plus (D+E) <sub>BEG</sub>		3,292,412	3,412,645	3,534,736	3,705,346	3,884,567	4,072,838	4,270,643	4,478,337
Minus (D+E) <sub>END</sub>		(3,412,645)	(3,534,736)	(3,705,346)	(3,884,567)	(4,072,838)	(4,270,643)	(4,478,337)	(4,696,417)
<b>FCF to Debt &amp; Equity</b>		<b>627,212</b>	<b>683,536</b>	<b>700,483</b>	<b>747,206</b>	<b>791,845</b>	<b>834,106</b>	<b>875,858</b>	<b>919,698</b>
<i>Y/Y Growth</i>		<i>4.87%</i>	<i>8.98%</i>	<i>2.48%</i>	<i>6.67%</i>	<i>5.97%</i>	<i>5.34%</i>	<i>5.01%</i>	<i>5.01%</i>
Present Value of FCF		278,732	277,586	259,954	253,398	245,396	236,217	226,667	217,502
Cumulative PV of FCF		2,512,172							
Terminal Value		20,760,678							
PV of Terminal Value		5,372,736							
Present Value		7,884,909							
Plus Excess Cash		-							
Enterprise Value		7,884,909							
Less Value of Debt		(19,288)							
Less Options Overhang		(404,888)							
Value of Equity		7,865,621							
Receipt Adjustment		8,236,485							
Timing Adjustment		8,281,712							
Shares outstanding		67,431							
<b>Value per share</b>	<b>\$</b>	<b>122.82</b>							

## Exhibit 7: Sensitivity Analysis

### DCF

		WACC						
		8.50%	8.81%	9.12%	9.43%	10.29%	11.14%	12.00%
Terminal Growth Rate	3.0%	119.57	111.08	103.49	96.67	80.99	68.81	59.12
	3.7%	130.19	120.13	111.25	103.37	85.57	72.04	61.46
	4.3%	144.20	131.87	121.18	111.82	91.18	75.91	64.20
	5.0%	163.55	147.72	134.32	122.82	98.19	80.61	67.46
	5.3%	176.28	157.93	142.62	129.66	102.41	83.36	69.34
	5.7%	192.00	170.30	152.52	137.71	107.24	86.45	71.42
	6.0%	211.92	185.60	164.55	147.33	112.81	89.94	73.72

### Terminal P/E

		WACC						
		8.50%	8.81%	9.12%	9.43%	10.29%	11.14%	12.00%
P/E	12.00	85.27	81.75	78.38	75.15	66.91	59.58	53.05
	13.84	93.02	89.16	85.45	81.91	72.88	64.85	57.72
	15.67	100.78	96.56	92.53	88.67	78.85	70.13	62.38
	17.51	108.53	103.97	99.61	95.43	84.82	75.40	67.05
	19.01	114.84	110.00	105.37	100.94	89.68	79.70	70.85
	20.50	121.16	116.04	111.14	106.45	94.54	84.00	74.65
	22.00	127.48	122.07	116.90	111.96	99.41	88.29	78.45

### Same Store Sales

		WACC						
		8.50%	8.81%	9.12%	9.43%	10.29%	11.14%	12.00%
Same-Store Sales	2.0%	133.58	121.10	110.50	101.40	81.81	67.73	57.13
	3.0%	143.05	129.52	118.03	108.17	87.00	71.81	60.40
	4.0%	153.03	138.38	125.96	115.31	92.45	76.10	63.85
	5.0%	163.55	147.72	134.32	122.82	98.19	80.61	67.46
	6.0%	174.62	157.56	143.11	130.72	104.23	85.35	71.27
	7.0%	186.28	167.91	152.36	139.04	110.58	90.34	75.26
	8.0%	198.55	178.80	162.09	147.79	117.26	95.57	79.46

### Debt

		WACC						
		8.50%	8.81%	9.12%	9.43%	10.29%	11.14%	12.00%
Debt-to-Value	0.0%	163.55	147.72	134.32	122.82	98.19	80.61	67.46
	5.7%	163.55	152.82	143.23	134.61	103.49	82.50	67.46
	11.3%	163.55	158.23	153.19	148.42	109.25	84.46	67.46
	17.0%	163.55	163.96	164.38	164.80	115.55	86.50	67.46
	23.0%	163.55	170.43	177.83	185.80	122.90	88.74	67.46
	29.0%	163.55	177.36	193.30	211.90	131.04	91.08	67.46
	35.0%	163.55	184.78	211.26	245.18	140.13	93.51	67.46

# Important Disclaimer

**Please read this document before reading this report.**

This report has been written by MBA students at Yale's School of Management in partial fulfillment of their course requirements. *The report is a **student and not a professional** report.* It is intended solely to serve as an example of student work at Yale's School of Management. It is not intended as investment advice. It is based on publicly available information and may not be complete analyses of all relevant data.

If you use this report for any purpose, you do so at your own risk. **YALE UNIVERSITY, YALE SCHOOL OF MANAGEMENT, AND YALE UNIVERSITY'S OFFICERS, FELLOWS, FACULTY, STAFF, AND STUDENTS MAKE NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, ABOUT THE ACCURACY OR SUITABILITY FOR ANY USE OF THESE REPORTS, AND EXPRESSLY DISCLAIM RESPONSIBILITY FOR ANY LOSS OR DAMAGE, DIRECT OR INDIRECT, CAUSED BY USE OF OR RELIANCE ON THESE REPORTS.**