Whole Foods Market (Underweight)

Summary: Whole Foods Market Inc. operates a chain of natural and organic-based supermarkets in the United States, Canada, and the UK.

Company Highlights

- Whole Foods Market outperforms the competition in almost every aspect of its business: sales growth, productivity, profit margins, etc.
- The market for organic and natural foods is the fastest growing market within the food industry. Whole Foods is a leader in this narrowly defined segment of the market.
- Whole Foods is shifting its focus to making a greater share of sales in high quality, expensive, perishable products. This will further their upscale image and differentiate Whole Foods from its competitors.

Major Risks

- Whole Foods has, in the past, often reached the growth company milestone of beating analyst expectations. However, over time expectations will be adjusted and the company will eventually disappoint.
- Competing regional grocery stores have begun to recognize current trends and now offer organic foods.
- While the company is financially very sound, it trades for high multiples and is currently subject to valuation risk, especially given the possibility of a potential market pullback.

Analysts Opinion: As a company, Whole Foods will continue to outperform the grocery stores industry for at least the next decade. However, our analysis of Whole Foods’ discounted cash flows shows the shares may be quickly approaching their fair value.