



MEMORANDUM

TO: John P. Mackey, Co-founder and CEO

CC: Richard Linowes

FROM: Tram Nguyen, Consultant

Date: March 24, 2010

RE: Whole Foods in Vietnam through Acquisition

Executive Summary

With the demand of organic food growing annually and the increased competition in the U.S market for organic food, Whole Foods should explore the business endeavor of entering Vietnam as a new market. This memo examines a make-buy decision that will assist Whole Foods as it takes this step into Vietnam. Since the company has grown through acquisitions in the past years, a recommendation is made that WFM should acquire a private, Vietnamese company, Hanoi Organics. This is an ideal choice for Whole Foods because Hanoi Organics already share the same goal with the company: to promote the awareness of high quality food through local farmers and communities and also to make organic food available for all.

Before moving onto the proposal itself, a SWOT analysis shown below briefly explains the strengths, weaknesses, opportunities, and threats of the possible business endeavor.

Strengths

The first strength is Whole Foods' financial standing. Currently, the company brings in over \$146 million in net income. A majority of this can finance the proposed entry into the Vietnam market, especially when the total cost is estimated to be no more than \$6.76 million. Another strength that Whole Foods possesses is its already established reputation in the industry. Being one of the most successful and most philanthropic food retailers, Whole Foods already has a high reputation within the consumers' market worldwide. The company is known for its charity and community work that created a high brand image to the consumers. Thirdly, with this expansion into Vietnam, Whole Foods can contribute to the development of Vietnam's growing economy. As an emerging market, Vietnam possesses many good traits such as low cost of entry, high regulations for foreign firms, and friendly acceptance of foreign presence in the market.

Weaknesses

As for weaknesses of the proposal, the main underlying issue is obtaining and maintaining suppliers in the new market. Currently, Whole Foods is having a hard time finding suppliers for the US market due to Wal-mart's expansion into the organic food industry. By having the "elephant" or Wal-mart as a main competitor, Whole Foods is facing trouble as it find ways to compete with Wal-mart. Another weakness is the company's current growth plan. As of today, Whole Foods is only present in some international markets, especially European countries. The company is holding off entering new markets, especially Asia, because it believes that the consumer market will not be able to afford the company's high priced goods. This relates to one weakness of the Vietnamese market. Even though there is potential growth in the future, the per capita income of the country is extremely low compared to the US' and Europe's. A majority of the population lives under the poverty line and some are not even able to afford food in general, moreover organic food. However, this weakness should not hinder Whole Foods' decision.

Opportunities

If Whole Foods does decide to implement this proposal, the company will have a competitive advantage as being the first foreign organic food retailer in Vietnam. By having a first-mover advantage, the company is able to capture the whole consumer market and control a majority of the market share. This will provide the company with an opportunity for international growth, especially in other regions of the world other than Europe or North America. As mentioned later in the memo, Whole Foods existing competitors such as Wal-mart and Trader Joes are currently not present in Vietnam. Thus, by taking the first step will give the company a much greater competitive advantage. Another opportunity is the mutual benefits from both parties: Whole Foods and the Vietnamese' economy. While operating in Vietnam, Whole Foods will have an opportunity to expand its suppliers' base to Vietnamese organic farmers and help develop the city's economic growth. By being present in the country, Whole

Foods will have access to more organic suppliers that its competitors, Wal-mart and Trader Joe's, will not have.

Threats

Like any business endeavor, there will be threats and risks involve as there are strengths and opportunities. One of the significant threats is the company not succeeding in Vietnam. However, keep in mind that the estimate cost of the entry is no more than \$6.76 million which is only a small percentage of the company's previous net income. Another threat is the lack of legal regulations by the government. Since the country is just a developing country, Whole Foods might run into economic and political problems while operating in Vietnam. The company will have to deal with the language barriers, cultural differences, and government relations. With these issues, it could negatively affect the company's growth.

Company Profile

Whole Foods Market (WFM) was established back in 1978 when John Mackey and Rene Hardy partnered together to open a small natural foods store called SaferWay in Austin, TX. They started out with a small loan of \$45,000 from family and friends; however, growth was slower than expected. Later, the two owners joined forces with Craig Weller and Mark Skiles, founders of another natural food chain called Clarksville Natural Grocery, to expand their business. In 1980, the first Whole Foods store opened with 10,500 square feet of space and a staff of only 19 employees.

Within a year of operation, the company faced a devastating disaster when a flood hit Austin, resulting in approximately \$400,000 in inventory loss and equipment damages. Since the company lacked insurance, the financial losses were detrimental to the company's possible future growth. However, with the help of loyal customers, neighbors, and the Austin community, Whole Foods reopened its store in just 28 days after the flood.

Due to its success in Austin, the company began expanding into other cities such as Houston and Dallas in 1984. By 1989, the company was present in New Orleans and the West Coast. Business grew dramatically throughout the 1990s for Whole Foods when the company acquired multiple local natural foods chains such as Food For Thought in California, Fresh Fields in the District of Columbia, and Wild Oats in Colorado.

As of September 27, 2009, Whole Foods has a total of 284 stores: 273 in 38 states and the District of Columbia, 6 in Canada, and 5 in the United Kingdom. Currently, the company employs 54,000 well-committed, loyal team members nationally and globally¹.

Growth Strategy

The core of WFM's growth strategy is to expand through acquisitions, mergers, and new store openings. Since the food retailing industry is highly fragmented and highly competitive

¹ *Annual Report: Form 10-K* Whole Foods, Inc., 27 September 2009. Web. 2 March 2010.
http://www.wholefoodsmarket.com/company/pdfs/2009_10k.pdf. P: 14.

consisting of large retailers and smaller regional chains, the company depends on the acquisitions of these smaller chains for access to new and desirable store locations. The stores are mainly located on premium real estate sites and range in size between 35,000 and 50,000 square feet. The average size for their 284 stores is approximately 37,000 square feet².

When analyzing for a potential store site, the company uses an internal developed model that examines many criteria such as education levels, population density and income levels. As mentioned before, a majority of the stores are located in urban, high-populated, and high-traffic shopping areas.

As expected new stores require a large amount of cash investments, the total cost actually depends on “the size of the store, geographic location, degree of work performed by the landlord and complexity of site development issues..., and costs for elements that often increase or decrease rent, e.g., lease acquisition costs, shell and/or garage costs, and landlord allowances”³.

Core Values and Purpose

Whole Foods is not only known for its mission of promoting well-being of individuals by supplying the highest quality food, but the company is also well famous for its core values and purpose. These core values are linked interdependently and are embedded in the company’s way of doing business. They include:

- Selling the Highest Quality Natural and Organic Products Available
- Satisfying and Delighting Our Customers
- Supporting Team Member Happiness and Excellence
- Creating Wealth Through Profits & Growth
- Caring about our Communities & Our Environment
- Creating ongoing win-win partnerships with our suppliers
- Promoting the health of our stakeholders through healthy eating education

Global and Community Giving

At Whole Foods, one of its core values is “caring about our communities and our environment”. Since these values are embedded in the company’s way of doing business, WFM created the 5% Community Giving Day as a way to support its communities. With only four 5% Days a year, each store gives 5% of the day’s net sales to a chosen non-profit organization in the community⁴. Not only does WFM have 5% Days, the stores also donate food to area food banks and shelters. Given that the team members share the same vision as the company, they also constantly volunteer their time and expertise to the community whenever is needed.

Not only is WFM an active participant in the local communities, the company also possesses a global presence when it comes to philanthropic programs. One of its major

² Ibid, p. 12

³ Ibid.

⁴ “Community Giving”. Web. 19 March 2010.

<http://www.wholefoodsmarket.com/stores/poncedeleon/community-giving.php>

foundations is the Whole Planet Foundation. Its goal is to fight poverty through micro-lending in rural communities around the world. Another example is the Local Producer Loan Program which provides up to \$10 million in low-interest loans to small, local producers in helping them bring their products to market. These loans range from \$1,000 - \$100,000 and can be use for purchasing new/more livestock, investing in new equipments or converting to organic production.

Organic Market in Vietnam

With the global organic food market expecting to grow by 20-30% annually, Vietnam is an ideal country for WFM to expand into as it finds new international markets⁵. Organic foods have been on the rise throughout Vietnam since 2005 when the Agricultural Development Denmark Asia (ADDA) joined with the Vietnam National Farmers Union (VNFU) to establish an organic project under the International Federation of Organic Agriculture Movements⁶. The project's objectives are to improve organic agriculture in all areas of the country and to raise consumer awareness and market demand for organic food. Many services are provided to ease the transition process to organic farming for farmers, to encourage the development of internal quality control within cooperatives or associations of farmers, and to establish a production system that consists of quality control, input supply and training and extension⁷.

In 2004, the Organic Project was implemented in Hanoi and surrounding provinces. It is expected to run until the end of October 2010. According to the ADDA, there have been some significant results since the start of the project. They include:

- Demand for organic products in the domestic market has increased
- Organic farming systems covering seasonal and perennial crops and aquaculture are developed for the north of Vietnam
- Farmers, organized in groups, have increased organic production
- A guarantee system for organic products in the domestic market has been developed
- Increased awareness among Vietnamese GO/NGOs on the conditions needed for the development of organic agriculture.

Due to all the benefits and advantages already established by project, Hanoi should be a starting point for WFM if they were to enter the Vietnamese market.

Hanoi

As the capital of Vietnam, Hanoi currently is ranked the country's second populous city with 6.5 million people, falling slightly behind Ho Chi Minh City⁸. Similar to any developing city, Hanoi has both skilled and unskilled workers, with 25% skilled workers surrounding the capital.

⁵ Huong, Do. "Selling the Idea", *VN Economy News*. Web. 19 March 2010.
<http://news.vneconomy.vn/20100226103750338P0C6/selling-the-idea.htm>

⁶ Ibid.

⁷ Ibid

⁸ "Vietnam's population soars to 85.8 million". 15 August 2009. Web. 19 March 2010.
<http://balita.ph/2009/08/15/vietnams-population-soars-to-85-8-million/>

The city's population is also highly literate compared to Ho Chi Minh City with 6.5% college graduates⁹. According to a study done by Pricewaterhouse Coopers, Hanoi is predicted to have the highest economic growth during the period 2008-2024 with an average real GDP growth of 7%¹⁰.

Hanoi's economy consists of agriculture, service, trade, tourism, finance, banking, and real estate. In November 2009, Phi Thai Binh, the city's vice chairperson, reported that Hanoi's GDP increased to 9% compared to 6.7% in 2008. The city's per capita income reached 30 million dong, which is roughly around \$1500. Economists are expecting Hanoi to reach 9-10% of GDP growth by the end of this year with a per capita income of over 36 million dong¹¹.

Make-or-Buy Decision

With Hanoi's tremendous growth in its economy and its organic food market, WFM has two possible methods that it can take when entering the Vietnamese market. The make-or-buy decision proposes will examine the costs and benefits to WFM if they wish to enter Vietnam as an international company or if they wish to come in through an acquisition.

New Company: "Make"

According to the US Commercial Service Country Guide, American companies that wish to do business in Vietnam can do so in two ways: one is indirectly through an agent or distributor, and the other is directly by establishing a commercial operation utilizing several options¹². In the "make" decision, WFM will take the second approach as the company seeks for a direct presence in Vietnam. As a new entrant into the Vietnamese market, WFM will acquire many costs such as dealing with the legislative issues, cultural issues, and the total financial costs of a new store.

Costs

Legislative Issues

In order to distribute its goods in Vietnam, WFM is required by law to fulfill the following guidelines. First, WFM needs to establish a representative office license; second, obtain a branch license, and lastly acquire a foreign investment project license under Vietnam's Foreign Investment Law¹³. In order to facilitate the registration process, WFM will set aside

⁹Country Profile 2008: Vietnam. *Economist Intelligence Unit*. Web. 19 March 2010.

http://www.eiu.com.proxyau.wrlc.org/report_dl.asp?issue_id=1023854287&mode=pdf. P: 13.

¹⁰PriceWaterHouseCoopers. 09 November, 2009. Web. 19 March 2010.

http://www.bbgv.org/download/businessnewsfiles/december/2009_11_10_PwC_Hanoi%20%20HCMC_top%20positions_economic%20growth_08-25_Final_EN_.pdf

¹¹ "Hanoi's per capita income reaches \$1,880". 27 November 2009. Web. 19 March 2010.

<http://www.lookatvietnam.com/2009/11/hanois-per-capita-income-reaches-1880.html>

¹² "Doing Business in Vietnam: 2009 Country Commercial Guide". *U.S. Commercial Service*. 3 March 2009. P: 4.

¹³ Ibid.

\$6,000 in lawyers' fees to cover the costs of new business paperwork, construction permits, and registration of property¹⁴ (See Appendix 1).

Cultural Issues

Whenever companies enter a foreign country as a new potential market, they always face some sort of cultural issues from the people. In this case, if WFM takes the first approach, its entry into Vietnam might stir up resistance from the Vietnamese people due to the cultural differences. The effects of the cultural clash can be devastating to Whole Foods business such as finding employees for the new store, forming relationships with local farmers and suppliers, dealing with governmental rules and regulations, and adapting to the Vietnamese way of doing business.

Store Location and Land

After obtaining the permits and documents needed, the next step is to find a potential location for a new store. For this proposal, it is recommended that WFM establishes a store in the Hoan Kiem District of Hanoi for the following reasons:

- Hanoi Organics, a potential competitor for Whole Foods, is located in this district.
- Hoan Kiem is Hanoi's booming commercial and urban district that includes the old French quarter.
- Hoan Kiem District is home to many international and domestic businesses, hotels, restaurants, and tourists sites.

Because Hoan Kiem District is such a thriving area, it is the ideal location for Whole Foods to open a store. The size of the store will be similar to the average size of US' stores in 2009, which is approximately 37,000 square feet. For simplicity sake, it is assumed that WFM will establish a store within the same area as Hanoi Organics (. By using current market price for prime real estate in Hanoi, it would roughly cost \$4.75 million for a store of 37,000 square feet in space.

- $(26,100,000 \text{ VND/m}^2)^{15} \times (3,437.41248 \text{ m}^2) = 89,716,474,080 \text{ VND} = \text{\$4.75 million USD}$

Expenses

Once the land is bought for a 50 year lease, WFM will have to set aside construction costs for the new store. The cost is estimated to be around \$940,960. This is calculated by taking the total construction cost of a local supermarket and finding the cost per square meter.

Whole Foods' business strategy is not to depend on marketing for growth and success, hence in 2009, the company only spends approximately .4% of total sales on marketing costs¹⁶.

¹⁴ "Starting a Business in Vietnam", Doing Business: Measuring Business Regulations, World Bank Group & International Finance Corporation. Web. 19 March 2010.

<http://www.doingbusiness.org/ExploreTopics/StartingBusiness/Details.aspx?economyid=202#2>

¹⁵ "Gia Dat Hanoi". Web. 19 March 2010. <http://www.dothi.net/News/Home/>

Marketing cost for this new store is estimated from finding the average marketing cost per Whole Foods existing store in 2009.

As for hiring and training new employees, \$81,408 is set aside for payroll with a total of 50 employees while training is about \$12,297. Overall, the total cost of “making” a new store in Hanoi is roughly \$6.76 million (see Appendix II).

Benefits

Even though WFM will encounter several costs as it enters the Vietnamese market, the company will also gain some benefits. The first benefit is the first mover advantage that WFM will have over its other competitors. According to marketresearch.com, Trader Joe’s has been WFM primary competition with more than 300 stores and an estimated \$6.5 billion in sales¹⁷. Although Trader Joe’s generated about \$1,500 sales per square foot of its stores compared to WFM’s \$933 per square foot, the company currently only operates in the US while WFM has expanded to the UK and Canada. Another major competitor is Wal-Mart, which is the world’s largest retailer. Surveys show that when consumers shop for organic products, Wal-Mart is the retail chain that is most shopped at followed by Whole Foods then Trader Joe’s¹⁸.

Considering the high competition within the US organic food market, both of these competitors are not present in Vietnam. Thus, if WFM takes the initiative to enter the Vietnamese market, then it will gain an advantage over the other companies if they decide to pursue the same market.

Acquisition: “Buy”

Acquisition of Hanoi Organics

Given Whole Foods’ growth strategy, an acquisition of Hanoi Organics is a possible approach for the company to take when it enters Vietnam. Vietnam’s Investment and Enterprise Laws state that there are four main forms of corporate structure for foreign investment. They include: limited liability companies (LLC), joint stock companies (JSC), incorporated partnerships, and private enterprises (i.e. sole proprietorships)¹⁹. Out of the four options, WFM should consider investing in Hanoi Organics as a limited liability company first and then gradually acquiring the domestic company.

Hanoi Organics

Currently Hanoi Organics is the only private organic food retailer in the capital with little competition²⁰. The company was started in 1999 by Phan Dinh Nam, a local businessman, and Then Koen Den Braber, an agriculture consultant, with just \$2,000. The business started out as

¹⁶ *Annual Report: Form 10-K* Whole Foods, Inc., 27 September 2009. Web. 2 March 2010.

http://www.wholefoodsmarket.com/company/pdfs/2009_10k.pdf. P. 48.

¹⁷ “Natural and Organic Food and Beverage Trends in the U.S”, Packaged Facts. September 2008. Web 19 March 2010. <http://marketresearch.com>. P: 6

¹⁸ Ibid, p. 213

¹⁹ “Investment and Enterprise Laws”, Vilaf-Hong Duc: Vietnam International Law Firm. April 2007. Web. 19 March 2010. <http://www.vilaf.com/index.asp?progid=50003&cateID=9CE1CBBD-71BC-75A6-1052-B667EA79F511>

²⁰ “Farmers must regain trust”, *Agroviet (Ministry of Agriculture and Rural Development)*. 26 June 2003. Web. 19 March 2010. <http://xttmnew.agroviet.gov.vn/loadasp/tn/en/tn-spec-nodate-detail.asp?tn=tn&id=16699>

a subscription operation “selling seasonal vegetables at a fixed price to 20 customers, all expatriates”²¹. By 2001, monthly sales increase to more than 700 kilos to more than 60 subscribers paying around 23,000 VND for a two-kilo pack.

With the growth in business, the company established a store in the Hoan Kiem District of Hanoi serving a majority of the expatriate community. Initially, Hanoi Organics only bought their organic vegetables from two local farmers since organic farming require more labor and higher costs. However, more farmers converted to this new farming technique as a result of the high income of 10 million VND a year for an organic farmer. As the numbers of organic farmers rise, Hanoi Organics acquired 27 more organic farmers to meet the market demand and to also expand into fruits, tea, and rice.

Even though the company has an advantage as being the first organic retailer in Hanoi, the company only earns about 10 million VND a month in sales, which is approximately \$6,360 a year²². This is due to the costs of buying produce, employees’ payroll, and administrative costs. With an annual growth rate of 4.3% for organic food, Hanoi Organics is hoping to expand its business into other big cities such as Ho Chi Minh City.

Costs

Like any new business endeavor, there are always costs and benefits that the company must face. In this acquisition, WFM will encounter several costs:

- Adjusting Hanoi Organics employees to Whole Foods core values and work ethics
- Redesigning the current store to a different store layout
- Expanding Hanoi Organics products selection which requires acquiring more suppliers; and
- Paying lawyers’ fees for paperwork of acquisition.

Note that these are not the only costs that WFM will acquire, but they are significant ones. Financial costs are included further in the memo under expansion plan. Moreover, the most imperative cost is whether the consumers market will accept this acquisition or not.

Benefits

One benefit that WFM will encounter through the acquisition is that the company will not have to pay for the construction cost of the new store since Hanoi Organics already has one. However, WFM does have to take in consideration the cost of Hanoi Organics’ main asset: its store (see Appendix II). Another benefit that WFM will gain is the established relationships with suppliers and farmers that Hanoi Organics already has. If WFM enters as a foreign company, it might experience some opposition from the Vietnamese people because of the uncertainty and cultural differences. However, if the company enters the market through an acquisition, it will be accepted more since Hanoi Organics is already well received by the people.

²¹ Karkoviata, Leonie. “Profits from Produce”. 01 August 2001. Web. 19 March 2010.
<http://www.cargonewsasia.com/timesnet/data/ab/docs/ab2931.html>

²² Ibid.

Recommendation

Expansion Plan

From the cost-benefit analysis shown above, it is recommended that Whole Foods takes the second approach because of the acquired benefits. An expansion plan will be implemented once both companies agree to the terms stated. The 5-year plan explore the steps that are needed to be taken from the finance, HR, and marketing aspects of the transition process. The ultimate goal of the plan is to expand into Ho Chi Minh City by the end of five years.

Finance

Hanoi Organics is located on 12 Hang Chuoi, Hoan Kiem District of Hanoi. Currently the company only operates with one store; however, this might change once business picks up. Total costs for this expansion include cost of redesigning the current store layout, cost of training for current and new employees, and marketing costs.

Shown in Appendix II, it would cost WFM about \$4.83 million to acquire Hanoi Organics' current store. This number is calculated from a sale price of an existing health food store in a business district in Ho Chi Minh City that is about 3,000 m² (see Appendix II). As for marketing costs, that was explained earlier under the "make" decision section. Another cost that WFM will have to incur is the hiring and training of current employees. Shown in Appendix II, the total HR cost is \$69,537.

HR

Since the store is only 37,000 square feet, there will be a total of 50 employees. Payroll is calculated finding the average annual income of Hanoi residents and multiplying it by 50.

As for training purposes, WFM will offer training courses for all employees, especially the top managers. Five managers from the store will be provided round-trip airfare to a store in California. Throughout the time spent in America, top managers will learn the work ethics and core values of Whole Foods, observe how a typical store is run, and learn the everyday store operations from a manager's perspectives. After this training course, managers will gain an idea of how Whole Foods operates and understand its corporate structure. Once the managers share the same view as the company, dedication, commitment, and loyalty will be passed down to all team members, both part-time and full-time.

Marketing

As mentioned before, WFM is not your typical grocery stores when it comes to marketing budgets. The company only spent .4% of its 2009 sales on marketing costs overall. Instead of the traditional advertisements used by others, WFM has always relied on word-of-mouth recommendations and testimonials from customers and employees as its main marketing medium. In this situation, \$113,121 will be set aside for all marketing purposes.

A majority of WFM's marketing strategies are in-store related activities. They include taste fairs, cooking classes, product samplings, and promotional events such as local farmers' markets. This approach will be implemented for the opening of the store in Hanoi. During opening week, free samples will be given every day to lure customers into the store. Free gifts such as reusable grocery bags will also be given as a purchase incentive for customers. As for promotional events, Whole Foods will team up with ADDA, a Danish NGO in Vietnam, to further develop organic agriculture and agricultural development for local farmers. This campaign will increase and improve Whole Foods suppliers' relations.

Suppliers' Relations

Originally, Hanoi Organics established relations with local organic farmers with the help of ADDA, it is best for Whole Foods to continue this association with the farmers since it relates back to the company's core value of caring for the environment and communities. As mentioned before, WFM will need to acquire additional number of suppliers because of the expansion in product selections. A recommendation for this is to provide loans to local farmers through its loan program that will assist farmers in transitioning to organic farming. Farmers will see this as an incentive to change their current farming techniques, adapt organic farming, attend training courses held by the ADDA and in return receive a much higher income than traditional farmers.

Future Growth

If the company grows dramatically throughout the years, Whole Foods should explore newer markets such as other cities and other location within Hanoi. As mentioned above, Ho Chi Minh City is another potential market for the company to investigate with its recent economic boom. This expansion plan recommends that if Whole Foods become successful in Hanoi with the acquisition of Hanoi Organics, the company should plan to open a new store in Ho Chi Minh City by the end of five years.

Appendix I

Whole Foods Market, Inc.

Consolidated Statements of Operations

(In thousands, except per share amounts)

Fiscal years ended September 27, 2009, September 28, 2008 and September 30, 2007

	2009	2008	2007
Sales	\$ 8,031,620	\$ 7,953,912	\$ 6,591,773
Cost of goods sold and occupancy costs	5,277,310	5,247,207	4,295,170
Gross profit	2,754,310	2,706,705	2,296,603
Direct store expenses	2,145,809	2,107,940	1,711,229
General and administrative expenses	243,749	270,428	217,743
Pre-opening expenses	49,218	55,554	59,319
Relocation, store closure and lease termination costs	31,185	36,545	10,861
Operating income	284,349	236,238	297,451
Interest expense	(36,856)	(36,416)	(4,208)
Investment and other income	3,449	6,697	11,324
Income before income taxes	250,942	206,519	304,567
Provision for income taxes	104,138	91,995	121,827
Net income	146,804	114,524	182,740
Preferred stock dividends	28,050	-	-
Income available to common shareholders	\$ 118,754	\$ 114,524	\$ 182,740
Basic earnings per share	\$ 0.85	\$ 0.82	\$ 1.30
Weighted average shares outstanding	140,414	139,886	140,088
Diluted earnings per share	\$ 0.85	\$ 0.82	\$ 1.29
Weighted average shares outstanding, diluted basis	140,414	140,011	141,836
Dividends declared per common share	\$ -	\$ 0.60	\$ 0.87

The accompanying notes are an integral part of these consolidated financial statements.

Whole Foods Market, Inc.**Consolidated Statements of Cash Flows**

(In thousands)

Fiscal years ended September 27, 2009, September 28, 2008 and September 30, 2007

	2009	2008	2007
Cash flows from operating activities			
Net income	\$ 146,804	\$ 114,524	\$ 182,740
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	266,695	249,213	186,390
Loss on disposition of fixed assets	3,012	3,754	4,038
Impairment of long-lived assets	24,508	9,195	1,616
Share-based payment expense	12,795	10,505	13,175
LIFO expense (benefit)	(5,598)	12,683	6,858
Deferred income tax expense (benefit)	14,076	(9,993)	(27,203)
Excess tax benefit related to exercise of team member stock options	(42)	(5,686)	(12,839)
Deferred lease liabilities	48,029	44,167	27,393
Other	2,800	(65)	(217)
Net change in current assets and liabilities:			
Accounts receivable	10,408	(10,468)	(5,061)
Merchandise inventories	21,732	(52,630)	(50,486)
Prepaid expenses and other current assets	21,415	(27,833)	(4,603)
Accounts payable	6,527	(45,378)	41,598
Accrued payroll, bonus and other benefits due team members	11,985	14,413	1,747
Other current liabilities	14,696	14,350	17,825
Net change in other long-term liabilities	(12,121)	14,241	8,515
Net cash provided by operating activities	587,721	334,992	391,486
Cash flows from investing activities			
Development costs of new locations	(247,999)	(357,520)	(388,759)
Other property and equipment expenditures	(66,616)	(171,952)	(135,772)
Acquisition of intangible assets	(1,604)	(1,630)	(25,002)
Purchase of available-for-sale securities	-	(194,316)	(277,283)
Sale of available-for-sale securities	-	194,316	475,625
Decrease (increase) in restricted cash	(70,406)	1,693	57,755
Payment for purchase of acquired entities, net of cash acquired	-	(5,480)	(596,236)
Proceeds received from divestiture, net	-	163,913	-
Other investing activities	342	(1,745)	(701)
Net cash used in investing activities	(386,283)	(372,721)	(890,373)
Cash flows from financing activities			
Common stock dividends paid	-	(109,072)	(96,742)
Preferred stock dividends paid	(19,833)	-	-
Issuance of common stock	4,286	18,019	54,383
Purchase of treasury stock	-	-	(99,997)
Excess tax benefit related to exercise of team member stock options	42	5,686	12,839
Proceeds from issuance of redeemable preferred stock, net	413,052	-	-
Proceeds from long-term borrowings	123,000	317,000	717,000
Payments on long-term debt and capital lease obligations	(318,370)	(161,151)	(93,360)
Other financing activities	(2,722)	(652)	-
Net cash provided by financing activities	199,455	69,830	494,123
Effect of exchange rate changes on cash and cash equivalents	(1,297)	(1,567)	2,512
Net change in cash and cash equivalents	399,596	30,534	(2,252)
Cash and cash equivalents at beginning of year	30,534	-	2,252
Cash and cash equivalents at end of year	\$ 430,130	\$ 30,534	\$ -
Supplemental disclosures of cash flow information:			
Interest paid	\$ 43,685	\$ 36,155	\$ 4,561
Federal and state income taxes paid	\$ 69,701	\$ 118,366	\$ 152,626

The accompanying notes are an integral part of these consolidated financial statements.

Whole Foods Market, Inc.
Consolidated Balance Sheets
(In thousands)
September 27, 2009 and September 28, 2008

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 430,130	\$ 30,534
Restricted cash	71,023	617
Accounts receivable	104,731	115,424
Merchandise inventories	310,602	327,452
Prepaid expenses and other current assets	51,137	68,150
Deferred income taxes	87,757	80,429
Total current assets	1,055,380	622,606
Property and equipment, net of accumulated depreciation and amortization	1,897,853	1,900,117
Goodwill	658,254	659,559
Intangible assets, net of accumulated amortization	73,035	78,499
Deferred income taxes	91,000	109,002
Other assets	7,866	10,953
Total assets	\$ 3,783,388	\$ 3,380,736
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt and capital lease obligations	\$ 389	\$ 380
Accounts payable	189,597	183,134
Accrued payroll, bonus and other benefits due team members	207,983	196,233
Dividends payable	8,217	-
Other current liabilities	277,838	286,430
Total current liabilities	684,024	666,177
Long-term debt and capital lease obligations, less current installments	738,848	928,790
Deferred lease liabilities	250,326	199,635
Other long-term liabilities	69,262	80,110
Total liabilities	1,742,460	1,874,712
Series A redeemable preferred stock, \$0.01 par value, 425 and no shares authorized, issued and outstanding in 2009 and 2008, respectively	413,052	-
Shareholders' equity:		
Common stock, no par value, 300,000 shares authorized; 140,542 and 140,286 shares issued and outstanding in 2009 and 2008, respectively	1,283,028	1,266,141
Accumulated other comprehensive income (loss)	(13,367)	422
Retained earnings	358,215	239,461
Total shareholders' equity	1,627,876	1,506,024
Commitments and contingencies		
Total liabilities and shareholders' equity	\$ 3,783,388	\$ 3,380,736

The accompanying notes are an integral part of these consolidated financial statements.

Appendix II

	“Make”	“Buy”
Land	\$4,754,973	\$3,795,476 ²³
Construction Costs ²⁴	\$940,960	-
Marketing	\$113,121	\$113,121
HR		
- Payroll	\$81,408 ^a	\$57,240 ^b
- Training	\$12,297 ^c	\$12,297
General and administrative expenses	\$858,271	\$858,271
Total	\$6.76 million	\$4.83 million

^a Avg. monthly income of workers in foreign-invested firms = 2,560,000 VND²⁵. Total: 50 employees

^b Avg. monthly income of Hanoians = 1,800,000 VND

^c Avg. training cost per employee = 2,850,000 VND²⁶

^d Avg. cost of new store in U.S in 2009 = \$4.3 million

²³ Web. 19 March 2010. <http://business.vietnammarkets.com/forsale/production/opportunity118.php>

²⁴ “Hanoi’s Largest Retail Supermarket to Open Doors”, *Vietnam Net Bridge*. 01 July 2005. Web. 19 March 2010. <http://english.vietnamnet.vn/news/2005/01/362911/>

²⁵ “Foreign-invested firms pay highest salaries”. *VietnamNet Bridge*. 15 January 2008. Web. 19 March 2010. <http://english.vietnamnet.vn/social/2008/01/764204/>

²⁶ Kauanui, Sandra. “Impact of Training on Firm Performance: A Look at Manufacturing SMEs in Vietnam”. Web. 22 March 2010. <http://www.sbaer.uca.edu/research/usasbe/2004/pdf/40.pdf>

Appendix III

Registration Requirements Summary:

	Procedure	Time to complete:	Cost to complete:
1	Check the proposed company name; obtain a business registration certificate from the local business registration office under the Department of Planning and Investment	14 days	VND 200,000 (official fees)
2	Obtain a seal-making license from the Public Security	6 days	VND 20,000
3	Make a company seal	6 days	VND 165,000 - VND 370,000 for bronze seal
4	Pick up company seal	1 day	no charge
5	Open a bank account	1 day	no charge
6	Publish announcement in a daily newspaper	5 days	VND 700,000
*7	Apply for a tax code at the Municipal Taxation Department; pay business license tax	7 days (simultaneous with previous procedure)	VND 1,000,000 (business license tax)
8	Buy pre-printed VAT invoices from the Municipal Taxation Department or obtain and print self-printed VAT invoices	14 days	If buying the pre-printed VAT Invoices: VND 20,000 per book (50 copies)
*9	Register with the local labor office to declare use of labor (Municipal Department for Labor, Invalids and Social Affairs).	1 day (simultaneous with previous procedure)	no charge
*10	Register employees with the Social Insurance Fund for the payment of health insurance and social insurance.	1 day (simultaneous with previous procedure)	no charge
*11	Register for trade union with Vietnam General Confederation of Labour	7 days (simultaneous with previous procedure)	no charge

* Takes place simultaneously with another procedure.

Registration Requirements Summary:

	Procedure	Time to complete:	Cost to complete:
1	Build a dossier on land-use right transfer	1 day	VND 4,000
2	The transferor and transferee will sign the contract which will be witnessed and certified by a notary located in the same area as the property	2-12 days	Notary fees VND10,000 - VND2,000,000
3	The parties pay income tax on assignment of the land-use right and the registration fee at the relevant District Department of Taxation	25-30 days	Income tax (not included in calculation) + Registration fee of 1% of property value.
4	The land-use right transferee shall register the right to use land at the City Registration Office for land-use rights	15-30 days	VND 20,000

Requirements Summary:

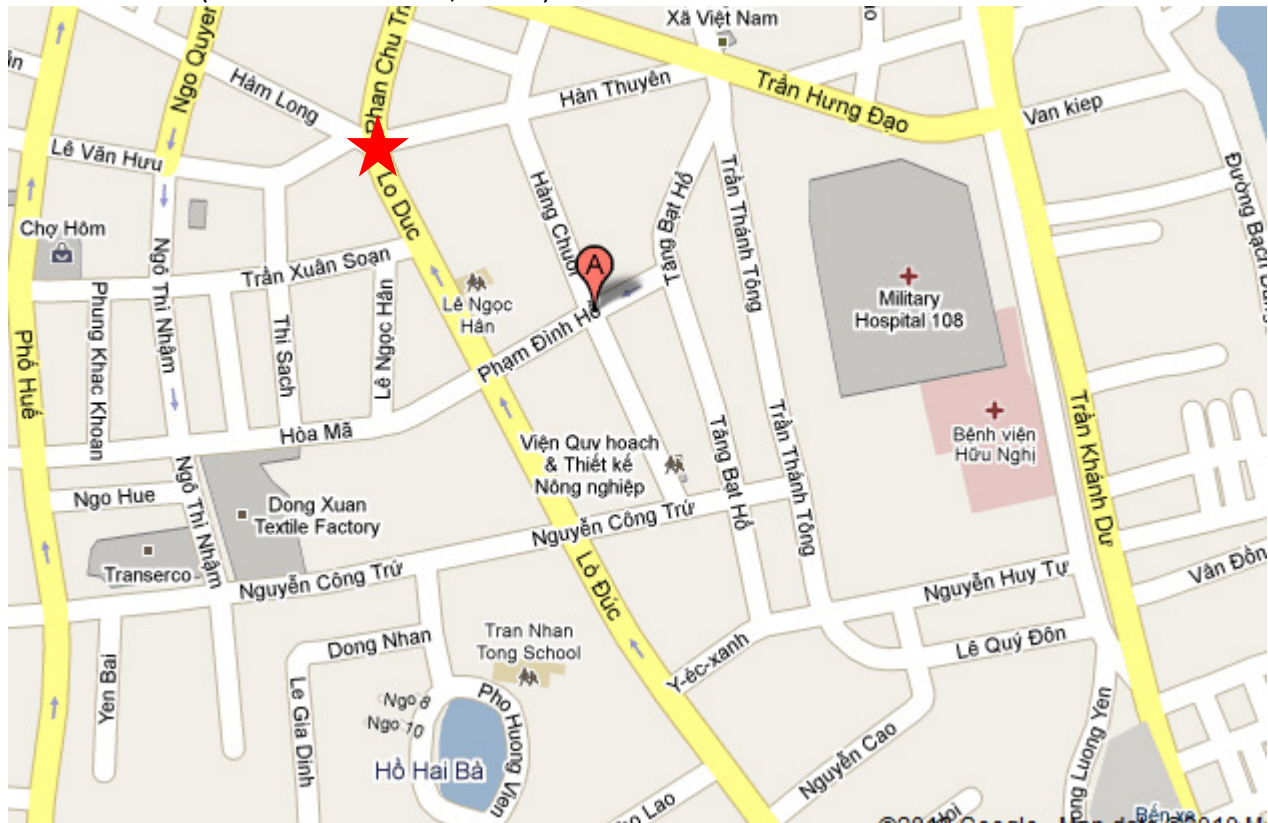
	Procedure	Time to complete:	Cost to complete:
1	Request and obtain construction permit from the (District) Department of Construction of Ho Chi Minh City	90 days	VND 100,000
2	Receive inspection by the Department of Construction of Ho Chi Minh City	1 day	no charge
3	Receive inspection from the municipality after completion of foundation works	1 day	no charge
4	Receive inspection from the municipality at completion of building surroundings	1 day	no charge
5	Request power connection	1 day	VND 680,000
*6	Receive inspection by power provider	1 day	no charge
*7	Connect to power services	20 days	no charge
*8	Request water and sewage connection	1 day	VND 4,000,000
*9	Receive inspection by water company	1 day	no charge
*10	Connect to water and sewage services	14 days	no charge
*11	Request and connect to phone line	7 days	VND 800,000
12	Notify and receive inspection from the municipality after completion of building	1 day	no charge
13	Register the building at the Department of Construction of Ho Chi Minh City	90 days	VND 35,650,000

* Takes place simultaneously with another procedure.

Total Cost = 44,539,000 VND => \$ 2,360.57

Appendix IV

Store Location (Hoan Kiem District, Hanoi)



STORE LAYOUT

