

>: Game Over for Whole Foods?

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Just last week while I was in Northern California, I had my first ever *Whole Foods* (WFMI) experience.

Having heard so many people gush on about Whole Foods, I was a little underwhelmed. For those of you from my neck of the woods it's very similar to Wegmans --essentially an upscale, natural (whatever that means) gourmet super market. (I think that gourmet bit means that they get to charge you a 30% premium above and beyond your friendly neighborhood Wal-Mart or Albertsons.)

Whole Foods has preached on for years about how they are a "recession proof" (that's a stretch, let's say resistant) company. It's a good pitch, after all they sell to the affluent and why should the affluent care about the economy?

Well apparently they do. Whole Foods announced disastrous numbers last night. Not only are earnings down 31%, but they are also eliminating the dividend! They went on to say that they are cutting new store openings this year from 30 down to 15.

Now, short term this is a punch in the gut for shareholders, no question. Long term, though, you've got to admire a management team that is this decisive and this quick to take action. Too many CEO's live in a hope bubble and refuse to make the tough choices. Why should they? Worst case they get fired and parachute out with millions.

Whole Foods is a little bit different, though. The guy that runs this operation is John Mackey. He's no hired gun; he co-founded the company back in 1980. Long story short, the guy's an owner, not a renter.

What we are witnessing is a true professional operator at work. He's making the tough choices and cutting costs as business contracts. A lesser manager would simply try to "grow" their way to higher earnings by either acquisitions or accelerating expansion plans.

Now unfortunately the company has macro conditions against them in a big way. Soft commodity (fruit, corn, sugar etc.) prices have been sky rocketing and pressuring their margins.

The company is trying to reposition itself away from its hoity toity and expensive image over the short term to get more traffic, but that's going to be a tough sell. The store is nicknamed by some as *Whole Payche* which surely can't be helpful as Americans across all income strata start pinching their collective pennies.

A quick look at most of the food commodities clearly shows prices moderating here. Declining agriculture commodity prices will surely help them, so they have the wind at their back there.

John Mackey knows that at some point the cycle will turn. When it does he's going to make darn sure that his company is still in business and in a great cash position when the shoppers come back.

But is all this enough to make the stock a buy here?

Probably not. Remember that stock prices live and die based upon earnings growth. We are a ways off before \$5 a pound cherries and \$14 a pound cheeses become a must have again for the average Whole Foods shopper. Without those higher margin sales, all we have is a low margin supermarket trading at 18x earnings.

That said, keep your eye on this one because when consumer spending reawakens, it's well run companies like this one that will be among the first to roar back.



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