

STOCK SPOTLIGHT



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ORGANIC FOODS

By Michael R. Abramowitz

WE ARE WHAT WE EAT, WHICH WOULD MAKE THIS WRITER ONE GIANT BANANA.

But is that banana my healthiest choice, or should I shop in an organic food store to find foods that aren't drenched in pesticides?

A few healthy-food supermarket companies offer publicly-traded shares on the stock market. Are these green shares a healthy alternative for our portfolios, or are they just a bunch of bad apples?

Whole Foods Markets, Inc. (WFM)

Snapshot: This natural and organic foods supermarket chain was founded in 1978. It owns and operates more than 180 stores in the U.S., Canada and the United Kingdom. The company just announced a merger with competitor Wild Oats Markets, which seems like a move to drive the competition into oblivion.

PRICE: \$44.20

Pros:

- The stock has averaged nearly 35 percent in gross margin growth every year since 2002, an impressive result.

- Registers have been ringing at Whole Foods to the tune of 20 percent sales growth over the last five years. While part of this trend is due to new-store growth, same-store sales also have been satisfying to the palette — accounting for 11.5 percent of total revenue growth.

- The company plans to see healthy sales growth for FY2007, with expectations for \$6.57 billion in revenues.

Cons:

- The stock price has been shaved in half since the company split its shares two-for-one in January 2006.
- Buying healthy food is a smart move for our bodies, but it is also very expensive. The company finds itself in competition with grocery store chains that can slash prices, which means Whole Foods either competes or is the "high guy." So its margins or market share likely will drop — bad news either way.
- Analysts have lowered expectations for the company's FY2007 earnings-per-share growth to just 2.5 percent over the previous year.

Wild Oats Markets, Inc. (OATS)

Snapshot: Wild Oats owns and operates 114 supermarkets in the U.S. and Canada. Founded in 1987, the company offers grocery products including meat, poultry, seafood, dairy, frozen foods, bakery items, vitamins and supplements. Wild Oats recently received a buyout offer from Whole Foods Markets. Expect shares of Wild Oats to trade percentage wise in lockstep with Whole Foods.

PRICE: \$18.21

Pros:

- Northeast grocer Pathmark is... well, sewing its Wild Oats by distributing the natural food grocer's products in 141 Pathmark stores.
- The stock has rebounded nicely from losses resulting mostly from bad management decisions. Since a management coup a few years back, shares have jumped from \$5 to nearly

\$20, roughly where Wild Oats' stock stood in 2002.

- Final 2006 earnings per share are forecast to jump to \$0.43 per share from \$0.11 in 2005. This year, annual earnings are expected to leap another 30 percent to \$0.56 per share.

Cons:

- While annual earnings have been impressive, Q4 2006 results might bring some sour grapes to the table, as bottom-line results were forecast to fall to \$0.08 per share from \$0.11 in Q4 2005.
- The company still finds itself playing second fiddle to Whole Foods, which boasts triple the return on investment, double the operating margin and more than triple the net margin on sales. But in light of the anticipated merger, the second fiddle apparently has been promoted to first chair.

- It can't be good for the company's public relations when the "Motley Fool" Web site nominates Wild Oats as its pick for "The Worst Stock for 2007." Talk about leaving a company *au naturel*! Of course, that was before Whole Foods decided to step in and chew up Wild Oats shares.

United Natural Foods, Inc. (UNFI)

Snapshot: This company distributes natural and organic foods to natural food and traditional supermarket chains. It also owns and operates 12 natural products retail stores.

PRICE: \$30.00

Pros:

- Its shares have expanded nearly six-fold in the last five years, growing from approximately \$7

per share to nearly \$39 per share late last year.

- The company supplies both Whole Foods and Wild Oats market chains with its products. Whole Foods is expected to add 18-20 new stores, so that expansion will only add to United Natural's impressive bottom line.

- FY2007 earnings are projected to sweeten 27 percent over the previous fiscal year to \$1.30 per share. And if you can trust the carnival barkers on Wall Street, growth is forecast to expand another 18 percent in FY2008 to \$1.42 per share.

Cons:

- The company took a \$7 million hit on sales when Wild Oats shut down seven stores last year; Wild Oats also opened four new stores, but that's still a net loss of three. And there's the question of how many Wild Oats stores Whole Foods will decide to keep open.

- United Natural expects to spend as much as \$45 million for new facilities this year, double the amount spent in 2006. While the company can save money in the long run from improved operational efficiencies, watch out for some stock price hiccups in the short run.

- Expect strict regulatory review of the merger of Whole Foods and Wild Oats, because the combined entity could be viewed as squeezing the competition. But the feds also should consider that regular grocery stores have steadily increased their commitment to natural food products.

Michael Abramowitz is a freelance writer based in Florida. Full disclosure: He owns shares of Whole Foods Markets, which have gone the way of spoiled produce ever since he purchased them.

* Price quotes are from March 14, 2007.