

Whole Foods tamping down expansion forecast



AUSTIN, TEXAS — Whole Foods Market, Inc. will close nine of its 469 stores this quarter as the company sets a new strategic direction in the face of increasing competition.

“We will continue to grow but no longer have a goal of 1,200-plus stores,” said John Mackey, co-founder and chief executive officer of Whole Foods Market, on Feb. 8 during a conference call with financial analysts to discuss first-quarter earnings. “We remain optimistic about the future growth potential for our 365 format (smaller stores with lower prices), but want to see how this next round of stores performs before getting more aggressive.”

Net income for the first quarter ended Jan. 15 was \$95 million, equal to 30c per share on the common stock, down from \$157 million, or 46c per share, in the year-ago period. Sales rose to \$4,918 million from \$4,829 million, driven by revenue from new stores that was offset by a decline in comparable store sales of 2.4%.

Results included a \$34 million charge related to store and facility

closures and a \$13 million charge associated with the separation agreement of Walter Robb, who stepped down from his role of co-c.e.o. at the end of last year. During the quarter, the company opened 13 stores, including two relocations, and so far in the second quarter the company has opened three stores, including one relocation, with plans to open three additional stores, including one relocation. The company has closed a commissary kitchen and expects to close its last two remaining commissary kitchens during the second quarter.

“Over the last two years, we have moderated our lease signings, ending square footage growth, and capital expenditures as a per cent of sales,” Mr. Mackey said. “We have terminated four leases in development to date and are continually evaluating our pipeline.

“We are also continually evaluating stores on a case by case basis, balancing the age, size and performance trends of the store, with the potential returns from additional capital investments, monitoring lease renewals, and

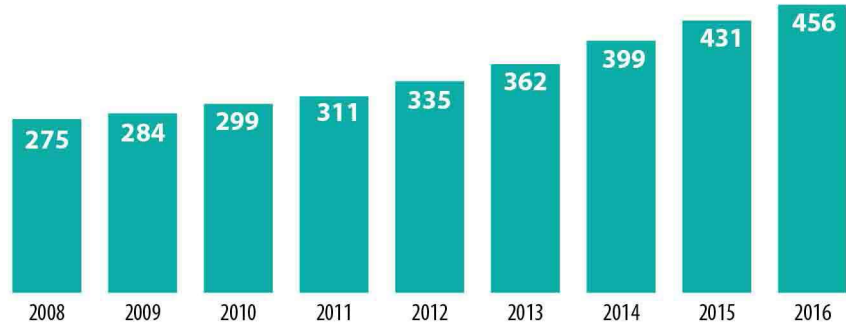
taking into account how each store fits into our longer term strategy for that particular market.”

The company has lowered its forecast for full-year sales and earnings per share to reflect year-to-date sales and comp trends, lost sales related to store closures and expected costs related to strategic actions. Whole Foods now expects sales growth of at least 1.5% and a decline in comparable store sales of 2.5%. The company also expects to incur a \$30 million charge in the second quarter related to store and facility closings. The company expects a decline in operating margin of up to approximately 85 basis points for the year.

“Given the competitive landscape continues to be very dynamic, and is uncertain how long the deflationary environment will continue, we believe it is appropriate to reset comp expectations at this time,” Mr. Mackey said.

In an effort to improve store traffic and sales, Whole Foods in recent years has offered coupons and discounts and launched its first-ever television marketing campaign. Now, the retailer is refocusing on its

Number of stores of Whole Foods Market worldwide



Source: Whole Foods Market, Inc.

core consumer, Mr. Mackey said.

“Just like the conventional supermarkets are trying their very best to keep their customers from eroding to Whole Foods Market, we’re going to do the best job that we can to keep our core customers from migrating back over to those guys,” he said. “We’re refocusing on our very best customers, and that means we’re decelerating our growth. We are focused on data through

category management, through managing our company a lot more with data and marketing information.

“And so, I do think the world is very different today than it was five years ago. And Whole Foods Market is adapting to the new world it finds itself in, and we think we’re making good strategic decisions that position ourselves to create a great deal of shareholder value in the future.” **FBN**