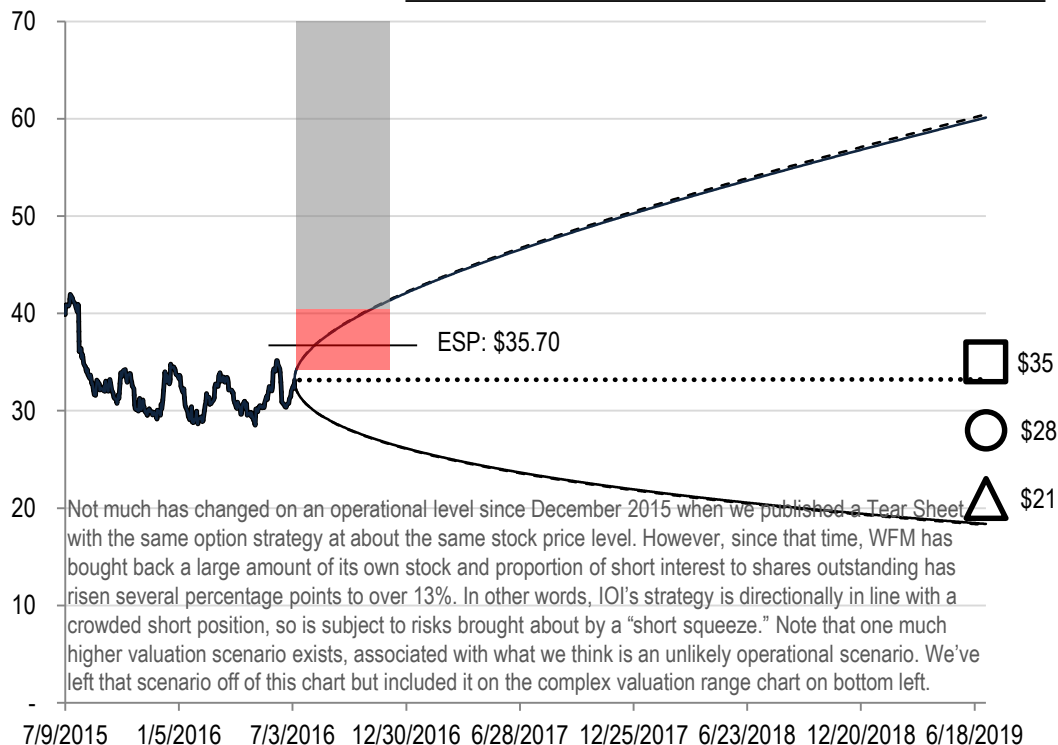


B / S	P / C / S	Strike	Exp.	Premium
SELL	Call	34	NOV'16	\$2.20
BUY	Call	40	NOV'16	(\$0.50)
NET	\$6 of cap @ risk for 133 days			\$1.70



Not much has changed on an operational level since December 2015 when we published a Tear Sheet with the same option strategy at about the same stock price level. However, since that time, WFM has bought back a large amount of its own stock and proportion of short interest to shares outstanding has risen several percentage points to over 13%. In other words, IOI's strategy is directionally in line with a crowded short position, so is subject to risks brought about by a "short squeeze." Note that one much higher valuation scenario exists, associated with what we think is an unlikely operational scenario. We've left that scenario off of this chart but included it on the complex valuation range chart on bottom left.

# IOI Tear Sheet : Whole Foods Mkt (WFM)

## Speculative Bearish Call Spread (Low Conviction)

Date as of 7 July, 2016

### IOI's Take

The organic food industry is growing quickly, but so is the list of competitors in the space. WFM had a competitive advantage in its supply chain relationships, but that advantage has begun to weaken as larger grocery chains have developed their own sourcing relationships and organic farming has become more widespread. WFM is having to spend heavily on new stores (incl. "365" discount chains) while sales at existing stores are falling on average. Groceries is essentially a business that thrives on scale; WFM was very successful as a niche player, but is having trouble keeping up in the battle for scale. New 365 format creates medium-term growth uncertainty.

### Drivers

<b>Revenues</b>	Square footage growing by mid-single digit %ages. Same-store down. Rev/Square foot increases like inflation. Proj: +7% (Best), 3% (Worst)
<b>Profitability</b>	Great compared to grocers. Will WFM profitability fall to meet the industry? Proj: 6% (B), 4% (W)
<b>Investment Level / Eff.</b>	Half of profits spent on cap improvements. Highly effective over last 5 years, less effective going forward. Proj (med-term growth): 15% (B), 8% (W)

**Balance Sheet** No material issues found.

### Valuation & Return

**Valuation Uncertainty: High**

	Low	Likely	High
<b>Stock Fair Value (\$)</b>	21	28	35
<b>Stock Return (%)</b>	-37	-16	4
<b>Option Period Return (%)</b>	28	28	11
<b>Option Annual Return (%)</b>	98	98	35

### Historical Metrics

	Historical Median	
	5-year	10-year
Revenue Growth (%)	10	12
Profit Margin (%)	6	5
Med-term Growth	High	High

### Market Risk

Historical PS ratios have been very high, so there looks to be a lot of upside price risk to WFM. 52-wk range implies PSR is shifting down though. A crowded short trade presents risk for a "short squeeze".

Case / Scenario	Value
3%   4%   8%	21
7%   4%   8%	25
3%   4%   15%	27
PSR Implied Low	36
252-day Low	29
3%   6%   8%	29
7%   4%   15%	33
7%   6%   8%	35
3%   6%   15%	38
252-day High	42
7%   6%   15%	46
PSR Implied High	81

Probability / Materiality

