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## (WFM) Fiscal 3Q17 Results: Same-Store Sales Declines Persist Ahead of Pending Takeover by Amazon

Figure 1. Whole Foods Fiscal 3Q17 Key Metrics

	3Q17	3Q16	YoY Change
Revenues (USD Bil.)	\$3.73	\$3.70	0.6%
Gross Margin	34.0%	34.7%	(70) bps
SG&A/Sales	28.8%	28.5%	30 bps
Operating Margin	4.8%	5.6%	(80) bps
Adjusted EPS (USD)	\$0.36	\$0.37	(2.7)%

Source: Company reports/FGRT

- **Whole Foods Market reported fiscal 3Q17 adjusted EPS of \$0.36, ahead of the \$0.33 consensus estimate but down 2.7% year over year. Total revenues were \$3.73 billion, in line with the consensus estimate and up 0.6% from the year-ago quarter.**
- **Total comps decreased by 1.9% for the quarter; the decline was less than the 2.2% decline that analysts expected. The period marked the eighth consecutive quarter of comp declines, which have been driven by tougher competition from traditional grocers and big-box retailers that have been expanding their organic offerings.**
- **The company is not updating its outlook for the rest of the year, citing the pending takeover by Amazon. The e-commerce giant agreed to buy Whole Foods for \$13.7 billion last month. Whole Foods expects the deal to be completed in the second half of 2017.**

### Fiscal 3Q17 Results

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Whole Foods' same-store sales decreased by 1.9% from the year-ago quarter, compared with a projected drop of 2.2%. The period marked the eighth straight quarter of comp declines, which have been driven by tougher competition from traditional grocers and big-box retailers that have expanded their organic offerings. Kroger and Walmart, for example, have aggressively expanded their organic offerings, often at lower prices.

While same-store sales declined in the period, the drop was less severe than expected and not as steep as in the previous quarter. Management also said that same-store sales had turned positive during the first three weeks of the current quarter.

In the third quarter, Whole Foods opened six stores, including one relocated store. The company currently has more than 465 stores in the US, Canada and the UK. The company did not host an investor call because of the pending acquisition by Amazon.

Whole Foods agreed to be acquired by Amazon in June for \$42 a share (with the deal valued at \$13.7 billion), and said it expects to close the deal during the second half of this year. John Mackey, Cofounder and CEO, will remain CEO after the deal closes, and



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the chain will continue to operate under the Whole Foods brand. During a town hall meeting with Whole Foods employees last month, Mackey said that he thinks Amazon can help the company's efforts to cut costs and introduce a loyalty program.

## **FY17 Outlook**

The company is not updating its outlook for the rest of the year, citing the pending takeover by Amazon. Previously, Whole Foods expected FY17 EPS of \$1.30 or greater, compared with \$1.55 in FY16; consensus calls for full-year EPS of \$1.31. The company had projected a comp decline of about 2.5% versus the consensus estimate of a 2.3% decline.



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