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# EDITED TRANSCRIPT

WFM - Whole Foods Market Inc Investor Conference

EVENT DATE/TIME: FEBRUARY 27, 2015 / 2:00PM GMT



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## PRESENTATION

**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Welcome to our first-ever Whole Foods Market Investor day. Hope you're enjoying your time in Austin. I know several of you were out in 6th Street until pretty late last night; that's pretty good. (laughter)

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

We had our spies there, so we know who you are.



**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

12 o'clock, 1 o'clock. So, welcome also to all those -- this is being webcast today, so welcome to everybody that's out there in the virtual world as well.

We wanted to start with this piece this morning, because it was such an important part of our year this last year, was about this sort of idea of really declaring who we are. We felt in many ways that people were out there defining what Whole Foods was in the marketplace. And it was important for us. And all (technical difficulty) poured our souls into kind of saying, this is actually what Whole Foods Market is all about.

It was very important for us to be able to say, actually, who we are. And this ad really did that. It was very cathartic, as I said, for the Company. So, I think that it resonated deeply with our team members. It resonated deeply with our customers. And it allowed us to sort of proactively take charge, again, of communicating who we are.

Did you want to add to that at all, John, or--?

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

No, I think you got that. We are excited about taking back control of our brand. We think it's been misrepresented and misunderstood. And the Values Matter campaign really allowed us to focus in and communicate to our team members, to our customers, and to the investment community exactly what Whole Foods stands for.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

One of the great things about today is you'll get to see a lot of other members of the team, and including our new GVP of Marketing and Communications, and she'll have a lot more to say about the campaign and specifics. So, okay, before we begin the presentations, we need to just cover the base here that -- the safe harbor and forward-looking statements.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

And we weren't allowed to make any jokes about this. We got strict instructions. So, consider that a joke in defiance. (laughter)

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Okay, well, as we stand here with you today, we are of the firm opinion that the marketplace is moving our way. We got the good stuff, and I think that just the optimism I hope you'll feel from all of us today as we're speaking about the -- just the incredible, enlarging, enlivening marketplace that's happening for Whole Foods and for fresh, healthy foods. So, John, maybe you want to talk a little bit about how that's all come to be.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

You know, one of the things that people are always asking us about, and I heard it last night at the social event, is, gosh, how big is the opportunity? And I was telling people that when Whole Foods went public back in 1992, I would get asked that question: How big is the market opportunity? And at that time, we had 12 stores. We were doing \$92 million in sales. We were doing about \$150,000 a week per store.

We flash-forward 23 years, and we have 412 stores, and we are averaging about \$700,000 a week per store. And now we're saying 1200 stores, and we hear people say, gosh, you know, I don't know if you can -- that's a lot. I don't think you could ever get to that much.

What's happening is, is that the consciousness of Americans is evolving at a rapid rate. And these two slides -- one is you can see the obesity rate in the last 40 years has gone from 15% of the population to 36% of the population. And you can see that it's because we are eating too much. We are eating 25% more calories per capita than we were eating 40 years ago.

72% of that is added fat, and about 40% of it is added carbohydrates. So Americans are eating more junk food, more refined carbohydrates, more sugar, more oil, more cheese. We eat 10 times as much cheese in America per capita as we did 100 years ago. So we are basically eating ourselves to death.

And when people say, how big is the opportunity? It's like, we have barely scratched the surface, because a certain percentage of Americans are waking up and changing their diets. Probably some of you in this room fall under that category. And so when we look out in the future, we see the cautiousness continuing to evolve. We see the market opportunity growing bigger and bigger and bigger. And where Whole Foods is today is just a shadow of where we think we will be 20 years from now.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Yes, and so in some ways I feel like we are just beginning. We're giving all the things we've done in the 35 years up to this point just to set ourselves up to take advantage of this great big opportunity. And it's interesting. I thought -- I don't know if you experience this, but to the announcements from a number of the CPG companies over the last couple months, some of the things that were said were extraordinary in terms of the sort of validation of this idea that the marketplace is just beginning to really open up for fresh, healthy foods and move in this direction.

And for me, it was -- of course, Don's not there anymore at McDonald's, but it wasn't just the fact that folks were concerned about what the food was, or -- it was, look at the things he's talking about here, which is transparency, integrity. These are all things that Whole Foods excels at.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

Real food, fresh food.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Fresh food, real food, yes, and the integrity of the sources. In all my years of doing this and being in retail, I've never seen a time where the customer has more interest in where their food comes from and who's growing it. I've never seen it. It's bigger by far than the organic thing, this interest in their food and where it's from. And the fact that you have also the comments from Denise last week at Campbell Soup, again trying to basically talk about their results.

And there were others -- Burger King and others. But look at the things they're talking about again, the profound shifts in customers' preferences, the movement towards fresh foods, health and well-being, the connection. And I would pose it to you that 2015 may well be the first year that we're going to have a real conversation as a country about the direct connection between what you eat and your health and well-being.

I mean, something has tipped. I mean, maybe --

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

Well, think about it for a minute. McDonald's, they're not doing great. Chipotle is doing well; that's it. That's a shift in consciousness, reflects a shift in consciousness. We see Campbell Soup, I mean, when I show those -- when we show those slides about obesity, we show the slides of different calories, you have to see how Americans changed their diets over a 40- or 50-year period, eating processed foods, more and more fast foods. And the consequences of that shift in diet has been incredibly harmful.

Now, the consciousness is beginning to shift, and these companies that have built their brands and built great businesses on a certain perception of America about what food was all about, those companies are increasingly beginning to get into trouble. And we see what's happening at Whole Foods Market -- I mean, just saw an article yesterday that showed that when you look at the three -- for pure food retailers in the United States, natural food companies now are ranked number two and three in market cap. Kroger is one, Whole Foods is two, Sprouts is three. That is amazing when you think about it. And I think that's just barely scratching the surface of what's going to happen.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Yes. Just one more comment on this quote from Denise, which is, if you look at the last sentence, really, talking about the trust that exists between the companies and the consumers. And again, I would say to you that people may have an opinion about Whole Foods one way or the other, but one thing they might give you is that in fact people do trust us. They trust us for the quality that we offer. And that is a currency of building relationships with customers in the 21st century, and I think it's an advantage that Whole Foods really has.

So, that brings us to the present time and where we are and, you know, the statistics you probably know. But we are as amazed as much as anybody that we've -- to the place -- we're the seventh-largest public food retailer, and store 412 opening this week. And I would argue now that you look at this marketplace, basically \$700 billion, plus or minus, whatever your numbers are about the size of the food marketplace. What you're seeing is a double-digit growth in natural and organic, continued compounded for the last five, six years. And what you're seeing in the trend lines with the other, conventional sort of food is negative. For example, conventional milk is down 3% or 4% year over year.

So, you're seeing these profound shifts that have been referenced, setting up a market opportunity where the demand for fresh, healthy food and the information and education around it is greater than it's ever been. And that's our sweet spot, don't you think, John?

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

Absolutely.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

So, I think what we want to talk about here is just this idea that this marketplace is growing. There's going to be more than one winner. There's not winners and losers; it's not a zero-sum game, because the thing is getting so much bigger. And we'd be the first to acknowledge there are some other people out there doing very well, and we're learning from them. But I think the way to think about it is the fact that there's going to be more winners, but there's going to be leaders, and we're going to be those leaders.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

I mean, we've been the leader. We've been the brand that's leading the way in this shift of consciousness, and so we have significant first-mover advantages, which I think people underestimate at their peril. And I think that Whole Foods has shown, for a long time now, our ability to learn, grow, and evolve. And we're going to talk more about that in a few minutes.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

And I think one of the things that's happened over the last year is the dialogue about competition and the crowded nature of this space, and all that sort of thing, is that -- and, yes, we're going to talk about price today, some price investments and the relevance of price. But remember again, first and foremost, our job is to bring quality food to the marketplace.

And so, therefore, this is what I've said publicly, is we're not participating in a race to the bottom. We're not going to just -- this is not going to end up being a commodified business with, everybody's got the same stuff, everybody's selling the same thing, and who can sell it for the cheapest?

Yes, we're going to be relevant on the price areas that we need to be. But we are going to focus on building a new race to the top, because we think this marketplace is just opening up in ways we never imagined, that we're going to concentrate in building that new top for this industry: new levels of quality, new levels of transparency, new levels of accountability across the entire business.

So, again, we come and say we are affirming today our mission as a company. We think it's more relevant and timely than ever. And our 1200-store goal for the United States, 1200-plus, funny story how that 1200 happened. Remember when how that happened, John?

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

You remember better than me. (laughter)

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

I think we'll just leave it there, then. (laughter) It may not have been the most scientific number, but I can say that (laughter). Maybe it's two competitive people with somebody else, and we have to say our own goal. But anyways, we've backed it up now with -- Jim's team has been all through that number, and it's a real number, so.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

Well, and that's -- remember when we went public and I told the marketplace I thought we could someday do 100 stores --

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

So, what do we know?

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

-- which seemed like a huge number when you only have 12. Now we're saying 1200, and I have a feeling 20 years from now we'll be laughing at that 1200 potential as barely -- you know, as naive as the 100 stores that we thought we could do back in 1992.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Right. So, what we wanted to do now is just take a minute and talk a little bit about the last year, 2014 -- it had so much in that year -- and also look a little ahead to 2015. So, John, why don't you take us out, and let's just talk a little about 2014?

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

Well, 2014, I mean, one of the -- kind of the jokes at Whole Foods is that every seventh year, something bad happens at Whole Foods. And it's true. We go back, and something -- challenge occurs. I mean, if you think about -- we started getting into trouble in 2007, when the economy began to turn down, and we actually watched our market cap go down 90%. We were trading at 2 times our cash flow at one point. Hope some of you were smart enough to buy our stock back in 2008; you're looking good now, probably got a promotion, big bonuses. (laughter)

Well, 2014 was that seven-year cycle. And kind of the joke is that, gosh, you know, what am I going to be doing in 2021? Because we think we've now -- we've moved past the challenges of 2014. But it was a difficult year. We know we missed a couple of quarters' estimates, and that's due to our same-store sales slowing down.

So we faced some significant challenges. We no longer had the marketplace to ourselves. People had woken up to Whole Foods' tremendous success, and success breeds competition. That's the way capitalism works.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Yes, I think it was fair -- last night the question came, where were you guys in 2014, or what happened?

It's fair to say that these changes in the marketplace came quickly, and perhaps they came perhaps more quickly than we anticipated. We certainly saw them coming, but they came very quickly in terms of the number of store openings and the penetration. And I think there was really a need to see that clearly, to respond and react. And I think that we did that.

I think what's notable for us when we think about 2014 is how quickly we responded. I hope that you see that. I think one of the strengths of our organization and the way we're structured is to be able to take a challenge, respond, and move quickly. So in a short order, we were dead money for sort of five months. But on that, we started to come back. We will talk about that more in a moment.

But I think it was a year, it was one of those -- every company has ups and downs, has crucible moments. And this was one where it was important for us to sort of face this challenge of a very rapidly changing marketplace, so.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

You know, it always surprises me is, because, I mean, we've been public now for 23 years. I've seen different cycles. And it always surprises me. I mean, it's like when Whole Foods is doing good, we're seen as sort of visionary, and we've got great leadership skills. And then when you hit a bump in the road, the people think you're doing it all wrong. You should be more like regular supermarkets. You need to change your entire business model. What you're doing isn't working. And people actually thought Whole Foods might -- we were history! I don't know how --

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

We got letters, John; I mean, we got letters.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

Oh, yes, I get hate mail all the time when the stock goes down. (laughter)

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Well, it was more than that. It was like, what are you guys doing there?

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

And, so, we don't want to underestimate when you hit a bump in the road, whatever it might be, and to us that's just a great opportunity to rethink what you're doing, ask how we could become better, how we can evolve in such a way that we meet the challenges that we face. And we see 2014 as one of those kind of inflection points for us, like, we are not into living in denial. Whole Foods Market looks around. We look at our competitors. We know what's happening. And we evolve; we make changes; we make shifts. And that's what we've done. And we pivoted, and as a result, we started to regain our momentum again.

**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

So I think the low point really was in May. Many of you were probably on that earnings call where I think we realized -- many of you communicated this to us -- you didn't hear a clear plan from us about what we intended to do to grow the business. And so from that point, we did sort of hunker down, put our heads down, and came up with our efforts to -- our initiatives to regain our momentum. And we can share those with you again just briefly now. There were just five of them all together.

One was to reaffirm that we were going to grow. And you'll hear from Jim later in terms of some of the specifics of that, but to tell you that because we believe so fundamentally that the opportunity is huge and because we believe so fundamentally that we are in the right place to lead that food revolution, we are continuing to grow. And that takes the place of sort of 40 new stores this year, 10% square footage growth. And we continue to do that even though one of the questions that came up was why don't you slow your growth down during this time? The answer was no, we're going to continue because we believe this opportunity is so great.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

Well, and also because even with a little bit of a downturn due to some competitive challenges and also cannibalization. Whole Foods Market did significant cannibalization in 2014 due to more rapid growth. We pretty much wiped out our Boston comps when we did the Johnnie's Foodmaster acquisition. The same thing happened in Austin. We went from two to five stores in a very short period of time, and also other selected markets. So part of it was the cannibalization effect, which is temporary. You anniversary those challenges.

And then we had Trader Joe's entered into -- when Trader Joe's goes into a new market, they have to -- they build it around their distribution center. And so when they go in, they have to go in with a number of stores in order to get economies of scale to make their distribution system work. So they entered three markets last -- in 2013, 2014 for the first time -- Florida, Texas, and Colorado. So we found our comps challenged in those three markets.

But what people don't understand is let's say we have a store doing \$1 million a week and we get competitive openings, like a Trader Joe's opens, maybe say the sales go down -- I'm making these numbers up, but say they went down about 10%. So we go from -- say we go from \$1 million a week down to \$900,000. Well, at \$900,000 a week, that store is still extraordinarily profitable, huge, huge returns, huge returns on invested capital. But now it's reporting say a negative 10% comp. What happens over that next year is that store sales will begin to come back, and so maybe by the end of the year it's at \$950,000 a week. But now it starts comparing as it anniversaries against the \$900,000 a week comp and we've seen this happen again and again and again. So we moved to negative 10% up to about a 5% positive and it begins to regain its momentum.

I mean when Trader Joe's for example came into Nashville, Tennessee, it hit our big flagship store there pretty hard and yet that store, after a year when it had negative comps of 7% or 8%, it is back in double-digit comps and it's been growing at a fairly rapid rate ever since then. And we see that played out again and again and again. The market for some reason doesn't understand it. They think if you get a competitive hit, that it's a permanent drain but it's not. It's just a temporary one. And then the stores recover and they begin their growth trajectories again because we have our own niche. We have our own loyal customer base. We have our own niche in the marketplace.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

And then Ken and David are going to share with you more of the story of Chicago this year that we've opened two already of the seven Dominick's that we acquired. So I think essentially we have this -- we have put a pretty strong capital return criteria on the work with the growth so you are seeing we're keeping good disciplines even as we are continuing to grow.

The second one was really an effort to go back and refresh the existing stores. Again, David and Ken with more detail on that later. But by the end of this year, we will hit 200 of our stores with these efforts. The third one was to invest in price, price investments. Do you want to talk about that a little bit?



**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

Well, we know that, as you can see from our anthem, we believe values matter and we think Whole Foods Market, at the end of the day, we are about quality, we are about selection, we are about service, we are about the store experience people have. We think that's our sweet spot. That's what our brand is really about and we're not about to abandon that. But we also know it's important that we be relevant on price. We know that also values matter but value matters too and so we have made investments in price in selected markets and we've done a lot of experiments on it. We are continuing to search for the best strategy. We know that we've made some produce investments this year that have worked extremely well for us and we anticipate that we are going to continue to make those value investments going forward and are going to roll it out to more stores in the second half of this year and more in 2016 and more in 2017.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Yes, so those investments continue. They have been concentrated primarily in perishable products, particularly produce. And again, we've put some pretty good analytic criteria on that so we are going to make additional investment decisions based on the results that we are gaining from those experiments.

The next effort was the effort around the branding and the marketing. And we talked about the importance of communicating clearly to the market who we were, and finally the investments in technology and capability. It's my belief that retail has fundamentally changed, that the experience going forward is going to be kind of a mashup of the store experience and technology with the customer at the center. You're going to hear from our new CIO later today about some of the more specifics on that.

But we made a significant step up in our spending in technology, maybe \$40 million a few years ago up of course to a \$100 million spend now to invest in the capability to serve our customers and our team members. And you saw many of those investments start to bear fruit this year. We put the -- Workday launched, which is our platform for our team members. All of that system is up and running. One POS is now live in a couple of stores and moving forward. And I've got much more to talk about there with respect to the customer experiences with Affinity and with Apple Pay and so forth.

So those are the five things we agreed to do and we laid out that and we began to see and we really believe, as we said last quarter, that the momentum that we gained again came as a result of all of those things working together. So as we head into 2015, John, feeling pretty good.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

I mean we are. We've got, gosh, about 120 stores in development. We are beginning to open larger stores again. We think that our sweet spot is kind of between 40,000 and 50,000 square feet, that those stores give us our best returns on invested capital. They are large enough to differentiate us against some of our smaller competitors and yet they are large enough to have us to compete against the big supermarket operators such as Kroger, H-E-B, Wegmans, Publix. So we think that our store openings strategy is going to continue to be successful.

One of the things that I always like to brag about, Walter, is that we do such a good job in real estate. I mean in the entire history of our company, we've never had a store that we opened ourselves ever fail. We are still batting 1000. We still are perfect in that regard. Even a store that starts kind of slow, what ends up happening, due to our team members and due to our incredible customer service, we win customers over and we start to see strong comps. So, we always compound our way out of slow starts in our stores.

But increasingly, if you look at our long-term growth trend, we do so much better a job now getting our new stores profitable than we did, say, 10 years ago. When Whole Foods went public, it used to take stores three or four years to achieve breakeven, and now most of our stores achieve breakeven in the first year. And on an EBITDA basis, they are fantastic producers. It's just the capital investment does put a high depreciation load on it. But from an EBITDA standpoint, almost all our stores are positive EBITDA in the first year.

**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

So as we are into 2015, I know many of you had asked us last night about the strategic vision. And that is still the way we are thinking about the business, that we are not going to update it today because we want to feel like we have momentum. Let's let some additional data points come in and so we can sort of see how that's going to flush out. Some of you remember that has a 6% comp on it but I think that is still the way we are broadly thinking about the business. So in the future this year at some point, we may well update that.

But again, these initiatives that we just laid out, we are continuing all those into 2015. Let's just take them again. The growth, 40 new stores this year, plus or minus. We opened -- we are opening, actually the last few weeks it seems like a couple a week. How many of you were at the Upper East Side opening in New York City? So off to a great start. Chicago, Boston, a new flagship in Boston as well and lots of -- and Little Rock, Arkansas for those of you that live in the mid part of the country, a couple a week. And we have, as John said, we have a pipeline of 120 stores of signed leases, so the next three years' worth of growth is all set up and ready to go. And I think our real estate process has gotten better than ever in terms of the disciplines and the disciplines around capital returns.

With respect to the price investments, again, we have already begun to take the next steps with those and it's, again, primarily still concentrated in produce. So we've been running six or seven experiments across the country in different markets at different levels, and our team has been dialing up the analytics to really make sure what works and what doesn't work. We've found for example that we're getting a tremendous response on promotions as well as everyday pricing, and so we are doing a lot more work in that area as well.

Let's see, do you want to pick up on anything else in marketing and technology?

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

Let's talk about culture.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

You want to talk about culture?

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

Yes, because I do think that's something that's always underestimated by people about Whole Foods Market. I mean we think, at the end of the day, everything we do and everything anybody does in retail, we don't have patents and what we do is studied and copied. So it ends up being your competitive advantage in the long-term is your business model plus your culture. And we are particularly -- well, we think we have a great business model but we also think we have an incredibly dynamic culture. I mean we are very proud that we've been named one of the 100 best companies to work for for 18 consecutive years. I think we are like one of just four or five companies that can make that claim. We're very, very proud of the fact that -- I mean we are pure food retailer. We are the largest pure food retailer in the United States that doesn't have any labor unions. We've got incredibly high morale. Our philosophy of teams and empowerment has worked marvelously well. Again, only in that -- everybody sees that except for every seventh year. Then we are told that we are doing it completely wrong and we need to be more like those guys that we look better than six of the seven years.

So, our culture is what sets us apart. It allows us to innovate. I mean I would put Whole Foods Market's innovations in food retailing up against just about everybody else combined. If you look about where most of the innovations are occurring, they are occurring -- we are creating them.

And I think one of the mistakes that people make is they somehow or another think we are going to sit still. I'm always amazed when people think we are just going to be the sitting targets and we're going to let people undermine our business model. They are going to copy Whole Foods Market and they are going to come in with lower prices and then we are history. Like we are just sitting ducks. We are just going to sit there and let people demolish our business model, that we are not going to respond and we're not going to evolve ourselves. And it's like gosh, we've been

doing this so long, you'd think we'd get more credit for our ability to adapt, shift, evolve, change to meet the competitive market threats that we see. But I mean many people don't believe it, so it's kind of like shaking my head saying God, you know it's going to be so much fun in a few years when we just prove all these guys wrong once again.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

And that's all the stuff we're not even talking about today are all these other ideas that we have. But I think one of the ways I've been talking about it inside the Company is this idea of constancy and evolution, to pick up on John's point that one of the things about Whole Foods is that we are constantly evolving. The constancy for us is this idea of mission, purpose, values that we shared with you earlier. That really is the northern compass for Whole Foods Market.

And what we are doing is we're doubling down on who we are. We're doubling down on saying this is who we are, this is what we're here to do. This is the mission of the Company. This is our role in the world and in the marketplace. We're doubling down on that. We are using those values to guide our decisions, our actions, our investments at the same time as we are evolving, trying to evolve as fast as we possibly can. And if I were to give that in kind of a broader framework for you, I'd put that in sort of three areas.

First would be richer customer experiences. Okay, in the end of the day, I think people love coming to the store. I think they are always going to come to the store. I think we do stores well. And I think we're going to continue to do them well with experiences that people enjoy coming to. They enjoy the connection. They enjoy the community. You saw it the last night in Domain with the oyster bar there. You saw the people just jammed in there because they want to be where people are. And I think, as we continue to do that with some of the ideas that David and Ken will show you and we also continue to build those experiences in the digital world and all the places between, you've got this tremendous convergence of digital and physical, this convergence of human beings and technology all mashing together. We're going to do that. We're going to keep evolving the customer experiences and I think we do that arguably better than any other food retailer.

And the second area, we are going to evolve our organization because we obviously have lots of redundancies in our organization. The way we grew up, we grew up as an aggregation of a number of companies. We're still doing multiple things multiple ways, which isn't a bad thing for where we came from but as we look about becoming more productive, more efficient as a company going forward, we've got to evolve it, everything from how we count money at the store to how we enter in new items, to our business processes around how we purchase. And so when you think about our talking to you about our cost-cutting to offset our investments in the different areas, think about it's not just looking down the P&L to find out where we can scrub a few bucks and pass the hat. What it is is where we can actually change our processes about how we do things as a company in meaningful ways that are going to save some money for us and help us function more productively and more competitively. So when you think about the evolution theme, think about the organization itself evolving how it does business. And that's where we are concentrated on internally with some very serious efforts.

And then finally is around the area of the supply. You are going to hear from A.C. about that aspect of our business. But obviously this idea of bringing food to the marketplace involves all of your suppliers getting further upstream, more transparency, working together to make sure that you have the supply you need to support it. So, efforts in all three of those areas.

And I think what Whole Foods does well, John, is evolve. I think that we don't sit still. I think that there is this sort of burning fire inside the Company to continue to get better, to be competitive but also continue to improve in service of the mission. So I think going into 2015, the sort of idea of, again, this idea of remember who we are and remember what guides our decision-making. At the same time, remember that we are on the move and let's cultivate that ability to evolve in ourselves as leaders and inside of our company as well.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

You know, Walter, that was great. And one of the questions that we all got asked last night at the social event -- I got asked this like five times, Was what are you most excited about? And I said, well, I can't tell you because what I'm most excited about are the new projects that we are working on.



**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Which we can't tell you.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

Which we can't tell you about, but we are doing -- and to make an investment in Whole Foods Market is to make a bet on our company's ability to evolve, our ability to innovate, our ability to meet the challenges and get better. I would say our track record for doing that since we've been a public company has been nothing short of astounding, so I'm always sort of amazed when people don't understand that about us. So sometime in the next couple of quarters, we are going to be making some pretty exciting announcements that I think will reflect Whole Foods Market's ability to learn, grow, and evolve.

We are so very thankful for everybody being here today. I think this is the first time we've ever done this.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

It is the first time we've ever done it. And I was just going to say it also I think reflects the fact that this universe that -- this marketplace is getting bigger and in ways perhaps that we may not even see yet or some areas that we see that we can grow into. This is just humongous in terms of the opportunity. So, that's all we're going to say today about some of those things. But again, I think where you're going, John, is say that we are really glad that you came.

One of the most things we're excited about today is you have a chance not to see the members of the rest of the team and share some of the details on some of these things. And that hasn't always been the case on the earnings call or some of the other formats. There's not the time for you to get to see them. And we're pretty proud of our team. We think we have an incredible team at Whole Foods and we're glad that you get a chance to see them today. So I guess here we are finishing up. Anything else you want to say?

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

We've barely gotten started, gang. The best is still ahead for Whole Foods and we'll prove it to you. Keep the faith.

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**A.C. Gallo** - *Whole Foods Market, Inc. - President, Chief Operating Officer*

So, this morning, we're going to talk a little bit about the differentiation in standards and supply. As John and Walter were just talking about, innovation is really a big part of our culture. It's something that we know that we need to continue to do. And today I'm going to talk to you a little bit about how we see innovation, how we continue to push our standards and be a leader in the marketplace.

We have many ongoing initiatives that are happening to bring our customers leading-edge products that they want and then they really expect from us.

You know, John and Walter were talking a little bit about how kind of the market is kind of moving in our direction. It's amazing how many CPG products now have organic versions like the Kraft macaroni and cheese, are talking now about taking artificial preservatives and colors out of foods because they are realizing the demand for clean, real food has become huge now. So we see a lot of this movement in the marketplace.

From the beginning, we've really tried to set the pace on standards. We are often really aware of issues kind of when they are first germinating, you know, before they really get into the public consciousness, things like antibiotic usage in animal raising. And when we see these things and we start to really understand them, we really start to look at them as what would our customers -- when our customers really become aware of

these issues, what would they expect us to do? And we try to do that -- we try to have it all done and in place before people become that aware of it. So we try to always stay out there. And this is what -- we've been doing this from the beginning.

As far as standards go, it really started at the beginning of the Company more than 35 years ago when we initially said, okay, we're not going to have any artificial preservatives or colors or anything in our stores, and that's how we defined at that time a natural food store. And it's really continued through the years through all different kinds of agricultural issues like hormones in meat. You know, we banned artificial sweeteners in 1987. We continued with our different standards. This was a really big one for a lot of people, no animal testing in bodycare we did back in 1990. So, we continued through the years on a lot of these different things.

I remember when we did the hydrogenated oils. That was an interesting one because there was so much science back and forth between are hydrogenated oils good for you? Are they not? And we just finally said you know what, there's some serious questions about it, we're going to eliminate it from our foods. And sure enough, a few years later, most of the large brands started to take hydrogenated oils out of their -- the government finally came around and said, yes, maybe it's not such a good thing for people to eat.

So, again it's been an ongoing process. But this work that we do, it's not just about banning certain substances, saying that we're not going to sell certain things, but it's really the development of leading standards. When we do these standards, a lot of them, they take many years to develop. They are -- and it's a multi-stakeholder process. We'll get together scientists. We'll get together activists for certain things like animal welfare. We bring our producers in. We bring in all different -- a whole multi-stakeholder process in order to develop some of these standards. And they take many years first to develop and then they take years to actually implement. So it's not something somebody can just do like that.

One of the most important things too is that these standards are practical and they really work, so you have to work with your producers. When we developed our animal welfare standards, we were saying to ourselves, you know, for quite a few years now, we've had our meat without antibiotics, without hormones. But it was time to really take a step beyond that because we've realized that a lot of -- there was a lot of conscientious building in consumers about how animals were raised, their welfare.

So, in 2008, we brought together this very large group of people, probably 60 people, for a series of meetings. And it took us about three years to develop our animal welfare standards, and it took us a couple more years to actually get them implemented in the stores. But it's been an incredible thing. It's really improved the -- it's made an incredible difference in the life of millions of farm animals. And when we did this, it was really interesting. We set up this five-step system and we said, okay, step one is our kind of minimum standard. At the time, that's where most of our producers were. They were at that step one, step two. And we said that hopefully someday there will be some demand for these higher rated products and our growers might figure out a way -- some small growers might figure out a way to do them. Consumers might be interested in them. But what's been remarkable is, in just a few years, that we've gotten to the point where 20% of our meat now is organic. A lot of our species are -- a lot of our animals are already at these higher step four and step five.

And one of the biggest issues that people have had over the years say for instance with beef is feedlots because the beef cows spend the last six months in a feedlot. It's not a pretty sight. And so, we said, you know, maybe someday we can figure out a way that animals don't have to go into feedlots. We've already gotten to the point in just a few years where more than 50% of the beef cattle that come to our stores don't ever go into a feedlot. They stay out in the pasture, which is pretty incredible.

Two years ago, we announced that -- we heard all the -- we heard from a lot of our customers. We heard that people were starting to become very concerned about genetically engineered ingredients in their foods. And we knew there was a lot of legislative initiatives out there around this and we felt like it was the time to take the leadership position on this and let people know that, within five years, we would have full transparency. We didn't guarantee that we wouldn't have any genetically engineered food in our stores, but we said it's your right to know where genetically engineered ingredients are in the food and we are committed to letting you know that by 2018. So, again, there's a case of, you know, just looking at something and saying this is what we really believe customers want today and they are going to want even more in the future, and we need to take the leadership role and get out there and work on it.

The most current one, the most recent one is, in just this past year, we came out with a responsibly grown program for our produce. And we had been -- over the years, we sold a lot of organic produce. It's been a big part of our business. But there's a whole question around sustainability



which we've been trying to figure out how, can we get sustainability into our produce program? It's been about 15 years that we worked on it, and it finally came together this past year. And the great thing about this program is that it takes the conventional produce we sell and it basically, within a certain number of years, it's going to eliminate that dirty dozen that everyone hears about. The most concerning chemicals, pesticides mainly, that people are concerned about, we're going to -- they are all being phased out. They can't be used in any produce that's in this program.

And then the other thing is that there's been, even with organic produce, organic produce mostly deals with the types of inputs that go into like no chemical pesticides and herbicides and things like that. But there's aspects of it -- they don't really focus enough on soil condition, on how their program -- how is it affecting water? How is it affecting air and then farm worker welfare. So this program takes all of these things into account, and we think that it's really kind of a step beyond even organic, which is where this is going to go. And it's still in the early stages. We've got about 60% of our produce is rated, but we think it's going to be a real game changer in differentiating our produce and floral departments.

You know, once you set standards, it's great to set standards but then the question is finding producers that are willing to work with you on it and creating, actually creating supply for your customers. And we find that the best way to do that is to create unique relationships with -- unique partnerships with special growers around the world for a lot of these things. As we grow to 1,200 stores, we are going to need not just more product but a lot of special product that our customers are really looking for.

One of the most unique products that we have in our stores that we are probably most proud of is our Earth University bananas. Earth University is a school in Costa Rica, has about 400 students from all over the developing world come there and they study environmental sciences and entrepreneurship. And back in 2008, Earth University said, you know, we need to figure out a way to help support these students because most of them come from humble backgrounds and they don't have the money. It costs about \$40,000 a year to go to this school. So they started this banana business and we bought our first bananas from them in 2008, and the business has grown so much that now we buy about 0.5 million pounds of bananas from them a week. And the business -- the bananas that we buy from them help support about 25% of the students on full scholarship through there. So, it's a really great product. They've gotten our best rating because of the incredible work they put into making sure that, environmentally, it's really sound through the way they take care of their farm workers. It's a great training in this business for the students who go there and it helps support them to go there. So we are really, really proud of it.

And you'll probably see, when you go to the stores, our Whole Trade guarantee program. And in that program, it was modeled after the fair trade programs that are out there, but we added more to it, especially around environmental aspects. And, the exciting thing is about with the Whole Trade program, not only do the farmers and the workers get fair wages, but there's a social premium, a certain amount of money per box that we buy, that goes back to the workers and they figure out community development projects to really -- what's really needed. And since 2007, Whole Trade produce and floral has, through our community development program, has given \$12 million to these communities in developing countries, in developing countries, to help with things like schools and water systems and wells and day care and community centers and all kinds of stuff like that. So we are very proud of this program. It's a way we develop really great products that we feel great about selling. It's high-quality. It's differentiated. No one else has it. So, it's one of our -- it's one of the things we really love.

Another thing that we've had to work on is when we created the -- our aquaculture standards, we knew that we wanted to have all of our farm-raised salmon, which is one of our highest volume items in the seafood department, to be raised without antibiotics and without pesticides. And it's very difficult to find that because most salmon farms around the world are crowded together in areas that aren't ideal for growing salmon in a way that you don't have to -- you don't have disease problems and insect -- sea lice problems. So we have developed these unique relationships with suppliers in Norway, Scotland, in Iceland, in very pristine areas that can grow the product for us to our standards.

This pictures here are from one of the farms in Norway that we get the salmon from. I was there a couple of years ago. It's one of the most beautiful spots that I've been to. It's an incredibly clean environment. The water is really clean. They take great care to make sure that the way they raise the salmon, it doesn't have an adverse effect on the environment. And the fish that comes out of that is fantastic. I was never a very big fan of farm-raised salmon because I liked the wild much better. But until I tried the fish from Norway, it's incredible, it's the best farm-raised salmon I've ever had.

The other big thing that kind of came out of our five step standards is that the higher levels of -- the higher standards for chicken require that your chickens go outside and be on pasture. Most chickens that are raised in this country are raised in big barns. They never go outside. And as the consciousness around animal welfare has grown in this country, people have become so much more aware in the last two years about wanting to



have pasture-raised product. You know, there's a big movement right now called Paleo where people are trying to eat more like hunter/gatherers, and they want pasture-raised product. And our sales of this product have just increased exponentially in the last couple of years. So we've had to go out -- this didn't exist, so we had to go out and find farms in different parts of the US to grow product for us.

This is a farm -- one of our farmers in California, in Fresno, that has our step five chicken. These birds basically are out on pasture their whole lives and lead a much more natural life than birds that are cooped up in a barn. And again, this is another case of having to develop the supply for -- we created a standard which created a demand for a particular supply. It didn't exist and we had to go out and actually create it.

One of the other tools we use to help create supply is our local producer loan program. We started in 2006 and at that point, we authorized \$10 million to be loaned out to small producers. So far, since then, we've lent -- I think we're up to about \$15 million that we've lent out to 238 loans to 200 different companies.

And so for instance, here, we have in the top -- we have Coyote Creek. They are actually one of our suppliers here in the Austin area. They provide us with pasture-raised eggs and they have a feed mill here. We have a lot of suppliers in the southeastern United States, in Georgia area for our South and Florida regions that want to grow, do pasture-raised products for us, organic and non-GMO, but there's no feed mill there. So we lent Coyote Creek the money, so they are going to go to Georgia and set up a feed mill for organic and non-GMO grain which could then support our suppliers there to provide product that we really -- the demand is there in our stores.

We also have on here in the lower part of this slide Thompson farms, and Thompson is a small pork producer in Georgia that is the Step 5 plus. Now, to get to be 5 plus, which is considered the highest animal welfare, the animal has to spend its entire life on one farm, which includes the slaughter process. So, in order to get there, Thompson really wanted to build his own processing plant right on his farm, so we lent him the money so that he could build that processing plant. So the pigs are born and spend their entire life, they are never transported off that farm. And again, this is a unique product that we sell in our Florida and South region stores that is unique to us that nobody else has.

You'll see on your table there you've got the little bottles of Starkey water. Interesting story behind that. We, up until about seven years ago, we had this really wonderful spring water from Idaho called Trinity Springs and it had a really big following and it went out of business and different people tried to get it going again. We even looked at one point trying to buy it so we could get it going again but it was too messed up legally to get in there. So we had our folks at Allegro Coffee Company, our coffee company, were determined to get this business going again and we went and found this really wonderful spring in Idaho, a natural geothermal spring, and we bought the property around it. We got the spring. We set up a bottling plant and we just were introducing within this last three or four months this water again. What's so unique about this water is that it comes from an aquifer that is over 2 miles deep. They've carbon dated the water to be over 10,000 years old. So that water has been down therefore for a long time. The water naturally flows. It comes out of the ground 140 degrees. It naturally flows out of the ground into these channels. And we built actually a spring house over it so we can let the water go down to the bottling plant. But it's amazingly pristine water and we only probably use 1% of the water that's flowing out of the ground. The rest of it flows into the local river. But, the aquifer is over 2 miles deep.

And the other thing about this is it's naturally alkaline. It's got a pH of 9.6 and a lot of people think that eating alkaline foods is really good for you. So it's kind of a fun product. It's the kind of thing we do just to create a unique product, create a kind of fun brand around it. And we're looking to do more and more of these kinds of things that are kind of control brands but not necessarily our 365 or Whole Foods brand.

So besides creating all this new differentiated supply that I've been highlighting, at the same time, we are focused on ensuring supply from our major suppliers, you know, the major natural food brands. We know there's been a lot -- they've had a lot of demand on them. They've had lots of people wanting more and more of their products.

And the questions come to us sometimes are you going to be able to get the product you need to grow where there are all these other companies are now looking for it. But these are companies that we've been doing business with for a long time. We are very proactively partnering to forecast with them and commit further out. We've met with a lot of them recently and they said just give us, if you can give us forecasts further out, then we can make sure that you get the supply that you need for your stores.



We also have -- we have built up our commodities team here in Austin. We have a group of really experienced people that really know what's going on in the commodities market, especially grain, flour, oil, nuts, things like that. And so we are out there with the commodities team buying ahead not just for ourselves but we are buying ahead for a lot of our suppliers. Like a lot of our egg suppliers are regional and they are smaller suppliers and they might have a hard time going into the market and finding enough organic grain or enough non-GMO grain to raise their eggs. So our commodities team partners with them. So we go out and we buy grain from all over the world that they would need and we help get it to them at a good price so they can then provide us with the products that we need.

I want to talk a little bit about kind of value. We've been talking about values, so I want to talk about value. Our value push really started years ago, about 10 years ago, with our 365 program in our center store, mostly packaged goods at that time. Our exclusive brands program, which 365 is our most well-known label, it's an integral part and component of our value and innovation program.

And you know, we feel like we have improved our value position in perishables through higher quality and standards like the animal welfare standards, the sustainable seafood standards, and the responsibly grown standards. That adds a lot of value to our customers by knowing that they are getting the best quality. But we'll continue to push standards like that. But we realize that we also need to -- at the same time we need to build price value, especially in perishables, which is where our focus has really gone to.

So you'll see now we have a pretty good -- we have a really good line of 365 chicken in our meat departments. We are looking at expanding the 365 line in our meat departments. We've just introduced 365 salad mixes in our produce department. We'll continue to do that.

And one thing that I've been especially excited about over the last couple of years is in seafood. Our high seafood standards mean that a lot of -- and there is also increasingly shrinking supply of wild seafood in the world, you know, really good quality, so prices are pretty high. But we've developed a really good vacuum packed frozen program, both small packages and club packs, that's extremely high-quality at really good value. And that's something we've worked on really hard for the last couple of years and I think our customers are really responding positively to that.

We also are -- as John and Walter mentioned, we realize that produce is one of our most important departments. I always felt that people decide -- people -- because it's the first department you usually walk into in a store, it kind of sets the tone for the shopping experience. If you walk into a produce department and it's just pristine and everything is really good quality, you come in and say wow, the whole store then feels that way. The whole store shopping experience feels that way. If you can come in and find some really great values when you first walk in the door, then you feel like geez, I just walked in the door and I got a great value on something. It sets the tone again for the shopping trip.

So we are really focused on produce this year. We've got four big experiments that we started this fiscal year. They are all a little different because we are trying to understand, every marketplace is different and we're trying to understand which ones work better for everyday value, which ones are better for promotions and some combinations of them.

The deepest experiment we have here is here in Austin. I think you guys -- had been in the stores yesterday saw lot of the great values that we have here. And so far, we've been really happy with the lift, the unit lift, that we've had here. And we are continuing to refine these experiments and recently decided that we were going to expand into a few more regions and try some different things and see what happens. Because we believe that if -- to be more competitive in produce pricing will greatly expand our overall value perception.

So, just to kind of wrap it up, it's that there's just no sitting still in this business. You know that we are going to continue to innovate. That's just in our DNA. It's in our culture. That's what we do. And we're going to continue to push that -- we're going to continue to push the innovation and differentiation. But we also are really intent on building value for our customers through value and values, quality, and price.

Okay? Thanks a lot.

Next, we are going to have a couple of our product folks. Errol Schweizer is our Global Executive Coordinator of Grocery, and Mitch Madoff is our Global Executive Coordinator of Exclusive Brands and they are going to talk about some of the fun stuff that they've been working on.



**Errol Schweizer** - *Whole Foods Market, Inc. - Executive Grocery Coordinator*

Good morning. So we are going to talk about what our most popular marketing campaigns that we have done over the last several years called Share the Buzz. The history of this is about four years ago, we convened a series of meetings with our suppliers, within NGOs, with activists as well as a number of our team members to look at how we could work on the issue of colony collapse disorder. And as some of you may know, colony collapse disorder is when there is massive bee die-offs in bee colonies, primarily.

And what we wanted to do is figure out what can we do to raise awareness, support folks who are preserving pollinators, but also affect our supply chain, because at the end of the day, we are really affected by pollinators. We are also trying to just make sure folks understand that pollinators are one of our major stakeholders in our supply chain. They pollinate more than 100 types of items. Nearly one in three products that we sell are pollinated.

And it is really important that folks understand that we have to preserve the insects and the other creatures at the base of the supply chain, as well as all the other great stuff we are doing with workers and the environment. And so what we have been trying to do is bring this down to a really basic level with products that we sell.

And so this here is the Lynnfield store. It is famous because it actually has a farm on the roof. It was the first store that we did that in the New England area. And we worked with team members in that store to identify products in their dairy case that are pollinated. And we reached out to a great NGO called the Xerces Society for Invertebrate Conservation. They are actually experts in pollinators, and had them walk through the dairy center and actually help us pull products.

And so, here, you see a before and after photo of what happens if we continue to undergo serious issues with our pollinator populations, that we don't actually have a lot to sell in the dairy case. This includes products such as milk; alfalfa, which is animal feed, is pollinated; cheese, yogurt, butter, as well as many of the fruits and other ingredients that are found in dairy products.

What we have also done is partner with a number of our brands to raise awareness. So for about three years we have done the Share the Buzz campaign. That has resulted in 160,000 acres of land preserved to enhance pollinator relationships -- so planting hedgerows, using compost, planting wildflowers.

So all these brands, including some of our almond producers such as Blue Diamond co-op and Barney Butter, as well as Hain Celestial, a large publicly traded company; Annie's, General Mills, et cetera. And these folks have all stepped up and, by having a conversation, are also looking at their supply chain now. So they are starting to ask questions of their producers and their growers of, hey, what are we doing here. We are hearing all about this from our customers.

And it has culminated in us working on an exclusive product where we actually went to a series of branches in the Modesto area, in the Central Valley, and worked with our commodity almond growers in partnership with the Xerces Society and say, well, what could we do to actually influence our own supply chain. And so for the last two years we have been working on a project to launch almonds that are pollinator-friendly. And the almonds themselves are grown through these methods.

So there is hedgerows, there's compost. Crops are not sprayed during pollination, so the bees have a healthier way of actually pollinating. Almonds are dependent on pollinators. And as Whole Foods Market, if you have been into our stores, we sell a lot of almonds. So it is one of our most important initiatives this year.

We have booked over 1 million pounds, and because we bought it a year and a half ago, we got a great price as the almonds market has been somewhat bullish. And we are hoping to change the conversation to really disrupt the almond market so folks understand that large scale almond production is dependent on pollinators. But you can do it in a productive and efficient way that enhances the environment, but also drives sales. So thank you.

**Mitch Madoff** - *Whole Foods Market, Inc. - Executive Exclusive Brands Coordinator*

Good morning, everyone. I am really excited to have an opportunity to speak with you all today, not just about exclusive brands, but also about our really cool pollinator-friendly program we just rolled out in all of our stores, actually, just a few weeks ago.

Let me start by giving you a little bit of background about exclusive brands. We are responsible for all the 365 Everyday Value products, Whole Foods and control label items you see in our stores. So for those of you that might not be familiar with what a control label item is, it is an item that can only be found exclusively at Whole Foods Market. So hopefully if any of you got to enjoy breakfast today, you may have had that cereal, it is Engine 2 cereal that can only be found exclusively and sold in our stores.

Exclusive brand products are a key part of our value and differentiation strategy. We have over 4000 exclusive brand products throughout our stores and they accounted for almost \$2 billion in sales last year.

So with that said, though, as much as we enjoy managing the day to day business, it is really these mission-based projects that Errol was speaking about that get myself and the team so excited. That is why am really excited about this pollinator-friendly program that we just launched into our stores.

The idea for this program started well over a year ago, when we teamed up with one of our almond suppliers to help support their mission to transform one of their almond ranches into a pollinator-friendly habitat. So what you can see, actually, in the pictures is a pretty stark contrast. You can see what a conventional almond orchard looks like. That is the one where it looks like they just literally put almond trees in the middle of a desert. Then you can see the native -- our ranch we are working with in California, which is this pollinator-friendly habitat.

And what they did is, they planted native drought-resistant plants, wildflowers, and shrubs throughout the entire almond orchard, and you can see this is a super friendly pollinator habitat. During my last check in with the supplier, they mentioned they planted over five linear miles of these wildflowers and hedgerows that Errol mentioned before, and shrubs, throughout the entire orchard. And I am really proud to say that Whole Foods Market was able to purchase the entire crop last year, which was almost 1.4 million pounds of almonds from this one ranch.

And here are some of the products that we developed with those almonds. So we did two SKUs of packaged almonds and two SKUs of nut butters. And actually, at your break, I know we have got some Scooby Snacks. We had the almonds from this ranch back there, so I hope you all get to enjoy them.

So thanks for your time today. I really appreciate you allowing me to share a little bit about not only what exclusive brands does, as well as a pretty unique program that can only be found at Whole Foods Market. Thank you.

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**Jim Sud** - *Whole Foods Market, Inc. - EVP, Growth and Business Development*

Good morning, everyone. My name is Jim Sud. I am Executive Vice President of Growth and Business Development. And I am really excited to speak with you today about the growth of the Company.

We will start with our real estate strategy. A number of you last night asked me about my team and how we are organized and how we go about finding sites. We have three vice presidents of real estate who cover the United States, Canada, and the United Kingdom. They have a network of about 40 or 50 brokers across the United States and UK and Canada that bring us opportunities.

In addition to that, we also have relationships with developers and landlords who also bring us opportunities. We also have a research team of six people that do site analysis and do projections for new stores, and a financial analyst that does the work on the pro formas and financial piece. So we are a pretty lean team, but we get a lot done and we have a lot of fun.

And somebody asked me last night if I enjoy what I'm doing and, personally, I think I've got the best job in the Company. So it is really great.



Our real estate strategy has always been one that has been opportunistic. We don't have a predetermined plan to have a certain number of stores in certain regions or cities. At the end of the day, we are looking for the best sites that we can find to build stores, to produce good returns for the long-term.

We are very desirable tenant based on the fact that we drive a lot of traffic. Our brand has a lot of cachet, and of course our balance sheet is really strong, so we are a great tenant.

We have grown a lot. We have accelerated our growth over the last few years, but at the end of the day, we are not interested in growth for growth's sake. We're interested in smart growth -- growth that is going to deliver us great returns over the long run. And we have a very strong discipline around EVA.

So let's talk a little bit about EVA. Whole Foods became an EVA company in 1999. And all of our capital expenditures require an EVA analysis and a hurdle rate that a store, to be considered for approval, has to achieve a five-year cumulative positive EVA on a pro forma basis. There's three main factors that go into the EVA analysis: sales, rent, and capital; sales being the most important and sensitive factor in the EVA model, followed by capital, and rent.

And rather than focusing on new store productivity, it is the combination of these factors that enable us to deliver strong returns in a variety of markets. So for example, in New York City, where we have higher sales than, say, Lincoln, Nebraska, it also -- New York City will also have higher corresponding rent and capital. And it is not to say that New York is going to deliver better returns because it has higher sales; it is a combination of the factors that enable us to deliver strong returns across a variety of markets.

We have made great progress in delivering these strong returns over the last five years, I think in part because we have really been focusing on rent and our cost to build. Our average rent over the last five years has increased 10% versus the commercial real estate pricing index that has increased by 52%. And we have reduced our cost to build by approximately 10% on a per square foot basis.

So during The Great Recession, we slowed our growth, but we have now been signing leases and opening stores at a record pace. We have more than doubled the store development pipeline from 52 stores now up to -- I think it is 112, actually. We have increased a number of new store openings from 16 to 34. We expect to open about 40 this year. Our CapEx has increased from \$256 million to \$683 million. And the most important piece here is something that we are really proud of, is the fact that our ROIC has increased from 9% to 15%.

After the downturn in 2008, we have been focused on rebuilding the pipeline with an even more disciplined approach. And I believe that our 112 stores in development are poised to deliver great returns on a go forward basis, based on a couple of factors. One is, after the downturn in 2008, we actually increased the hurdle. We made it more difficult to approve sites.

Prior to 2008, we required a seven-year EVA hurdle, such that the site had to achieve cumulative positive EVA within seven years. We lowered that to five years. And, currently, if you take a look, the 112 stores in development on a pro forma basis, those stores average an approval that is less than five years, using conservative sales and margin projections. So I feel really good about the state of our pipeline.

We opened -- we operate stores from 20,000 square feet to 80,000 square feet. We operate in a variety of markets -- dense urban markets, suburban markets. We have relocations, we are in new markets. And we have been fairly consistent. The mix has been very consistent over the last five or six years. And based on our current pipeline, we expect to generate similar returns that we have generated in the past.

These are some of the sites that we have currently in our pipeline. We have got stores coming online in existing markets like L.A., Philadelphia, New York, Seattle, and Baltimore, as well as 20 new markets. So John mentioned that 1992 -- that he thought the potential for Whole Foods was 100 stores.

And, in addition to the things that he talked about, I think other things that are going on is that, as the market has grown, there has been an increased awareness and interest in healthy eating and healthy lifestyles. Our brand awareness has really grown, and Whole Foods Markets and our customers have both evolved and are growing together in a way that really -- it has always been a moving target.

It was 100 stores in 1992. I remember, years later, we upped it to 200, 400, now it is 1200, and I really believe that that is a moving target. Part of what is driving that is we are able to put stores in markets where we would never even have considered even five years ago, smaller markets. And we are also able to put stores closer together than we have ever done before as well.

So if you take a look at some of the dense urban markets, notwithstanding the fact that we have nine stores in Manhattan, 21 in Chicago, 29 in Boston, we don't really believe that we have reached saturation in any market. As we open stores in these dense urban markets, we may face some initial cannibalization. But, as John and Walter mentioned, a year later we are back comping positive. And the net effect is that we have grown the overall market.

An example is the Boston market, in which we opened seven stores in fiscal year 2013. Those are the Johnnie's Foodmasters and the store in Lynnfield. And, for a year, we experienced some week comparable-store sales. But a year later we are back to comping positive and we find ourselves with the Boston market now comping above the chain average.

Based on the success of our Wild Oats acquisition, in which we basically doubled the sales in a number of smaller markets in which they were operating and the strength of our brand, we are finding that we can operate successful stores in many smaller markets that we hadn't considered before. So this will be part of our strategy going forward as well.

We opened our first store in Canada in 2002. We currently operate 10 stores and have another six in development. And, again, like the United States, we believe that the potential there is a moving target. We currently believe that we can have 35 to 40 stores and we recently signed some new stores in Edmonton and Calgary; very excited about those.

We entered the UK in 2004 with a small platform acquisition and we currently operate nine stores there. It is an interesting -- what is going on in the UK with the big three -- Sainsbury, Tesco, and Waitrose all experiencing flat to negative comps while Whole Foods Market is -- our stores are comping above the chain average. Like our real estate strategy, any further international expansion will be on an opportunistic basis.

So, in conclusion, I just want to reiterate, and really the point I want to convey to you is I have never been more bullish on our current and future growth prospects. Again, our pipeline is really -- it is diverse in nature; it is conservative. The average approval, again, is less than five years, using conservative sales and margins.

And we are a very desirable tenant. We have a lot of opportunities to open new stores. We currently are operating 412 stores as of today. Our 112-store pipeline is poised to continue to deliver strong results. And, based on our current store in development, we will expect to cross the 500-store mark in fiscal year 2017.

We believe the potential is for 1200 stores over the long-term. That started out as kind of a -- Walter alluded to it. It started off as kind of a competitive thing. I think it was at an investor conference in Boston when Sprouts got up there and said that they could have 1000 stores. And Walter, not to be outdone, said, well, we can have 1200.

Since then, we have gone back and we have really looked at all the SMSA's over 50,000 people and it is a real number. We really think that the potential is there. And, again, it is an ever-moving target. So the future is bright for growth, both on a current and go forward basis. Thank you for your time.

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## PRESENTATION

**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

So we are glad everyone got to make it this morning. I know that one of our largest holders was doing a little extra market research last night. We found them down in the oyster bar for quite a while. So we won't name any names, but you guys know who you are and glad you guys made it and had a good time.



**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

60 beers on tap; I think they were at 23.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. That was at about 8:15. So I think maybe by nine o'clock they had half of them.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

So I would like to introduce Ken Meyer. He is our Vice President of Operations -- Global Vice President of operations. And I am at the Vice President of Operations as well. I am doing -- on the left coast, Ken's the right coast.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. It is an interesting way you put that -- left and right coast versus East and West. Over the last several earnings calls, you have heard us talk about different things that we are doing around cost, around refresh, around innovation, and, as John said earlier, we are not sitting still. We are not an organization that sort of does something, sits back, and enjoys it, and then realizes we have got to keep doing something. We are constantly on the move.

And the power of our Company, in our mind, is the culture of it and the culture of creating, and finding ways to do things different. And one really important point for us was, when we started this conversation with you, is that it is not just what the E team is doing. It is really the power of the collective team member base. And we create that freedom to do those things and we want to show you how we are kind of actualizing that as a Company.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

So we are going to pull the curtain back and show you some of the stuff we are working on. One of the things is how we are taking cost out of the system. We talked about it a lot on our last few earnings calls. And here are some things we are actually doing.

Customers are at the point now -- they have accepted technology. They can actually help us take labor out of the system, at the same time providing better quality product and faster service. So this is a great example. Ken, do you want to talk about that?

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. I Mean, one of the -- let's look at this. We are great at producing a product very efficiently. One of the biggest breakdown sometimes is that exchange between the customer and the team member. While it is valued, but we find that our customers perfectly find -- that started in our Foggy Bottom store, actually, where we put four kiosks in and a customer would come up and just order their food from there, not walk up to a counter. And we thought, wow, we are going to have to train our customers how to do this.

The day we opened, they immediately moved us out of the way, and basically said we can figure this out. We can do this on our own. So now we have launched this in our Post Oak store in Houston, and this came into efficient for our Avalon store in Atlanta as well as just recently in our 86th Street store.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

So, one of the big learnings we have is that our team members can only move as fast in the service menus as the customers pick their items. So if you are ordering a sandwich, you say, there is four kinds of mustard. I'm thinking that, maybe some salad, a pickle. This way the customer can take as long as they want at the order system. And as soon as they have actually placed it in the order system, that is when the team member starts working on it. So we are able to take the cost out, speed the process. It is really working.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

And we just have a beta test right now on the Upper East Side where it is an online version. So you can go to your phone, place the order on your way to the store and have it ready for you to pick up. You can pay for it. The great thing, too, is it puts your -- you put your phone number in there and it tweets you when you are ready to -- when it is ready to be picked up.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Which is magic, because you can walk around the store and buy other things and that they will text you back for your sandwich. We love that.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. The other side of it is this movement to letting the customer find the product themselves and going to self-service in areas, whether is it around the bakery has been a big movement for us and the realization that, look, we make great product. We make beautiful things in our bakery. And let the customers pick the product themselves. And David has innovated in his stores here with pizza. You want to talk about that, David?

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Well, do you guys although all know? You guys all analyze Whole Foods all the time. So you guys know what our highest volume item is at Whole Foods Market. Anybody know? Guess? Guesses? Gift certificate if anybody gets it right. Salad bars and hot food bars -- all the food that customers get themselves. We sell more of that than we sell milk or bananas or any of those staples. That is our bread and butter.

So we make the super high quality food and then the customers buy it themselves. And, as we have introduced that self-service concept to other products that used to be full service, customers both buy more and it takes labor out of our system. And we can take our labor and focusing on making the products as opposed to packaging and handing it to the customers.

And customers buy more. Customers just -- this is a pizza venue that we just put in to Little Rock, as well as a few stores here in Texas. And where we used to serve customers pizza, they would often buy one slice. But miraculously, when they serve themselves, they buy two slices. So I --

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Not that we are trying to get people to eat more food, but we don't want them to (multiple speakers).

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

I have a feeling that people feel like they were getting judged if they were at the bakery counter and, it was like, well, you know.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

The same thing goes for cakes, right? They are buying two cakes instead of one.

**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Exactly. It's like, you bought a cake yesterday. It's like, well -- so it is a beautiful thing and it is really working.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. Another evolution for us is -- this is Shelf Tags 2.0, we call this. And this is from our Avalon store. And the idea, again, that we can take the old system of a physical tag and turn it into one that is electronically managed from the regional office and update it automatically.

This is -- we like this one a lot because it is very similar to your Amazon reader. So if you have an Amazon reader, it has got the same view to it. We are going to be able to integrate the sale tag into that at some point and allow that to have a lot more capabilities and use. So this is sort of our first test in our Avalon store.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. So we have a few reasons they use the last generation digital shelf tags and we are hoping, ultimately, the entire Company moves to this. And we can get pricing accuracy better. We can get promos in place quicker. It is a technology we really like.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. And when you think about a way in which our system -- do we need to have the management of pricing done individually at every region. Can we have some of that done globally? Can we have some of that taken out of the stores? This is where the learning process is for us to say, hey, look, we can rethink this process within Whole Foods.

This is an interesting move we are making where we are -- typically, when we design a store and build it, we have kitchens and production areas all through the store whether it is a meat, seafood, produce, bakery, prepared foods. And what we are looking at and we realize there is two benefits to consolidating that down. One is, we allow the production to be done by the best capable people in one area for the store. So, a different department needs some mise-en-place for a program they are putting together. This kitchen will put it together for you.

And, again, it takes less labor. It also consolidates the capital investment we have to make in the stores. And so we have two or three regions right now testing this out in their designs, and then we will be launching this going forward.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Last few calls we talked a lot about refreshing our stores, and there was a lot of questions about what exactly that means. And we did 40 stores in the company in the first quarter. We committed to doing 200, basically half our stores, and taking the old decor look, the old logos, the old colors, and kind of popping the new color and look.

So here are some before and after pictures so you can really tell kind of the old look of Whole Foods Market and kind of the new pop, the new kind of -- a little bit groovier, more fun colors, better lighting. These simple things have increased comps and sales, and we have seen the results when we started this strategy in Southern California the last couple years. And we are really excited about just this little bit of money per store, less than somewhere around \$100,000 to \$200,000, and we can get significant pop just on the way the store feels.

And, also, our secret sauce of our team members -- team members feel better about space. Their morale goes up, and voila, the sales go up.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

And so we have sort of three buckets in terms of how we look at this. We have the decor refresh, which David shows here in terms of -- where we go in and let the experience visually change. Second one is, we will go in and put new cases that we open new stores, we try a new concept, try new program, find a better case that increase sales, better customer service. We then launched that into the system within the Company.

And then the third one is where we actually do a pretty major renovation -- a remodel in the stores. And that -- the major remodels and renovations have been something we constantly will be doing all the time throughout the years. This sort of idea of quickly moving great ideas through is something that we put a greater focus on and of the improvement around decor, as David spoke about, in Southern California. We have done -- implemented that into every region now.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. So, a big part of our job is we are relentless about not letting our stores get stale. We are just relentless about it.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Here is a good example. This is Pasadena. This is kind of the very first generation bar we put in, in the before picture. And you can see, this is kind of a more of a groovy Southern California thing. That is right before they opened. So last time you saw it empty.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

And the power of this isn't really that Dave and I drive this process. You have the 12 regional presidents constantly out there looking at the newest stores, the newest innovations, and they are taking them, iterating them on their own, and then implementing them in and improving on them. And it is a great sense for them to -- they control the capital in their regions, so that gives them the ability to go out and find things that they want to try, take great programs that have already been done and implement them into their region.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Absolutely. I think I have some more before and after pictures.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. Yes.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

And now we are going to get to the fun parts of our new stores. Jim talked a little bit about getting into new markets. This is Palm Desert. So we are starting to go into these markets where we have really a high season and a low season. We learned a lot from Florida. Our store in Basalt, up in Aspen is doing great. It is the high season in Palm Desert right now.

We're kind of focusing on a premium customer. Our tap room there actually does table service -- restaurant. We actually take reservations. So it is kind of a hot seat in town right now, so kind of very exciting. Also new markets -- Ottawa; Walter was up at the Ottawa opening and AC was up at the Ottawa opening.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

How cold is it up there, David?

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Well, basically, when they -- when they are clapping like when they are doing the bread breaking and they all had mittens on, so it was very kind of -- a little (laughter). That was November. You could actually skate to the store, really, no kidding. You can skate to the store.

So we are great. We are in the capital city of Canada. We have learned a lot. We are really excited about Victoria Island and Calgary and Edmonton. We really are -- we know how to operate. We are confidently operating in Canada with our 10 stores, both on the east and the west and, as Jim said, many more to come.

Okay. Tiny Pebble -- this is our relocation of one of the oldest, most decrepit Wild Oats that we acquired back in the day. It is actually hidden behind another building. And relo is another big part of our strategy. We still have a bunch of old Wild Oats or even first-generation Whole Foods that were opened 20, 25 years ago.

You know, this is an opportunity for us to take a store that does well, kind of busting at the seams, move it a quarter mile down the road, and sales can go up 40%, 50%. It just opened last week. Customers are thrilled.

You are talking about first-generation Wild Oats store -- had one salad bar, no seating, no food venues, 8 feet of meat case, 6 feet of seafood case, going to a modern Whole Foods. This is a way we are going to keep our comps growing is to open new stores, but also expand or relocate some of our oldest stores.

This is Streeterville. This is the first store, former Dominick's, that just opened in Chicago. We have a couple of Chicago folks. Anybody go to the opening? Yes. No? Gotta go when you go home. So we acquired seven Dominick's and we're going to talk a little bit more about Chicago later.

But, unlike Mariano's, which acquired quite a number of the Dominick's, they immediately reopened. We took our time. We designed new stores, we built a strong team, we spent that year refreshing our older stores in Chicago, and now we are opening one a month. These are brand-new Whole Foods stores, same as if we built it from the ground up. So we are going from very old Dominic's stores to spectacular new Whole Foods stores.

This is DePaul that just opened this past week. I love this picture. This is the best day of my life. That is not a team member. That is a customer. So, all you guys that are on your Blackberries or whatever, go and find me a picture from Trader Joe's or Sprouts where somebody is holding up a sign like that when they go into an opening day in the store. It is -- that happens every time. We have people camp out. It is crazy.

This is a two-level store. It is right in DePaul campus. It is a great -- we just showed Streeterville, 49,000 square feet. This is 27,000 square feet. We can adapt our store to the different marketplaces. This is a two-level store like we have learned from our great experiences in Manhattan, and again, off to a great start.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

So what is the next store that is coming in to --

**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

West Loop is the next store.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Great. Great.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

We will be at the opening, so if you guys want to come.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. Come see David at the opening. So we talk about core markets. Jim talked a little bit about the Boston market and the addition of all the Johnnie's stores. And Lynnfield opened last year and we put this new store [Ink Block] into basically downtown --

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes, former Boston Herald building.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. It is the Herald building, which is, if you haven't been to the store, it is a great store. We actually got the Herald sign in the building. And the team really put together an amazing store and it has an experience like you would really want to find in one of our best stores. They did a great job of creating this.

They have Milk & Honey, which is a spa. By the way, you can't get a reservation there this weekend. It is sold out. It is so popular. And they put a Fish Shack in, very New England-esque type shack, very popular for them. And the overall experience in that store is just beautiful. It is a big store, 51,000 square feet. And --

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Truly a flagship in Boston.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Very much a flagship store in Boston.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. AC's favorite store.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes, it is.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Post Oak, this is Houston. Everything is bigger in Texas. This is one of our other big stores -- 55,000 square feet. You could fit the Sprouts and The Fresh Market and Trader Joe's all inside this store. It is a great location.

We just want to highlight -- we are going to highlight some other things from Post Oak, but one of the differentiators we have done the last few years are our in-store smoking program. Barbecue is huge, not only in Texas, but in other places. We are smoking all our own fish. Look at that smoked fish that we are making in-house.

There is no question about it. How do you price compare it to Kroger or Sprouts? This stuff we make in the store, it's high quality. This is fully differentiated, quality product made in stores. There is no price comparison. There is just -- it just is. So these are the -- that is the secret thing for Whole Foods that makes us different. And we are really excited about that.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

And we are excited about the growth that we have in South Florida right now. About a year -- a little over a year ago we opened in North Miami store. And then eight weeks ago, I call it four in eight, so the Florida region opened four stores in eight weeks. And so they started with the downtown Miami store.

And the question always was, what is going to happen when we open in downtown? Do enough people live there? And this store is well exceeding all of our expectations. They have put a beautiful Cuban connection to that community down there. They have a trattoria. They brought in a great partner down there they are called there called Hugo Fresh, which is a small juice provider, and really created a beautiful experience in there and the stores has done phenomenal.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Why don't you talk about how the UK team is helping open in Florida?

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. One of the things that we -- with the way Dave and I work with the reason regional presidents is we take some of our talents and have them support other regions. And so Jeff Turner, who is our regional president in the UK, is an incredible designer and we felt like we wanted to push the Florida region on their design and creativity process.

So we had Jeff come in and work with them on their design and really think through how their stores flow, how their experiences are done. And Jeff is always very skilled in working with challenging spaces. And so he has been working with them on these four stores. And they are significantly improved from the core stores that they opened about two or three years ago.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Oftentimes, some of the questions come up about, how can you open up all these new stores and focus on existing business and relos and all this other kind of stuff. It's like, we use the resources of all of our leadership from around the Company -- all our 90,000 team members. So the folks that

are working on this massive expansion in Florida are not working on the stuff that is happening in Chicago. And so we can -- we have a great flow; we had lots of talented folks that can work on all these projects.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

And, what we find, even like our Southern California region is very good at design and communication of their design with their team. And they have been helping our other regions do the design process. We will talk about that in a little bit.

This is the Pompano store. Our regional president, Juan Nunez, is super happy about this. This is about two minutes from his house. So I think the team is sort of happy that they are there. But, he is a great customer and two beautiful daughters.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Juan is one of our best regional presidents, also longest serving regional president in the Company.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. Yes. And we just opened -- we relocated our Davie store, our Plantation store to Davie. And that store was about 20 years old. It is one of the original stores of the Florida region through acquisition.

And here is an example. We took a very poor, rundown store that is just sort of holding on and brought it into really a beautiful space -- 46,000 square feet, put a really nice venue in there. We got a partnership with a local sushi provider called Sushi Maki, who put a full on ramen and dumpling concept in there for us, right within the bar that you can see here called the Watering Hole.

Again, the idea is that we design these very differently. So the bar here is kind of integrated right into the store. It has got a great feeling to it.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Ken, why don't you give them a hint on the sale difference between the old store and the store? Just give the guys a little taste.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

It is twice as -- they have doubled their volume in this store.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Doubled? Doubled. Okay.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Doubled the volume.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Okay. So that is more than they were doing (multiple speakers).



**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

(multiple speakers). That's a lot more. That's a lot more.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

That's good. That's good.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

West Palm Beach -- I was just in Florida. It was 86 degrees. And it was great to leave D.C. and go to Florida, but then I had to come here and it was cold.

But, this week, on Wednesday, we opened this store. And, again, one of the things I want to point out about the Florida region, is they have had very core to their region the strength in prepared foods and developing concepts. And so every store that we opened -- these last four stores, each one has a unique concept in it.

When we opened the Miami store, the trattoria, we had put Hugo Fresh in there. We opened Pompano. We put La Roqueta, which is a pizza concept. And when we opened the Davie store, we put the Sushi Maki concept in there. And when we opened this store, we did a rotisserie concept that is very well thought, very well priced. It creates incredible value.

And, again, it is that place -- when we design our stores, we try and get it so that folks want to be there for multiple reasons, whether you are coming in for breakfast, for lunch, for dinner. And these concepts are really critical to that. And, again, no one is really doing that out there (multiple speakers).

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. And they will buy other stuff at the same time.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. Yes. This is the Upper East Side store. We have got Christina here. She is going to talk to us.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. We are going to go live to Christina (multiple speakers).

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Live to Christina on the Upper East Side.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Regional president, we hope. Potentially.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

There she is.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. All right. We hope.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Hi, Christina.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

I think it is three seconds I got her here.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Why don't you tell us a little bit about the store?

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**Christina Minardi** - *Whole Foods Market, Inc. - President, Northeast Region*

Good morning. How are you?

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Christina is one of our top regional presidents. She is amazing. She runs the New York region.

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**Christina Minardi** - *Whole Foods Market, Inc. - President, Northeast Region*

Well, first, I would like to welcome all of our New York shoppers.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Tell us what you love about the store, Christina.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

It takes a little -- yes.

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**Christina Minardi** - *Whole Foods Market, Inc. - President, Northeast Region*

So we are here today on the Upper East Side -- I am here with Sam Bowers, our team leader out of our Brooklyn store and promoted recently to run our new Upper East Side store.

**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Awesome. Awesome. Sam, why don't you tell us about what is going on in the store?

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

It's like a funny little delay.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

You talk.

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**Christina Minardi** - *Whole Foods Market, Inc. - President, Northeast Region*

Well, each store that we open, we really try to put our stores into the community that we are in. And with this store, where are trying to do innovation with every store. So as you can see here, brand-new program just for (technical difficulty) are these delicious quiches.

But every single store has something (multiple speakers) being that the (technical difficulty) store. We keep pushing innovation on our new stores as well as our existing stores. So a program like this will roll out to all the stores in the region in the coming months.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Okay, Christina. We're going to cut it short because we're running out of time. Let's wave. Say goodbye.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

By, Christina.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Okay. See you later.

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**Christina Minardi** - *Whole Foods Market, Inc. - President, Northeast Region*

All right, let Sam say (technical difficulty)

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

We knew that was going to be an iffy segment, so it's like -- it's what it is. Rather than us just talk about -- Christina is an amazing regional president. I am sure some of you have met her over the years, but she has done a phenomenal job for us.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

There are a lot of things Christina wanted to say about a close by competitor, starts with the letter F, but we didn't.



**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Domination.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Domination. So we are very excited about our night store in Manhattan.

We talked about some of the expansion, some of the learnings we have from both Boston -- the Boston market. And we can -- yes, let's -- so, also, in Chicago, we started with 19 stores in the greater Chicago market, in Chicago and the greater market and we are adding seven new stores that we acquired from Dominick's, one of which is a relo. And then we are opening four additional stores.

So here you can see how we are opportunistic in growing our market, both acquiring stores that might be closing down, acquiring other natural foods stores like New Frontiers in Arizona and Southern California, and then also building our own stores. So we are kind of working all those things at the same time. Again, we planned very carefully this Chicago expansion. And you can see how just the market landscape is changing there.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. Keep going, David.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. And so then you can kind of see, at the end of the day, in about a year or two where the whole market is going to be.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. Yes. Let's talk about how we are innovating faster. I think that is a really important thing. As I mentioned earlier, it is not just about myself and David and the E team doing this. It is really about the team.

And one of the things we do every year, and sometimes twice a year, is we bring the regional presidents together and we just -- we have an incredible brainstorming process about all the things that they are seeing, ideas that they have found. We bring guest speakers in. We had Danny Meyer come in and talk to us about hospitality this time when we were in Charleston.

And this is the beginning process in which everyone starts thinking about, what do they want to do in the next round of stores, where do they want to go with design and innovation and it has become an incredibly fun and challenging process for us.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

And we also do it at the regional level.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. And we have teams at the regional level side. Whenever we open a store, we always say every store is a snowflake. And what we challenge the team to do is come in with first to market items, programs, and partnerships.



And this is a great picture of [Raj Nay], who is from our Florida region, with two women that own Versailles Bakery, which is the oldest Cuban bakery in South Florida. And they came in and created a product line for us in our stores. And, again, it is the challenge to the team to find new items and create new things that set the high watermark for other stores in the region to study and learn from and implement in their stores.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Now we are going to show you some things that we are just starting. We just got them in a few different locations. We are thinking like these are some of the things that are going to be the lifeblood of innovation around the Company in the next year.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

So we talked about paleo. We talked about vegan, vegetarian, wheat free, health starts here. So the Mid-Atlantic region is testing out the concept called Good Energy. And the idea is that it is for active lifestyle people, fitness oriented, people who are very focused on the nutritional aspects of food that they eat, depending upon their diet. And we are testing this concept.

We will have it in pre-pack. We will have it in -- we are going to work on a subscription system. We are going to work on how having it connected through gyms and fitness centers. And we are going to create also -- try out a venue with this as well, where the whole product line reflects that.

And so, again, this is the beginning of a proof of concept for us to try and implement and rollout in the Company.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes, and we're also bringing in our great friends at Instacart to deliver these meals directly to folks' house once a week, once a day. You want to eat healthy, but you don't have really time to think about it, so we think this can really grow.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

The thing is one of the pushes is how do you bring yourself -- in design, is how do you bring yourself closer to the customer, have that real personal connection with them?

One of the things that we have done in the mid-Atlantic region is remove that barrier, bring that experience so you're actually standing next to that customer, you are building that personal connection, you are talking to them about product, and you are right next to the product. So it started in our specialty departments there where we took that front case out, and said, okay, we are going to put everything along the wall and we're going to work next to the customer. And now --

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Seafood as well.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

What's that?

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

And in seafood.

**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Now we are implementing that into our seafood departments as well where you bring yourself closer to that product, closer to our customer.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Right. We have these tap rooms. You guys got to experience the Draft Shack in Domain last night. Next generation is we're actually brewing beer in two stores right now, one here in Texas, in Houston at the Post Oak store. We have a master brewer and a team of brewers and, again, can't buy that product at Sprouts or Fresh Market or anything like that. This is beer we are brewing --

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Which one is the next one, David? When is the next one coming out?

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

The second store we have opened is in San Jose and that's a great store. It's right actually across the street from where the Sharks play down in Alameda, rooftop beer garden. It's got the highest beer sales of any tap room in the Company. Though the store is not the busiest store in the Company, it has the highest beer sales.

They are brewing between four and six beers at both stores. These are fully differentiated products. We are getting the crowd in there. If you are a beer geek, you probably know Russian River Brewing. We hired the assistant brewmaster for our northern California brewery and we think this is something that we can put in flagship stores in many states around the country.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Where the laws allow us.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Where the laws allow us.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

It's funny because the state of Virginia won't let us put a brewery in there because of the law in New York and California, so --

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

One of the things at Whole Foods is we don't want to be a good pizza place for a supermarket. We don't want to be a good coffee shop for a supermarket. We want to be a great coffee shop, a great next-generation coffee shop.

So we've started the -- we are calling it the ACR brand, which is an expansion of our Allegro Coffee, and we're actually doing single-origin roasts directly in the store and we're also creating that real vibe with the La Marzocco espresso machines, true barrel roasters, Roastmasters. So even though we have our roasting facility outside of Denver, we're actually doing a locally roasted coffee, so this is a flagship concept. It's got the great

sitdown environment, great high-speed Internet. It's got the whole vibe of the coffee house and they're separate spaces, both in Brooklyn and in Gilman in Berkeley.

We are looking -- again, this is a flagship kind of thing where we are actually doing a next-level roasting in our stores. Really excited we're going to put this into our new store, the Queen store in Honolulu, and we're going to be roasting local Kona coffee right there, so very excited about that.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

That's the site of the next investor conference, do you think?

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Next investor conference, we will announce it right now.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Cindy wasn't laughing at that.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

On top of our Brooklyn store, we put the greenhouse with our partnership with Gotham Greens, and one interesting note about the Brooklyn store is that it is Platinum LEED certified. It is the second store in the United States, supermarket, to have that certification and it's the first one in Whole Foods Market.

Within the context of that definition, the greenhouse made a big factor in supporting that, and so this greenhouse is actually supplying product for the store, as well as all the other stores, the nine stores, in the New York City area. It is quite a sight.

How many of you have seen the Brooklyn store? A few of you? It's worth a trip. It's worth a trip. It's one of our proudest stores we have done in the history of Whole Foods.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

In a couple weeks, we are doing our annual gathering where we have leadership from around the Company. We recognize the top 10 stores in the Company. Usually stores don't get in the top 10 their first year because there is financial hurdles that they got to meet, but Brooklyn is in the top 10 because they are not only an amazingly beautiful store, but they also met the financial hurdles as well.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

The other thing is as we talk about bringing that experience closer to the customer with what we are doing and create that transparency, not only transparency in terms of how it's produced, but also what we are doing in the stores.

And one of the things we rolled out in -- actually in the Ink Block store and in the Brooklyn store is the ability to bring the cutting areas closer to the customer. I love this photo, because it's a little kid looking in there and peering in the shop window.

One of the things we always want to try and do with design is how do you create that shop experience, and this is really the perfect example of that, in our mind. And it shows off the craftsmanship that we do in our stores. Sprouts and Traders and all those guys, it is hard for them to show that because there is really nothing going on to that degree.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

The hottest food trend right now is the paleo, all the CrossFit folks, and what we're seeing is a big part of the CrossFit folks, people identify themselves as paleo or CrossFit, so much is about grass fed beef, grass fed butter, and we are meeting that need, both -- we have got Bone Broth going in several of the stores. We got the Bulletproof coffee thing going. We got snacks.

All those things, essentially no carbohydrates, grass fed program. Customers want these products and we already sell these products, but really marketing to them as well, so hot trends.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

The South store just opened Avalon this year, which was the relocation of the original Harry's store, actually. We just relocated that, and Omar, the Regional President there, is really wanting to take technology forward, and so he created a very interactive experience for the customer in the store, whether it's within the Whole Body department to learn about how to handle different areas of challenge for health within your body in Whole Body or with wine, learning about different wines through an interactive touchscreen system, as well as taking Instagram to a new level with its visual connection of team members and customers Instagramming different ideas and pictures and showing that in the cafe of the store.

The shelf tags that I showed earlier were from the Avalon store.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Fresh juice continues to explode. Lower left-hand picture, you see that's Cambie from our store in Vancouver. That's actually in partnership with Vega, which we are really excited about. We are doing spa waters, which is the upper left-hand corner, which is from the Palm Desert store. We're doing cold press, our juice bar experience.

That's becoming a daily ritual for a lot of customers is to come in and get their juice after a run or after yoga class, and we're well ahead of the market and the quality in our stores is outstanding. Something we are designing in all stores, and also in a lot of the remodels this year we are putting next-generation juice bars in.

We want to move on to talk a little bit about our design processes, like how do we design. Years ago, you used to look at just blueprints and you would work just with the folks within your region, but now we are doing it through the web. We have folks that can meet from Jeff in the UK to Florida to folks in Hawaii, to California, and we are collaboratively designing the stores.

Now we can look at the spaces in three dimensions as a customer would look at them, so we are designing our stores cheaper. We're designing our stores more efficiently. We're not making the same design mistakes we did before because we really are -- we really can experience a store before we build anything, the way the customer has, and this has really changed the way our design process and the collaborative nature.

When we go into a design process with our store, we have our last 10 stores we built, we have pictures. We have pictures of all of our competitors that opened, all the cool new restaurants, hotels. We can do this all virtually. It's a great process.

**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

I just want to add, design is visual. Our experience in our store is visual, so this process here has allowed us to bring a flat dimensional drawing into three dimensions and it's actually really helped our coordinators understand how that interaction happens with a customer, how does their idea transform into reality.

It's been a very exciting way for us to do it and, like David said, it allows myself to look at something in southern California while I'm in DC or in Austin or anywhere. It really has opened us up to really understand design in a different way and teach our team members how to look at it as well.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Just want to start to finish up with some of the things that are only at Whole Foods Market. We talked about the brewpubs, again just a couple of other pictures of that. Really excited about that concept. There is the brewery in Alameda as well.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

So you basically -- you should say -- we basically have a brewmaster now in --

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

In both stores.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

In both stores.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

So we are not just making okay beer (multiple speakers)

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes, this is not just like bathtub beer. This is like the real McCoy. The plan ultimately is to --

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

The moonshine is, though, right, David?

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

You guys -- did anybody try the beer last night? (multiple speakers)

**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

It's good beer.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

The thing we're excited about, too, is we can actually -- in Texas, we can distribute it to our other stores, so you will see it on tap. Even though it is made at Post Oak in Houston, you will see it in San Antonio. You will see it in Dallas and Austin, and the same thing in California. We're not just making it for the store; we're actually making it to supply our other tap rooms that are not breweries.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Again, we took a concept here. We did a partnership with a company here based in Austin to bring a salon, men's and women's salon, into our Ink Block store.

Like I said, I don't know if you heard me earlier, they are completely booked up this weekend, so it's been a very good success for them at this point. And again, to bring that -- it's not what you would expect to find, but it's something that creates a whole other reason to come to Whole Foods.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Our Campbell store in northern California has an organic pedicure. You can actually sit and get a glass of champagne, and we're getting folks coming in for bridal showers. It's, again, sold out, just like --

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes, yes.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

And they are sitting there, looking at the whole store while they're doing this.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

The beautiful thing about this in Ink Block is it's a storefront window looking into the specialty department, looking into the Whole Body department.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Right, so they can be thinking about what they're going to buy.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes, yes. Getting them.

Cooking and gathering is germane to what we do, and we have so many experts in Whole Foods around cooking and we have cooking schools, cooking classes, and also we bring experts in that come in and teach our customers and build that relationship. A lot of our regions have these



cooking centers and gathering places that have become very core to their extension to the community, beyond just within the four walls of what they're doing.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

We want to teach people -- when people want to eat healthier, when people change their diet or they get diagnosed with a disease, they also need to learn how to cook.

So we are teaching folks on all healthy eating, how to cook without oil, all these kinds of things that customers, they want to cook more, but they don't understand the cooking techniques to eat healthier, so we're going to teach them and then, in turn, they shop.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

What's interesting, John spoke about the challenge in our country with obesity and health. The number one solid of our -- in classes is our healthy eating.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Without a doubt. I was just in Florida talking to them. They ran a class in their new store in Pompano. They had space for 50. They had 75 people sign up for it.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. Teaching people how to saute with water as opposed to oil, those things are -- all the different techniques. People, how to cook basic grains and beans, those kind of things. Those classes sell out.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Again, we talk about this, but our gathering spaces, we make a commitment to finding ways for our customers to come into our stores throughout the day and on the weekends with their children, with their friends to watch sports.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

World Cup is upper right-hand corner, Super Bowl, all sort -- kids' events. People hang out in the store, and the longer they hang out in the store, it's a beautiful thing.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

We had a little putting green there from our store in Augusta --

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. That's the Augusta store.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

-- in homage to the Masters. We had T-shirts that looked just like that that we had --

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Do we have team member caddies or --

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes, we did. We have a golf cart.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

We have a golf cart.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Absolutely.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Nice.

Jeannine is going to come up and talk about our social media experience, but the social media they follow are the ones that are interesting pictures, and our team members, on their own and along with some guidance from us, they post amazing pictures of what are happening in their stores.

For example, our Newport -- best Instagram feed, I think, is @WFMNewportBeachbeer. They have got over -- the beer buyer in that store has over 7,000 followers, which is kind of amazing, and he talks about beer and he posts pictures, and that is just one team member in one store.

That's happening in all of our stores. We have this constant dialogue with our customers and here is an example of Valentine's Day.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Our cheese monitors, they constantly have incredible posting. What I love about this is it shows -- these are team members on their own posting this and they are so proud of what they're doing.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

So proud to show what they're doing.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. The upper-right picture, a gentleman came in and bought 20 dozen roses, so he must've done something really bad. (laughter).

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

You don't even look at it the other way, David?

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

He's got a lot of girlfriends. (laughter).

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Exactly.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

That was a great partnership with Instacart. That was one of our first just in time. Customers could actually order flowers through Instacart, actually get handwritten notes. You could order flowers the same day. We were hearing stories of 52 minutes, 53 minutes delivery from the time you order to the time it showed up for a customer for Valentine's Day.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

It took me 48 minutes.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

48 minutes.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

From the point I ordered it until it got shipped to my mom. It was great.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes, exactly. Mother's Day is next, so we are going to be -- we are excited about some of the Instagram -- Instacart and Instagram things we are doing for that holiday as well.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Again, this is just showing the Super Bowl, the fun we have around -- well, we don't call it the Super Bowl. We call it the big game.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Copyright, the Super Bowl.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Yes, yes.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

World champion New England Patriots, Super Bowl.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Well, not that we are that excited about that, but -- where is the deflated football?

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes, there was a deflated football cake you can --

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

(multiple speakers). I think that was one of the most popular Instagram posts we had.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

It was, yes, we had -- [popular] that. So again, big followers.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

It's coming in to close here. We talk about all these things. In our minds and when Dave and I look at this, it really is the team members, the absolute amazing, passionate team members.

And I love the bottom -- I just took this photo this week at the Davie store. That's Dana. She is the store team leader there and she is really passionate about Whole Kids, so she said, hey, look, can I have a four-foot section of my grocery aisle, big grocery department, to do a little thing for Whole Kids?

She put that together with the construction team and she is so proud of that, and it's a great interactive experience for kids to connect. It's got different shelving. It's got all kinds of healthy kids snacks in there, and again it's just their passion is really what the creativity is in making us different in what we do.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

John talked about eating healthy, you will live longer. That is AJ in the middle picture. He is 82. He is one of our meat cutters right here in Austin, so if you shop and eat at Whole Foods, you definitely -- for at least AJ, you will live longer.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

You will live longer, exactly. That's good.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Then everybody talked about Values Matters, but from the operations folks, we want to tell you guys that results matter.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Results matter.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

We are committed to meeting all of our stakeholders' expectations, as well as our stockholder stakeholders. So thank you very much.

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**Ken Meyer** - *Whole Foods Market, Inc. - EVP of Operations*

Thank you very much. Thank you.

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## PRESENTATION

**Jeannine D'Addario** - *Whole Foods Market, Inc. - Global VP, Marketing and Communications*

(audio in progress) across the US. We targeted a slightly younger demographic, and the great news is that our best performance from the metrics we have seen is really with adults under the age of 40, families with children in the household, and our high-value shoppers. Can't get much better than that.

So I would like to take a look really quickly on our brand campaign execution.

(video playing)

I love the conclusion of the video because it really shows the excitement that our team members had when we launched the national campaign. If you think about it, we are really telling the stories that they tell every day in the store. To see their excitement and enthusiasm and to see them excited to talk about our Values Matter and our standards and our healthy eating messages is really just gratifying to the overall campaign.

In addition to the work that we showed from the brand campaign standpoint where we did television and outdoor and print and digital, we also took the brand campaign right to our own digital footprint and we implemented a new look and feel to our website and mobile website, as you can see here.



It allows us to tell multiple stories simultaneously, and consumers can pick and choose the things that are of interest to them as they come to the site. They can also share their own content that they have generated around Whole Foods, so it's an opportunity for us to see not only what we are talking about, but how people are embracing that and translating that into their own content.

To date since we launched the new look and feel of the website, we have had over 8.6 million page views, which is fantastic, and our visitors have cumulatively spent 185 hours in total watching this brand content on our website since launch.

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**Jason Buechel** - *Whole Foods Market, Inc. - Global VP, Information Technology*

Moving on to mobile, we're really excited on the fact that we set out about a year ago to dramatically improve our mobile engagement with our customers, and this involved us re-architecting and putting a brand-new digital mobile platform in place, which has actually helped us support the launch of our brand new app, which -- how many people here have downloaded the app? Very good. Very impressive.

What you've found is we have added new features, but this has really been only the foundation of where we are planning to go with this, and what it is going to allow us to do, this new digital mobile platform that we have put into place has allowed us to over time agilely and in a great way add new features for our customers and allow us to connect those both from a mobile perspective, our dotcom experiences, and you will see in a little bit on ways it will actually tie them back into our store experiences.

We're really excited by the fact that we have 750,000 downloads now, so it says nearly, but I think we have surpassed it at this point, and we're really excited by the fact that we were actually featured as one of the top new apps by Apple.

Even more exciting is the way our customers are engaging with this. They are spending four and a half minutes on average and viewing 10 pages of content. This is not something you typically see in an average app.

Moving into the experience base, one other thing that we set forth over this past year is we really wanted to meaningfully move into the delivery space. In 2013, we tested out several concepts and really found that our customers were excited about this feature. We went into the marketplace and said, what is the best way for us to help bring this to our customers?

Many of you are aware of the partnership that we have with Instacart. This isn't a transactional relationship. This is a strategic partnership where we went and looked at who could provide some of the services we couldn't easily provide ourselves. We have taken the best of Whole Foods Market and the best of what Instacart can do and we have got a great experience that we are doing to our customers -- with our customers.

Many of the things that we are doing with Instacart are actually some of the things that are very specific with Whole Foods Market, and this is part of the strategic relationship we have done with them. What is so exciting is we are now offering fresh grocery delivery to more households in America than any other grocery retailer, and we've only done that in about a nine-month period.

We are in nine of the 10 largest US markets and that will significantly grow over the course of this next year, as far as the markets we will be able to serve, and we are very excited by the fact that we are currently doing over \$1.2 million of sales a week.

Equally exciting is the embedded store concept we have, where we service right now out of 50 stores where we have embedded Instacart shoppers. Some of the stores are seeing up to 5% of their sales in delivery.

One of the other things that we have done this past year is look at how to bring seamless payment into our stores, and this is a partnership that we have done with Apple Pay, which I am sure many of you have also seen. This isn't just about making seamless payment available at the front ends. This is about bringing seamless payment into our mobile ecosystem. It is about using this as a way that we will innovate to transform the way that our customers will make purchases in things like the venues and how they will order product online with us.

We're really excited because we're really the flagship retailer with Apple. We do the most transactions and have the largest sales volume of any retailer using Apple Pay today. We currently have over 2 million transactions that we have done, and right now it is representing about 2% of our sales and growing.

What is even more exciting is our very best customers are the ones that are using this. We're finding that average basket, as well as frequency of these customers, are more than our typical shopper, so it's really showing that our customers are really excited about new technology and they are willing to adopt to it.

The other piece that this brings together is when you take Whole Foods, Instacart, and Apple together, you really have the best online shopping experience. I challenge any of you to go out and look at some of our competitors in this space, whether it be AmazonFresh or FreshDirect, and order your groceries and look at delivery. We are more seamless, both from a payment perspective, product selection, and you can get your groceries in about an hour.

Really what we have done here is taken an ecosystem together, and we have actually in this case brought Instacart and Apple Pay together and said we want you to work with us and create this experience. This is just one example of many partnerships we are looking to bring together in a broader ecosystem to serve our customers in a better way.

Equally exciting is looking at some of the e-commerce initiatives we have currently done historically. As many of you are aware, we do holiday online meals, as well as catering, through our eStore. This past year, what we decided to do is redesign our mobile experience. We found that our customers wanted to be able to really leverage their smartphone devices to create and place these orders.

What we found is doing the redesign and simplifying this, we increased this past year in our Q1 holiday sales 173%, amazing, and we're really excited about to continue to iterate on this concept.

Digital sales right now are only accounting for a small percentage of our overall sales, so we really also want to cover some of the things that we are going to be doing to improve the in-store experience and actually connect some of those digital experiences into our physical store.

Many of you have heard about our OnePOS program. For us right now, POS is a little bit tricky. We did a lot of acquisitions over many years. We currently have four different point-of-sale systems spread across eight different instances. It's hard to manage. It's hard for us to bring a consistent experience across all of our stores at the front lane.

So what we have done is made an initiative around putting in one consolidated point-of-sale system across the entire Company. But this is going to be different than a traditional grocery point of sale. We are not just a grocer. We are a bar. We are a restaurant. We have great venues. We're a coffee shop. And so, we have to be able to support the functionality that those best-in-class capabilities provide at other competitors and bring it into one experience.

Our one point-of-sale system is going to allow us to create -- have the best-in-class affinity experiences, allow us to get to more personalized offers and promotions with our customers. It is also going to provide more secure payment options, which is something that has become very sensitive over the last 12 months.

What I'm most excited about the fact is this system is going to allow us to be more agile and deliver functionality faster to better serve our customers. We can do all of that and actually do it in a lower cost of ownership, which is very exciting for a lot of the folks probably in this room as well.

One of the things that David and Ken talked about was our new store openings and the fact that we really try to put innovations in each one of these stores, and historically what you would have is a lot of these things being done in a one-off. Each store would go off and look at those things, and what my team has tried to do is provide a palette of options that we can reuse some of the same technology to create and test some of these experiences and then bring them to life in more stores and in digital experiences.



One of the great things that we have been able to see over this past year is how we can take things that we are using currently on our dotcom website and our mobile app and extend them into the stores. Two of the examples you see on here are actually supported by suppliers that we use for our online interactions to help customers better educate on the type of products they are purchasing and hear and understand stories about the suppliers that have made those.

Additionally, the picture you see in the center, the same technology we use on our website to display Instagram photos we are using in our stores to actually do the same, but more on a localized basis. So it allows us to actually use the great experiences across stores and some of the things we're doing in our digital space.

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**Jeannine D'Addario** - *Whole Foods Market, Inc. - Global VP, Marketing and Communications*

Jason briefly mentioned affinity, and we like to think about affinity as a wide variety of tactics that we employ to really build relationships with customers and enable us to serve them better.

If you think about all the parts of our affinity wheel, basically we have our affinity rewards pilot and third-party rewards programs, our gift card efforts, personalized communications, and then category-specific rewards and subscriptions. All of this really allows us to learn about our customers better, which allows us to tailor communications, offers, products, and experiences to suit their needs.

Our objectives for our affinity effort is to really drive increased traffic and purchase intent. The way that we do that is by better understanding our customers with the information that we gather through this process, but we then take and add the art to the science with meaningfully engaging our customers in ways that are uniquely Whole Foods Market.

With our affinity pilot in Philadelphia, we have great customer feedback so far. We have got some early learnings coming through the pilot. We have seen members increasing their purchase frequency with us and we're getting great anecdotal feedback from the customers.

What's also interesting about what's happening in Philadelphia is of the people that have joined our affinity program, 80% of those customers or registered members are new to Whole Foods Market communications, so we're adding to our overall database to be able to reach out and communicate in ways that consumers are looking for from us.

We know that they want it because we have got a 60% email open rate, which is an off-the-chart level for email opens, if you have seen other companies talk about their metrics in the single digits. 60% is beyond anything I have ever seen. That tells us that consumers are excited about the information that we are sharing, the rewards that we are developing, and being part of something that recognizes them for their affinity to us.

But let's take a listen to what they have to say.

(video playing)

We don't want to just use our members' participation to get information and share offers. We also want to use the opportunity to surprise and delight them and really make our best customers feel incredibly valued in our organization.

We also have two other areas that I mentioned in our tactics around affinity. One is our gift card program. We sell our gift cards in our stores, online, and in other venues. We know that when a customer gets a gift card and they come in our store and use the card, 40% of the time they are new to Whole Foods, so getting our gift cards out into the marketplace is a great invitation for people to come and try us for the first time.

We also know that when they come in the card -- in the store to use their card, they spend upwards of 30% more than the value of the card. That's a great number. It means that they are not only excited with their sampling opportunity, but we are capturing their interest in store and serving up new ideas and new products that they would like to sample.

So we are also using the gift cards to encourage registration for our communications, which really has resulted in a growth to our overall customer database.

We also use third-party rewards. We have partnerships, like American Express, to really provide us with opportunities to add more value to our customers, so example you see here was a program that we recently ran where American Express cardholders and their members got an incremental 2% cash back on top of their normal 6% with their Blue cash card. Great value for the customer, great opportunity for us to also learn more from what our customers are looking for when they come in store and purchase with us.

As I mentioned personalized communications, ultimately when we reach customers through a personalized communication opportunity, it is based on their interests, that we provide information like our Values Matter program, more about our standards and our quality opportunities. We also provide information, recipes, products, tips. We really want to provide information that deepens that relationship with the customer and stimulates their purchase and also encourages their sharing with their friends and followers.

In addition to our personalized content delivery with our email system, we're also showing up where customers get their information. We are exploring new content platforms, like Flipboard, where we can provide curated Whole Foods Market content, recipes, food, our standards, values information, and great videos.

In just the last 60 days since we partnered with Flipboard to launch this, we have seen a tremendous amount of viewers joining us through this platform with over 100,000 in just that short 60-day period, which really tells us that in these new content platforms, we need to be there and can share and participate with them as they look for great information.

The other thing that happens when we are in content platforms like Flipboard is consumers will then share the content that they see and that they are excited about with their friends and families in their social platforms, which brings me to our ability to enlist customers and join them in a conversation and the connectivity that we have in our social channels.

Today, we have over 873 social channels, and that's a combination of platforms, a combination of brand and local initiatives that bring together this full ecosystem of a really strong social media presence. We see nearly 10 million fans and followers across all of our platforms. We see about 1,200 posts per day and about 15 million customer engagements on an ongoing basis.

In fact, it is so powerful for us that Klout, which is the kind of national social media influence ranking system, ranked Whole Foods Market as the top grocer with the most social influence.

And where you could really see this is in Twitter. We dominate all US retailers on Twitter. Whole Foods, at almost 4 million followers, is bigger than all five retailers combined in Twitter, and that's not grocers. Those are US big retailers. With more followers than those retailers combined, we are engaging more often and we're frequently with customers in a one-to-one real-time conversation around things that interest them, their lifestyle, product information, seasonal information, and just what's happening across the marketplace.

How we do that is we create relevant conversations. We really try to seed the market based on what we are seeing happening, where the conversation is going around seasons, topics, product categories, food standards, all with an idea to encourage conversation among our followers.

So with our hashtags we created just from December through today, in holiday time period in December with #SharetheCheer, we had 3,800 images shared. January with our #HealthYeah and our healthy eating efforts, 7,000 images shared, and on an ongoing basis just in that short amount of time, Whole Foods Market hashtag unsolicited 62,000 tagged images of people engaging in real-time conversations with us.

Lastly on our social front, one of the things that we do is really work with our operations team to talk about how we go into markets before stores open and begin to build that buzz and excitement and enthusiasm with our advocates. So it is about social supporting a preopening effectiveness. We drive buzz. We begin the customer dialogue. We tease out information about what's coming in the store so when the store doors finally open, people are excited and enthused to come in and experience Whole Foods, oftentimes for the first time.



Now to you.

**Jason Buechel** - *Whole Foods Market, Inc. - Global VP, Information Technology*

How do we make a lot of this happen? This is where the technology and marketing teams really have to partner together.

For us about two years ago, we said we were going to fundamentally change the way that we are going to look at technology for Whole Foods Market. Instead of using packaged solutions, doing a lot of customized work and a waterfall approach, we really need to be more agile. We need to be responsive to our customer needs.

It really had us focus on three things. One, speed to customer. How do we get stuff out there quickly? Even if it's not our long-term solution, how do we have a meaningful impact to our customer?

Two, how do we make sure we support innovation and agility? We don't do it in a careless way. We do it where we know we can scale it at a certain point.

Last, but not least, security has also been a very important thing for us, whether it's payment security or protecting our customers/team member information. These are boundaries that we have to make sure that we protect in all the things that we do it in the technology space.

Walter brought up a little bit earlier about the three foundations within the technology space that we are doing most of our investment. The first was on our team member platform, which is supported by Workday. The second is our customer platform and the third is our product platform.

What you see here visually is our customer platform, and it has three major tenets. The tenets that you see on the bottom is our common commerce one point-of-sale. This is a platform that is going to allow us not only to transact in the front lane in our venues, but eventually we will use this to support e-commerce. We will use it to support things like click and collect experiences and even experiences where customers might decide to purchase some things in the store, have some stuff delivered to them, and have stuff shipped to them, all within a seamless experience.

In this particular case, we are partnering with Retalix, an industry-leading point-of-sale solution, which will allow us to connect some of those ecosystems together.

A great example on the innovation side is where we have also partnered with Square over the last two years to provide mobile point of sale, allowing our stores to do pop-up retail, sell items outside of their parking lots or in food trucks.

It is something important to make sure that we are helping support the existing needs that our customers and our team members are asking. We are also putting it in our long-term platform.

As I mentioned earlier, we are very excited by the fact that we are live right now in our first pilot with OnePOS, and this is something that we will work on throughout the course of this year and do our major rollout next year.

The second tenet is our CRM and affinity tools, so Jeannine talked a little bit about our affinity program. What I think is really exciting here is within six months of us deciding we were going to do this program, we were live in our first store, with a mobile experience as well, and this was really made possible by us using a different way of sourcing work.

Here we used a business service and allowed us to use a SaaS solution provider, Salesforce, which is a best-in-class solution, which allowed us to move fast and iterate quickly. Even as we have evolved the program over the last several months, we have not actually added a lot of technology work to the process.

The third piece is around our digital experiences, and this is an area where we are doing a combination of customized work. We are also partnering with Drupal, which is an open source platform that allows us to leverage some of the best-in-class capabilities and quickly allow us to bring those to our customers.

What's really important is some of the other partnerships that we bring into play here, and I think this is a great example of bringing up Apple again, where we can partner with an industry leader in innovation and disruption to bring new experiences to our customers. And so really as we think about technology, we really want to open our doors to make sure that we are bringing what's best for the customer versus looking at a process of what's just best for Whole Foods.

Lastly, we are going to talk a little bit around what's next. We're really excited about the stuff that is underway, but it's really just the foundation of what we are looking to do to connect with our customers, and many of these things we will be able to support through digital experiences with our customers.

First and foremost, we are really proud of what's going on in the Instacart front. We are going to be expanding that both geographically this year, as well increasing the product offerings that we currently have. One of the things that is really exciting is we have just started to dabble with prepared foods, which is something that went live out of our SoMa just this past week. This, we believe, will actually allow us to compete in a whole new arena when you look at prepared food delivery.

Additionally on the e-commerce side, we're going to be offering some things and new ways to fulfill options to our customers that we haven't done before. Many of you have seen things like wine club, where we now offer the ability to have select wines delivered to you once a quarter. We believe that there is a number of other categories that our customers are interested to either subscribe or have fulfilled directly to their door.

One of the things that David and Ken also mentioned is improving our experiences within the venue, both from an efficiency standpoint, but from a customer convenience standpoint. Customers want the ability, as they're shopping our stores, to order coffee, order sandwiches, and have those things ready when they come by the venue versus waiting in line and standing there during the preparation process, so we're going to be focused on bringing some of those experiences in next year.

One of the other things that I am really excited about is our co-created app features. For us, we want to make sure we are bringing the best utility for our customers. What are they looking for before they come to Whole Foods, while they are in our store shopping, and their post-sales experience.

This co-creation is not just going to be with our customers. It is going to be with our suppliers. It's going to be with other digital partners in the ecosystem, whether that be folks like Fitbit or Apple where we can create those connected experiences, and eventually doing further co-creation where some of our customers might even build some of those pieces themselves.

Next, I want to talk a little bit about wearable technologies. As you have seen, we expect 2015 to really be a disruptor year in wearables, most of that being centered around the Apple watch. We're already focused on utilizing some of the things that I mentioned earlier in our foundation with the digital sort of -- digital mobile platform, and our intention is we knew we couldn't just be prepared for doing things on the web and in mobile; we knew things like wearable would be coming along. So we're going to leverage that same platform to create some great experiences in the wearable space and we think this will be a great opportunity to connect with our customers in their everyday lives in connecting them back to Whole Foods Market.

Lastly, I think one of the things that is really going to differentiate us is taking our very unique product information and making it accessible to our customers. As you heard earlier, there is now a craving more than ever for this deep product information, understanding how is it produced? More information around the supplier itself, the nutritional information. How does it sit into a series of quality standards?

By taking that really rich product information and combining it with our exclusive quality standards, we're going to be able to have more options for our customers to engage digitally so they can better understand the differences of Whole Foods Market versus the competition, and we can help them make better selections for healthy eating. I'm really excited about the work that we are doing in this space and bringing that available digitally.



**Jeannine D'Addario** - *Whole Foods Market, Inc. - Global VP, Marketing and Communications*

Thanks so much for your time today. Jason and I actually have a few minutes left on our calendar, not a lot here, but we would be happy to go ahead and take a few questions, if you have anything you would like to ask. Cindy and, I think, Robin are going to go around with mics. I think there is one over here.

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## QUESTIONS AND ANSWERS

**Alvin Concepcion** - *Citigroup - Analyst*

This is Alvin Concepcion at Citi. I'm just wondering on the affinity, maybe just more on the loyal customers. I'm guessing some of your best customers are the ones signing up for this. How much do these loyal customers spend more so versus non-loyal customers? They don't have to necessarily be on affinity, but based on what you have seen, what do you think that gap is? And just wanted more color on that.

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**Jeannine D'Addario** - *Whole Foods Market, Inc. - Global VP, Marketing and Communications*

I think that what we are seeing so far is an increase in spend. The difficulty is that we have some seasonal adjustments that we have to look through because we came out of fourth quarter when we launched the pilot, which is typically a larger quarter.

But to say that they're increasing their basket size, we feel pretty comfortable that's actually happening.

We are still looking a little bit deeper on that pilot data that we are seeing to see exactly who that is being attributed to, but we feel pretty good that these are our core customers or our best customers, and what we're really seeing is their frequency improve in our stores, so coming in more often.

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**Alvin Concepcion** - *Citigroup - Analyst*

Thank you.

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**Jeannine D'Addario** - *Whole Foods Market, Inc. - Global VP, Marketing and Communications*

Do you want to add to that?

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**Jason Buechel** - *Whole Foods Market, Inc. - Global VP, Information Technology*

No, I think that was great.

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**Jeannine D'Addario** - *Whole Foods Market, Inc. - Global VP, Marketing and Communications*

Anybody else? You guys are easy.

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**Andy Wolf** - *BB&T Capital Markets - Analyst*

Andy Wolf, BB&T. Are you able to quantify how much the brand advertising campaign has helped sales at same stores or (multiple speakers)



**Jeannine D'Addario** - *Whole Foods Market, Inc. - Global VP, Marketing and Communications*

As with anything, it's difficult to parcel out one thing versus another in absolute driving business, but what I will tell you is that we have got really good metrics that we just received this week on our post-tracking study, and we feel really good about the investment we made versus what we are seeing from an attributable lift that consumers are saying that they would spend. So even conservatively, we're really pleased with the overall.

The other thing that we always look for, though, because building conversations with customers takes a while to get that message out there, is we look at key metrics around what are they telling us that they are hearing back from the campaign. What are they saying as it relates to their intent to purchase and their intent to spend? Those metrics have been really solid for us, so we're really pleased about that. Again, harder to parcel out on an individual dollar basis, but those are some really good directional pieces.

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**Andy Wolf** - *BB&T Capital Markets - Analyst*

One follow-up. Can you figure out new customers versus existing customers? Particularly, are you bringing new customers into the store through that campaign?

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**Jeannine D'Addario** - *Whole Foods Market, Inc. - Global VP, Marketing and Communications*

I will tell you the surveys that we did or the work that we did post -- we looked at current shopper base plus what we would call non-shoppers, and across both we saw an increase in their desire to spend and their desire to purchase and their desire to participate, as well as their perception of Whole Foods, which tells me that we are reaching a broader audience than just our current core and that we are really reaching this either light or non-shopper as part of their consideration set.

So, harder to quantify to say number of those that we have at this juncture, but feel really, really good that the metrics are showing us that.

The other thing that I would say is that we are seeing tremendous upswing, as I mentioned, with this under-40 contingent where the campaign has really resonated, and so if we look at just that contingent, we are seeing a tremendous upside in their intent to purchase, their intent to spend, and some of the feedback that we've seen in that is that the values that we're portraying in Values Matter really coincide with their own values, and that was really important for us.

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**Marc Riddick** - *Williams Capital - Analyst*

Marc Riddick, Williams Capital. I was curious as to if you are aware of the mix of Apple versus Android as far as the downloads, and maybe if you have seen any differences in behavior so far. I know it's early, but just curious.

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**Jason Buechel** - *Whole Foods Market, Inc. - Global VP, Information Technology*

We have certainly more Apple downloads than Android at this point, but part of the mix on that was just introducing the Android app itself, so we are going to -- we are not quite at parity from that particular standpoint.

I would say we're seeing a lot of the same features and functionality being used between both at this time and actually a very significant correlation as far as the amount of time spent, as well as the different areas that are being viewed.

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**Unidentified Audience Member**

Obviously, the ad campaign was a big success. How do you think about needing to repeat it or do variations of it? Is this something that is beneficial to do every year or something different? And I know you're doing some item price advertising on the radio in some places. How do you think about it? Do they need to be combined? I am just wondering where you go from here.

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**Jeannine D'Addario** - *Whole Foods Market, Inc. - Global VP, Marketing and Communications*

That's a great question. I think that what we are doing now is evaluating all and saying where do we see the best response, just as I mentioned just this week about our post tracking study, and so this is some new information that is allowing us to plan where we want to go.

The one thing I would say as a marketer is there are so many stories to be told at Whole Foods. It is just rich with content and rich with information, and so the desire for me to always want to tell those stories will always be there because just what you saw today, the new stores and the new things that we are doing in market to the things that we are doing with product to the standards that we are doing, there are so many new stories to tell. And so, I think that as we continue to look at a variety of different areas that we can do storytelling, it can be national campaigning. It can be local. It can be social and we just have to have a matrix of plan to roll that content out.

We recently hired a brand content lead to help us translate all of that across all the medium and feel really good about where that's when to take us.

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**Jason Buechel** - *Whole Foods Market, Inc. - Global VP, Information Technology*

Do one last question.

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**Unidentified Audience Member**

(multiple speakers) the brand?

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**Jeannine D'Addario** - *Whole Foods Market, Inc. - Global VP, Marketing and Communications*

Internal.

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**Unidentified Audience Member**

Internal?

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**Jeannine D'Addario** - *Whole Foods Market, Inc. - Global VP, Marketing and Communications*

Internal.

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**Jason Buechel** - *Whole Foods Market, Inc. - Global VP, Information Technology*

We will do one last question.

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**Unidentified Audience Member**

Just on the food delivery, how do you guys balance the 5% lift that you're getting in the stores versus the theoretical traffic loss that you're getting when somebody is not going to a store?

And then, can you give us a little bit of perspective on where you are with Instacart today, number of stores versus where you think it's going to be later this year? Thanks.

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**Jason Buechel** - *Whole Foods Market, Inc. - Global VP, Information Technology*

First and foremost, just to clarify, it actually wasn't a 5% lift. It was 5% of total sales out of those embedded stores, and so we've been able to correlate is there -- we are seeing overall lift as part of offering this partnership, and so we have got some insights both from our own analytics, but directly from the customers who, as part of using the service, actually indicate upon their initial order where would they have purchased if they didn't purchase online with Instacart. So we can see what customers we're pulling from other online competitors or even traditional brick-and-mortar stores.

Your question on the total number of stores, right now we have 50 embedded stores that are supporting this. We have got basically 15 different cities across 12 different markets. It is nine of the top 10 largest metros, and we will be -- we haven't announced the specific plan, but you can -- there is a pretty significant growth plan that we will do over the course of this next year, so we will be announcing that here, hopefully, in a few weeks what that will look like. But the hope is we really want to get to about 60% of our customer base we want to be able to serve with delivery by the end of the year. That's our internal target.

So I think we are a wrap.

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**Jeannine D'Addario** - *Whole Foods Market, Inc. - Global VP, Marketing and Communications*

I think we're out of time. Thanks so much.

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**Jason Buechel** - *Whole Foods Market, Inc. - Global VP, Information Technology*

Thank you very much.

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**Glenda Flanagan** - *Whole Foods Market, Inc. - EVP, CFO*

Good morning, everyone. I hope you are enjoying the opportunity to get to meet some of our leadership team. Jason and Jeannine have both been fabulous additions to the leadership team over the last few years. And you're seeing some of the personalities that maybe you don't get to see on the conference calls. And David is kind of our resident stand-up comic. And I was worried he was going to show up in here in his banana suit, which he's been known to do. But we spared you that today.

Cindy said we couldn't end the day without talking a little bit about the numbers, so that's my job. And here to give you just a little bit of a financial overview and talk about some of the metrics of which we're most proud: two, particularly, which is ROIC and cash flow. We became an EVA company in 1999, early 2000s. And since then, but particularly in the last five years, we have worked to improve ROIC, not just through improvements in our operating margin, but also with an equal focus on reducing our cost to build new stores and a sharpened EVA focus on all CapEx.

At the same time, we have generated a significant amount of cash and have significantly increased our payouts to shareholders in the form of dividends as, well as share buybacks.

John and Walter talked a little bit about 2014. Everyone would agree that it was a challenging year for us. Yet we're proud of what we achieved and how we ended the year despite the headwinds from our own growth and value initiatives, despite the highly competitive and dynamic landscape in food retailing, and what many people would call a lukewarm economy. We did add a record 38 new stores during the year. We produced our fifth consecutive year of improvement in SG&A. We generated record EBITDA of \$1.3 billion, and a very healthy 15% ROIC.

At Whole Foods, we believe that challenges make us stronger, and force us even to innovate even more so than we would otherwise. And we certainly feel like we emerged from 2014 stronger and more competitive than ever.

So with the beginning of fiscal year 2015, we took the opportunity to focus our conversations with the investment community on the metrics that we believe are the most important for our long-term health: sales growth of greater than 9%, comps in low- to mid-single-digits, square footage growth of 9% to 10%, EBITDA margin of approximately 9%, and ROIC greater than 14%. I hope none of those are new numbers to you.

In addition, we have said that we expect the year-over-year decline in gross margin, excluding LIFO in fiscal year 2015, to be greater than last year's 20 basis point decline, which is of course reflecting our value efforts. And while results on a quarterly basis definitely will fluctuate for the fiscal year, we expect earnings per share growth in line with, or slightly higher than, sales growth.

So Q1, which we reported just a couple of weeks ago, was a strong start for fiscal 2015, with sales growing 10% to \$4.7 billion, and comps accelerating on both a one- and two-year basis. We saw broad momentum across age classes of stores, across regions, across departments; which, of course, is leading us to believe that the strategic initiatives that have been highlighted for you today are working to drive those results. And at the same time, we've seen a little bit of a pickup in consumer confidence, and now we have fully anniversaried the cannibalization we had in Boston last year. All of those things have helped.

It remains our intention to offset the impact of our strategic initiatives with improvements in our cost structure over the longer term. However, our priority is to compete effectively in the highly dynamic market that we're facing, and to deliver strong EBITDA and return on invested capital.

So, while we do our best to estimate the impact of our value efforts, consumer reaction is more art than science. And it is not possible for us to manage that to the basis point every quarter. And, additionally, the timing of our investments and cost cuts may not align each quarter, as was the case in Q1, where we had an incremental approximately \$13 million or 28 basis points in marketing. Excluding that, we did see a 33 basis point improvement in SG&A.

Our new stores are performing well, as Ken and David gave you a sense of. And Jim talked about our EVA-based approach to evaluating new sites, which allows us to consider many different markets. So while sales productivity may vary from market to market, when you balance that with the right store size, the right operating model, and the right level of capital investment, a wide variety of markets can deliver strong ROIC for our shareholders.

For the last eight quarters, our comp stores less than two years old comped at 17% and produced an average 14% ROIC. And we believe that that is the best new store metric for investors to focus on.

So as we highlighted today, we are making investments which we believe will drive sales momentum and strong returns over the long time. We're going to continue to grow. We're going to have our value initiatives. We're making our technology investments, and we're spending more in marketing.

And at the same time, we are working to improve our cost structure. And I know that this is a question that's top-of-mind for many of you is, how are we going to do that? I think the very best way to answer it is to talk about what we've done for the past five years, where we have seen a 180 basis point improvement in SG&A line over that period of time. And we've done that in many ways. Whole Foods is a company that evolves continually, not just on the retail front, but in the back of the house as well.

I'll give you one example. Over the last couple of years, we have transitioned all of the transactional accounting functions -- which previously, some existed in the stores and in the regions -- and we've moved 90% of that to global support here in Austin, savings millions of dollars in the process,

and yet doing that in a way where there was no sacrifice to the customer experience whatsoever. And so that's just one example of the many ways that there are for us to evolve, and what we have done in the past and will continue to do in the future.

The biggest opportunities that we see going forward are leveraging. Leveraging is a word that is inbred into the conversation at Whole Foods. When the regional presidents are talking with their store team leaders, when our finance team here in Austin is talking with the finance teams in the regions, leverage is one of the top things we talk about all of the time. Everyone knows what it means. They know that they are expected to deliver leverage, so it's something that naturally occurs at Whole Foods. It's just part of the culture. As much as in the front of the house, customer service is part of the culture; in the back of the house, delivering leverage is part of the culture.

We recently implemented Workday, as you all know. We're very excited about that. We have transitioned from a system where there was a significant amount of paperwork and a heavy workflow to a much more efficient and productive online system. And as Jason talked about, we are using technology on the back of the house as well. We have a labor scheduling solution that we're just beginning to roll out this year, and we expect to see a lot of efficiencies from that in the years to come as well.

So, in summary, as we look forward, we see more opportunity for Whole Foods Market than ever before. We are best positioned to benefit as the leading retailer of natural and organic foods, and as America's healthiest grocery store. We are committed to continuing to improve and evolve. And we have confidence that we will cross 500 stores in 2017, and triple our store base over the longer term.

So thank you. We are going to now move to Q&A and have the full E team up here, except that A.C. and Ken had to leave to catch flights. But the rest of us will be here.

We'd be happy to take your questions.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Give it up for Glenda Flanagan. By the way, we discovered a little-known fact that we're going to share with you now, which is that Glenda Flanagan is the longest-serving CFO and Fortune 500 companies.

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**Glenda Flanagan** - *Whole Foods Market, Inc. - EVP, CFO*

No, woman.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Woman CEO. (laughter)

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**Glenda Flanagan** - *Whole Foods Market, Inc. - EVP, CFO*

Of course, that just makes me feel old.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Okay. Anyways, we're here now. We have about 25 minutes to do some Q&A with you. I thought you might have got all your questions out last night, but I guess not. Anyways, just to let you know, we're going to try to finish up a little early, 11:45, because some of you said you've got 1 o'clock flights. So we'll try to finish up at 11:45. And I guess I'll pick the folks. And we'll just get started, about 25 minutes.

Go ahead, John.

## QUESTIONS AND ANSWERS

**John Heinbockel** - *Guggenheim Securities - Analyst*

So, a question, sort of a big-picture question on partnering. Do you think is there an opportunity to partner with employers, health plans, PBMs, to get their membership base to eat better; lower health care costs in the long term? Is that something that you are even remotely focused on today? And then what does that do for customer acquisition? Introducing new people to the brand, and can that be a big driver of new customer acquisition and share?

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

So, we might want to answer that in two ways. One is I think we have a great partnership with UnitedHealth, and it's a multi-year -- it's way past transactional. It's much more into the relationship. We've actually just talked at our look at the next five years. One of the opportunities is to look at the cross-platform at exactly what you're saying. And they actually mentioned it and brought that idea to us as a way for it to go both ways. So, early innings. We haven't really put anything specific to that. But it does clear that that would lead us to new not only acquisition opportunities, but also communication opportunities, particularly around the healthy eating and some of this.

For example, we've had a tremendous improvement in our well baby statistics over the last years working with them. We are a little behind on the diabetes in our population, so there's a chance where we could use the targeted thing and communicate in that way.

You've got a different take on it.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

Well, it's a big idea. It's one of those things that I'm personally really excited about, and hopefully will be one of the legacies that Whole Foods develops in the next -- over the next decade. We know from -- and we have a program at Whole Foods Market we call total health immersion, where we take our most at-risk team members -- those who are obese, those who have type II diabetes, those who have heart disease -- and at the expense of the Company, we put them through this week long, intensive education and immersion program. And the results are unbelievable.

The people that go through that program and are adherent, stick to the program, we have reversed -- you can reverse type II diabetes and cure it in less than 30 days. I know, because we've done it for hundreds of people. We've had -- I don't know how many, but we've had dozens and dozens of team members lose more than 100 pounds in less than a year. We've reversed heart disease. It's all about diet and health and diet and lifestyle. And it's been so effective that we think it's one of those big possibilities to be able to open that up to the public, begin to do it in more concentrated base in certain urban areas. Americans are so incredibly ignorant about how to eat healthy and what the healthy lifestyle is.

Then you go into the big idea of, wow, what are the insurance ramifications of that, if people were to go through these programs and begin to take wellness coaches on, and begin to make their shifts in their diet and lifestyle? Basically, most of the health problems in America would disappear fairly rapidly. And I don't see any reason why -- who else is going to do that if Whole Foods doesn't do it? So, that may be something that we'll be working on over the next few years. We'll see.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Great. Thanks, John. Next question.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

A little project we're doing in Northern California with that team -- we were approached by Tesla at their big plant in Fremont. And we're actually doing -- we have a little store in their facility. Not something we're planning on doing in lots of places, but we have fresh foods right there at the facility, so it's kind of a great little partnership we're doing with Tesla.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

Yes, they gave David a free car to drive for (laughter). You all get one.

Mark?

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**Mark Miller** - *William Blair & Company - Analyst*

Thanks. Mark Miller with William Blair. In your opening remarks, Walter or John, you talked about really investors, hey, you're making out that on our ability to you've said evolve and innovate, multiple times here today. So it's a very dynamic organization already. But as we think out over the long-term, what are the capabilities that are not fully developed here that, for you to be successful, tripling the company, that you're most focused on developing within the organization?

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Well, if you take, for example, the technology area that Jason outlined for you, within that area there is a number of capabilities. We've got to get a lot better at getting the data and analyzing the data. So that capability as an organization we are just really beginning that journey, to actually know our customers and be able to use that in some sorts of meaningful ways.

We've got to take this rich substance that you hopefully have gotten an appreciation for today, with A.C.'s talk and David and Ken's, around what's really going on to generate this product, and be able to put it out there in a form that you can get it through search, or any other way so that we're the first choice around information.

So we've got to develop the capability around producing our content and getting it out there in a more meaningful way. So there's a couple of examples of capabilities we need to develop on the technology side.

Do you want to add to that in other areas?

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

There's so many areas. Like bringing Jeannine on, you got a taste for her abilities and --.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Yes, when was the last time you heard about pre- and post-tracking and marketing Whole Foods in one sentence? (laughter) I can't remember ever doing that.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

Yes, I need a glossary for that one. But the point is, is that we have this tremendous opportunity. If you think about it, Whole Foods Market arguably already, from a food retailer, might already have the very best brand in the United States, the best-known brand. And yet we've only got 412 stores.



Most of the other supermarket chains we compete against are fairly fragmented. Kroger has got a number of different brand names, for example, that they work with that they haven't integrated under a single brand. So I think as we continue to grow, I think there's this tremendous marketing, branding opportunity.

And bringing Jeannine in was a really good move for us. And she's brought a level of professionalism and competence we haven't had in that area before. And she's beginning to build a very great team that reflects her abilities, as well. So I think that's an unmet potential for Whole Foods, that we're just now beginning to realize, oh my God, where could we be in 10 years if we really get good at this?

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

It's a communication capability [what I've] described it more broadly, an ability to really take control of our message and really communicate proactively.

Jim, did you want to add something? No?

I would just say another thing in terms of the overall organization, is we've got to go faster. Even that we're talking to you about evaluate us on our ability to evolve and change and grow, I hope you've had evidence of that today, because we have to go faster. I worry about that, just are we going fast enough? Because the world is changing so quickly. The retail marketplace is changing so quickly.

So trying to cultivate an ability to go even quicker -- speed, the capability of speed, at the same time as we are buoyed and balanced by our commitment to our values and our purpose. And that's the balance we often talk about in our decision-making is how fast can we go and still do it in a way that keeps our culture whole?

Next question. Right here.

Mark?

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**Mark Wiltamuth** - *Jefferies & Company - Analyst*

Hi. It's Mark Wiltamuth from Jefferies. First, I guess thanks for keeping Austin weird.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Are you saying we're weird?

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**Mark Wiltamuth** - *Jefferies & Company - Analyst*

No, no, I just --.

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**Glenda Flanagan** - *Whole Foods Market, Inc. - EVP, CFO*

I'm not sure how to take that (laughter).

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**Mark Wiltamuth** - *Jefferies & Company - Analyst*

Well, last night at the store event, one of the guys that you hired to play in the band with the big ZZ Top beard -- turns out he was a Whole Foods employee. So thanks for that.

Another person last night I was talking to that wasn't getting a lot of attention is the Austin produce manager was down there on the floor, and she is really fired up. And I just want to get a little more feedback on how that's going. Our price surveys show that you're down 12% versus some of the other Texas markets on price; but you're getting a big volume lift. So net-net, are you up? And are the gross profit dollars up? And what can we expect as you roll this out to the other markets?

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Yes. David?

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes, we started the pricing here in Austin at the beginning of our fiscal year, so October; so again, it's October, November, December, January, of which two months were the holidays, so very hard to give you hard answers on that. We can say our units are up. We're very excited about that. I think our price perception with our customers -- are very excited about it. All our team members in Austin, where our global office is, they are some of our best ambassadors. So they've got a lot of leeway to get very aggressive on prices with the program we put in place here in Austin.

Also working very closely with the global team. The woman you met, Jessica, who is the Southwest coordinator, is a superstar. And it is really transformed the produce experience. We've had the quality, but now we've been able to add the pricing in there.

And the other thing is lots of our leadership from around the Company come to Austin all the time. So they're starting to see it, starting to understand it. So when we get to the point where we are ready to implement in other places, we'll have really learned from these big four tests so that we can implement them in other places around the Company.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

So our head of produce, he actually mapped out a trajectory of what the returns were expected in these different experiments. So we have a unit growth first, then the dollars catch up, then it builds to basket, and so forth. So we're actually, this time around, compared to last year when we talked to you about the grocery investments in a little more of an unclear fashion, I think this time we actually have these trajectories we're measuring against to be able to evaluate what works and doesn't work.

One of the biggest learnings already again we shared was that the promos are -- is equally powerful as the everyday pricing. And so a more aggressive use of those, you can expect to see that in our future.

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**Ken Goldman** - *JPMorgan - Analyst*

Hi. It's Ken Goldman with JP Morgan. Thank you for the question. One of the things that has come out today, and obviously it's been a theme sense this Company was born, with health, health and wellness. Obesity was talked about very early; people eating more cheese than ever. Whole Foods has done obviously a terrific job of helping to change the dialogue there. But Whole Foods isn't pure health, and there's still cheese sold in stores. There's still -- even though it's better-for-you ice cream, or better-for-you brownies -- sold in the store.

So how do we think about -- or how do you guys think about the balance over time in -- and I know it's a very difficult decision between giving people a little bit of that indulgence, and also promoting health and wellness trends.



**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Yes, reconcile it for you. Okay, yes.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

I'll tell you a story. The very first store that -- the precursor of Whole Foods Market was a store I opened called Safer Way, Safer Way. In fact, the four iterations of Whole Foods are all within 1 mile of where we're sitting right now. Safer Way started in 1978, and it was a vegetarian store. It sold no animal foods. It didn't sell any coffee. It didn't sell any sugar. It didn't sell any white flour. It didn't sell any beer. It didn't sell any wine. It was a very pure store. It did very little business (laughter).

And when we relocated it, and changed the name to Whole Foods Market, we said, we are going to be a real grocery store that sells food that people really want to buy. So, we were a natural food store; we were an organic food store; but we also were a real food store, in terms of what people want to buy.

Cheese is a good example. The increase of per capita cheese consumption in the last hundred years has gone from 3 pounds a person to over 33 pounds a person, a 1000% increase. And by no mistake, cheese is not a healthy food for you. It is 70% to 80% fat, and it's not very nutrient-dense. So are we going to stop selling cheese? That was the panic that happened within Whole Foods as we began to become more healthy eating educated. Our orientation was that we were somehow or other going to stop selling these products.

My answer is always, the customers vote. The customers vote for our products. Every time they come in, the vote with their pocketbooks. And we have to juggle between serving our customers, who are our most important stakeholder; and also educating them, nudging them along, helping them to become better educated, which is one of our core values, to evolve their diets.

So we're very dedicated to both, and that's a paradox. But it's one I've never had any trouble dealing with here. We're pragmatists; you deal with people as you find them and you try to help them as best you can. But you ultimately leave the choices up to them.

So I have seen eating evolve tremendously over the last 30-plus years. When we got started we barely sold any organic foods at all. Now it's a huge category that's gone way beyond Whole Foods into the larger society. So, change is possible, and it is occurring. But it takes generations to do it, and Whole Foods is -- we're in there for generations.

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**Meredith Adler** - *Barclays - Analyst*

You talked about using analytics. And obviously, at this point, the affinity program is small; so either data you have, at least through that mechanism, about individual customer purchases is limited. But could you talk about whether the other things you are doing, whether having the email list -- whether you were able to take data from that and identify it, connect it with an individual customer, to be able to communicate to them in a more targeted fashion?

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

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That's exactly where we're going. And we are adding talent to our team. We just -- our new head of analytics came from Home Depot, where they were doing that over there. We've been building in some new team members that actually have that capability, since we really haven't had it historically in our Company.



But it is so early for us to do that because, yes, we are an opt-in company. So folks are going to choose to opt-in and they're going to give us the information, assuming that they -- we're going to give them something of value back. You've all seen the statistics. There's 27 or 29 apps on your phone, but you only use 10 of them. So we want to be one of those 10 that has a compelling reason to come there and to use it. And ultimately the affinity and the app world together, integrated as Jason said with the OnePOS, so it's one big ecosystem.

So it's just so early for us. The answers right now we haven't -- we really haven't had that direct information about our individual customers. We don't really know who they are. And we're just starting that journey of collecting it. And we do think we're going to -- based on what we've seen so far, they're willing to give it to us. And we've got to keep doing that, and build up our analytics capability to translate that into decisions and actions.

It's so early.

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**Meredith Adler** - Barclays - Analyst

I guess I was just wondering whether you need to roll the affinity program out everywhere, or are the other things you're doing, including the app, able to give you some of that data to use effectively?

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**Walter Robb** - Whole Foods Market, Inc. - Co-CEO

No, we're already starting that process now with what the data that we do have in Philadelphia. So, next onto DC after that.

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**David Lannon** - Whole Foods Market, Inc. - EVP of Operations

We are getting some good data with Instacart on individual shoppers and what they're buying. So our partnership with them -- we're getting a richer view of what the customers individually are buying, which is helpful for us in our day-to-day -- in our bricks and mortar stores, as well.

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**Ed Kelly** - Credit Suisse - Analyst

Yes, I think you. Ed Kelly, [Suisse]. You talk about your goal of basically funding price investments through cost efficiency. Could you maybe talk a little bit about how developed your assessment is of the opportunity on the cost side, at this point, and also where you think pricing needs to go over the longer-term? Maybe just help us, as analysts, understand your conviction in being able to achieve this goal.

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**Walter Robb** - Whole Foods Market, Inc. - Co-CEO

So I hear two questions. First is, where is our assessment of our ability to cut costs or change processes to save money?

Maybe you want to talk about that, Glenda?

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**Glenda Flanagan** - Whole Foods Market, Inc. - EVP, CFO

Well, I would just say that we have a lot of confidence in our ability to do that because of what we've done in the past, and because of how we have built it into the culture, and how dedicated we are to doing that. It's something that we, as an executive team, we look at every time we meet. As the larger WFLN, Whole Foods Leadership Network, we look at that every time we meet. So it's where we are looking at the investments that we want to make, and we are asking ourselves regularly, how are we going to pay for that? So we have a lot of confidence in our ability to find what we need to find on the cost structure side.

The 180 basis points of SG&A that we've saved over the last five years -- that doesn't even count what has happened above the gross margin line, in improvements in spoilage and the tremendous job that our purchasing team has done with our vendors. So, I personally have a lot of confidence in our ability to deliver that.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

I will say, we have an internal project codename. We have resources on that project that are working now to identify and surface all those areas where there are opportunities; so, both on the cost side and the business process side, as I mentioned earlier. And again, so it's -- in addition to the leverage we get just from the growing and then the run rate of the business, there's lots of other opportunity out there.

She mentioned three on our slide; the internal distribution, because we primarily operate perishable distribution facilities, so that's a lower SKU count, high [pass road]. We have doubled the number of packages we're sending through our distribution centers in the last 5 to 6 years. So each year, we're improving our efficiency on the distribution, so that's one example.

But this group has targeted looking at the whole Company. And in fact, in March, when we get our leadership team together, we'll be looking at their first evaluation of where those opportunities are.

Your second question was about the price investments in produce, and where we see that going. We see that going. We see that, as A.C. mentioned, it's a portal to the store. It's a very important category. The marketplace has clearly shifted in that direction right now, with the competitive entries. And for us I think it's something we know very well. We're vertical in produce.

And you're going to see us make incrementally make those investments in produce; fine-tune the balance between everyday price and promotional price, based on what we're seeing is working. What's the right mix? What's the right investment? We're going to move from the four or five markets that we've been doing it in to more markets over the next year.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

And you know, one of the things the market doesn't understand is we could have the lowest produce prices in the United States, and that would cost us about 150 basis points, overall, in our whole gross margin. Do the math. You take 1,000 basis points out, and divide it over what we're doing [about] percentage of sales in produce, and that's the results we would get.

Now, we're not -- don't misunderstand me. We're not about to launch a campaign that way. But it's not that difficult for Whole Foods to become incredibly price relevant, where competitively it's necessarily to do so without blowing up our business model. And so, we don't have a plan because we're basically entrepreneurs that are competing in a variety of different markets, and we're adapting and feeling our way and experimenting.

We are a very experimental company. We're trying different things. Whatever works best, we'll do more of. Whatever doesn't work, we'll stop doing. We'll continue to innovate. We'll continue to experiment. But it's not that difficult for us -- for Whole Foods, in any category that we choose, to become very, very price relevant when it's appropriate for us to do so.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

To underscore that, it's interesting to watch the reactions of certain competitors to our efforts: some, not at all; some, somewhat in the middle; only one or two really aggressively, and suggesting perhaps the differences in their own business models in how they respond. But we are market-driven, so we're going to I think try to be really thoughtful and strategic about these investments. And it's really hopefully -- the unit leads to dollars leads to basket, and that's what we're hoping to see.



**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes. Pricing is always dynamic. We're probably changing 1,000 prices up and down a week, so it's not this produce pricing thing that you're focusing on. We've actually lowered produce prices and other markets as well. We've lowered meat, raised meat, lowered seafood, brought up seafood. So it's a dynamic thing, and you respond market to market.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Still, all be said, we're going to get sharper on produce prices. We're good at it. We know how to do it. We've got the gross margin laid out to be able to do it. That's what we're going to do.

Anybody else? Yes, over there.

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**Bill Kirk** - *RBC Capital Markets - Analyst*

Bill Kirk from RBC. What contingency plans, or what would happen to the home delivery initiative should Instacart or their third-party business model -- should that end up not being viable?

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

So when we wrote the agreement with them, we have a number of layers of protection in there without going into the details, which would be inappropriate. Obviously that's the company, the partnership, we're putting the chips on. There are other players entering the market. But we've just tried to build some -- we have some back-up plans. We have some other ideas that are out there. There's lots of other people getting in the space. But right now, we're pretty confident in our partnership with Instacart.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

Yes. And I'll point out, of course, that we're working with Instacart, so we're obviously studying everything they do. What they're doing is -- it's not that difficult. (multiple speakers) We could easily do that ourselves, if we needed to.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

I think it's important here, because, again, we are moving to this idea of relational partnerships. And a few of us we're at the Board meeting with Instacart last week. They've got two very serious, various long-term investors. We lined up on the perspective of trying to build this together, not a short-term flip. This is something we're trying to build together, to build out what customers want. So as we sit here right now, I feel very good about this partnership. I feel good about their leadership, even about their technology platform. We think it is the best in class out there. And so that's how we're thinking about it right now.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

And we're working with them on store designs so that they can become more efficient in our space, spend less money on the picking process, work on ways that they don't have to go through the registers; work on ways that -- with the embedded pickers in certain key stores. And we're actually starting to design stores so that they can be more efficient. Because it helps us, because we get deliveries out faster. So, all those things; it's a win-win thing, trying to drive cost out of the system for both parties.

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**Karen Short** - *Deutsche Bank Research - Analyst*

Hi. So, just talking about your prepared foods, obviously there was a comment made earlier in terms of a salad bar, and the prepared food and hot bar, I guess, being two of the top-selling items in your store. I'm just wondering, you talked loosely about Bryant Park and the strategy for that store being much more prepared food focused. So can you maybe talk a little bit about where you are going with that? Because that just seems to be such an opportunity to differentiate yourself against all other competitors.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

David?

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Yes, Ken and I are really working hard on prepared foods. We have an advantage in the culinary side, and we want to press that even further. We're looking to hire some more senior leadership in that area for the Company to help us be -- our chief culinary person in the Company. So we're starting to talk about that now.

And in terms of all our prepared foods, we're looking at a variety of different concepts like the [ramen] concept and [bondi] sandwiches, and moving from three food bars to four food bars to -- Bryant Park, I believe, has five food bars.

So we're starting to see the -- and the thing is, you can do comfort food, and you can do Indian food, and you can do vegan food, and you can do gluten-free food, and you can do paleo food. The list is endless. And we find that customers -- it's a daily ritual of putting together either a salad or hot food. And they mix cuisines all the time, so it's really rapidly expanding. We're devoting more space in the stores to make sure we can cover all those culinary needs inside of our store -- bigger seating areas, better Wi-Fi, better long-term experience, those kind of things.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

I don't think it's very well understood by the investment community about how successful Whole Foods is in prepared foods. For example, what do you think the highest volume restaurant in New York City is? The answer, I'm pretty sure, is the Columbus Circle store. What's the highest volume restaurant in Austin, Texas? About a mile from here, our store on Lamar and Sixth Street. And that's true in market, after market, after market that we're in. A Whole Foods Market, if you were to add up all our prepared foods in all our categories, throw bakery in there, and I think we're about where Chipotle is. (multiple speakers)

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

A \$2.7 billion, \$2.8 billion piece of business between those two.

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**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

But to answer the question, the opportunities for us is to really study some of the efficiencies like a Chipotle, getting customers in and out of the stores quicker, making menus easier to understand. We recognize that some of the best-in-class fast casuals, we can learn a lot from that. So we're going to school on that to try to make the experience faster in our stores, more efficient for our customers.

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**Karen Short** - *Deutsche Bank Research - Analyst*

And can you just -- sorry, just to follow up on that -- can you just give metrics in terms of when you switch from a prepared food counter service to self-serve, what the volume lift is overall? And then maybe what the labor savings is on that shift?



**David Lannon** - *Whole Foods Market, Inc. - EVP of Operations*

Well, one thing you might look at, for example (laughter).

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

No, carry on (laughter).

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

I was making a joke that I hope was not heard by anybody else.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

That didn't work out so well for us (laughter).

All right. Karen, is your question still on the table?

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

All right.

Dan Mooney. Last question to Dan Mooney.

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**Dan Mooney** - *Brown Advisory - Analyst*

Jim, to give a bit more color around the larger -- the move towards a bit larger stores, can you give some more color around any changes in your team's ability to hit the projections, in terms of the sales in the last couple of years? Maybe a little bit more detail around the underwriting process, and the comfort that you have with moving towards the new stores.

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**Jim Sud** - *Whole Foods Market, Inc. - EVP, Growth and Business Development*

So, you're talking about our ability to source the larger stores, is that what you're saying? Yes, it is more difficult. But it's not a big increase from 35,000 to 40,000 square feet. And our sweet spot is generally around 40,000 to 50,000 square feet. And again, we have so many opportunities. We're such a desirable tenant that I don't see it as being an issue at all.

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Okay, great. Thanks, everybody. John and I are just going to make a few closing remarks. Thank you.

So, here's one other little statistic for you, you might not know. John and I were joking last night, if you put the two of us together we have over 75 years of experience in this business. We both started in the same year, in 1978. So I said back to him, what that means we're both 38 years old, right? 75 years. If you throw A.C. in there, we're at almost 125. You put our whole team together, we have 200 years of experience in this business. We've been there from the very beginning.



And I would think one of the other things which you're thinking about betting on is this team. I hope you've had a sense today of the quality of our team; not just John and myself, but also the incredible depth of our team across the board.

So I was thinking about what I wanted to say here, just that I hope that you took away from -- particularly A.C.'s presentation -- the depth that's here around looking at product, developing product, the seriousness with which we go at that. And leading you to the conclusion that we are not the same as the other grocers. They are not us; we are not them. We don't all sell the same stuff.

Yes, it's our challenge to communicate the differences in those standards. Hopefully, you saw some ability today to be able to do that better than we have in the past. But there really is a depth of purpose and seriousness about our efforts here that I think came through well, particularly with A.C.'s presentation.

And the second thing is just the dynamism of our culture. We're telling you that the secret sauce in Whole Foods is this culture. It's this thing that -- it's the enthusiasm; it's the ability to innovate; it's the freedom to change. Ultimately, it's the sense of ownership that people have about being part of this Company.

And do you realize that our team members, when you walk into a Whole Foods Market store, you feel that. What you're feeling is their sense of ownership, which ultimately translates into the experience that they give to our customers. And so, part of understanding Whole Foods is these different programs, but part of understanding Whole Foods is the strength, the dynamism of our culture, and our competitive desire to continue to evolve. And I hope you've gotten some feel for that today.

You look nicer than I do today, by the way, John. This is very --.

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

I'm probably going to be on GQ magazine (laughter). Actually, I want to do a pitch for -- do a little commercial pitch for those of you that live in New York. I'm going to be there next week, doing a debate with Nina Teicholz, author of *The Big Fat Surprise: Why Butter, Meat, and Cheese Belong in a Healthy Diet*. And we're going to have a nice, very interesting debate; see things a little differently. So those of you that -- it will be at 7:30 on West 44th at the Junto Club, so you can look that up.

Hey, so, question: was this a good idea? It's the first time we've done one of these things. Is this something we should do every year, you think, or every couple of years? Or -- yes?

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**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Generally, heads nodding, okay. I'll make sure we'll get more specific feedback

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**John Mackey** - *Whole Foods Market, Inc. - Co-Founder, Co-CEO*

We'll try not to do it so people aren't -- on a Friday is probably not the best time to do it, so people can get home or stay later. It won't be messing up their weekends.

We do really appreciate everyone coming. Many of you we've known for many, many years. You've been following Whole Foods, some of you since our IPO. We're a little older now, and we are very appreciative of the support the long-term investors have had with the Company, and many of you are here today.

And I pledge that Walter and me and the rest of our executive team, and all of our leadership group -- hope you've gotten a little bit of a flavor for it -- but we're very dedicated to continue to grow and evolve Whole Foods.



And I honestly say, from the bottom of my heart, I really think the best for Whole Foods is still ahead. I think the opportunity is bigger than it's ever been before. I hope everybody has a great, great weekend.

**Walter Robb** - *Whole Foods Market, Inc. - Co-CEO*

Thanks so much for joining us.

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