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**Cash Flow Trends and Their Fundamental Drivers: A Continuing Look
Comprehensive Industry Review (Qtr 4, 2008)
Food and Staples Retailing Industry (3010)
EXECUTIVE SUMMARY**

This research report is one of a series that looks at the cash flow performance of Corporate America. Our primary focus is on free cash margin, or free cash flow measured as a percent of revenue. The current study provides our comprehensive review for the Food and Staples Retailing Industry (GICS: 3010) through Q4, 2008.

For the 12 months ending December 2008, free cash margin for the food and staples retailing industry increased from 1.15% in December 2007 to 1.63% in December 2008 – a 41% increase. This increase was driven by a significant decrease in capital expenditures since there was only a small decrease in operating cash margin. Compare this 1.63% free cash margin to the recessionary cycle of 2001 when the food and staples retailing industry averaged 1.01% and it appears the industry is benefitting from the recession.

Data for this research were provided by Cash Flow Analytics, LLC., www.cashflowanalytics.com.
Charles Mulford is a principal in Cash Flow Analytics, LLC.

May, 2009

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Georgia Tech Financial Analysis Lab

The Georgia Tech Financial Analysis Lab conducts research on issues of financial reporting and analysis. Unbiased information is vital to effective investment decision-making. Accordingly, we think that independent research organizations, such as our own, have an important role to play in providing information to market participants.

Because our Lab is housed within a university, all of our research reports have an educational quality, as they are designed to impart knowledge and understanding to those who read them. Our focus is on issues that we believe will be of interest to a large segment of stock market participants. Depending on the issue, we may focus our attention on individual companies, groups of companies, or on large segments of the market at large.

A recurring theme in our work is the identification of reporting practices that give investors a misleading signal, whether positive or negative, of corporate earning power. We define earning power as the ability to generate a sustainable stream of earnings that is backed by cash flow. Accordingly, our research may look into reporting practices that affect either earnings or cash flow, or both. At times, our research may look at stock prices generally, though from a fundamental and not technical point of view.

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Food and Staples Retailing Industry (3010)

Observations

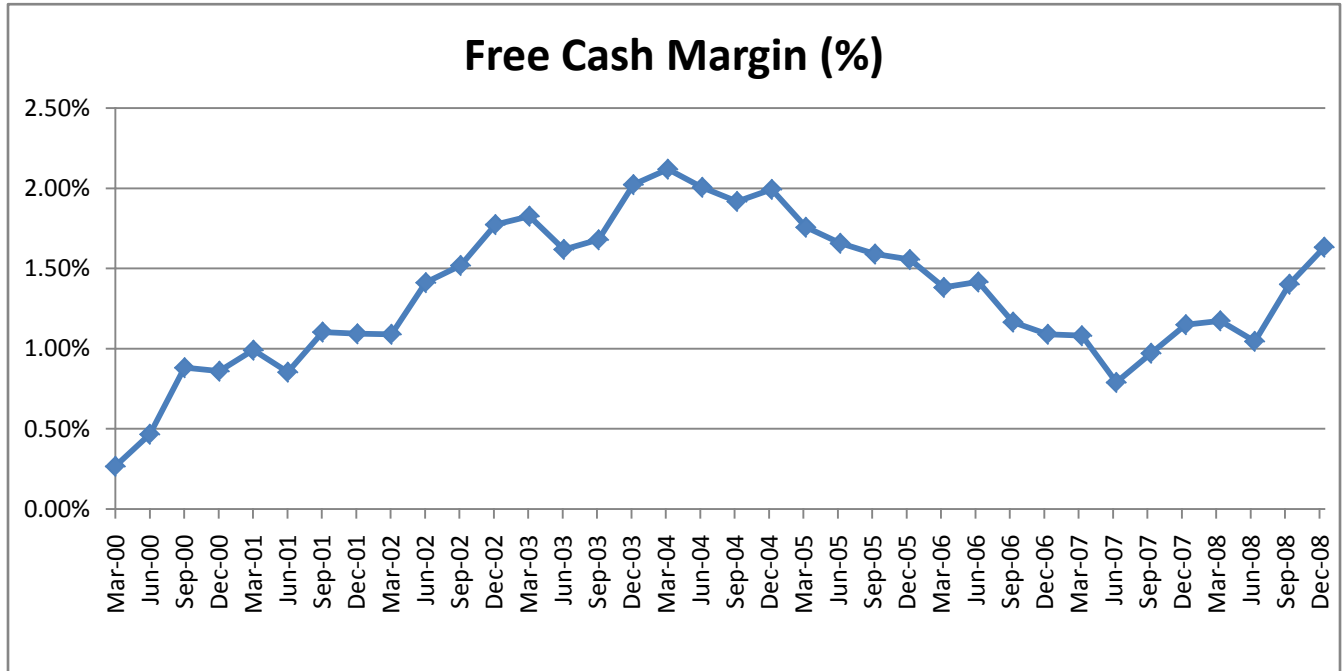
The food and staples retail industry consists of grocery stores, wholesale clubs, drug stores and restaurant suppliers and operates in a very narrow free cash margin zone that ranged from 0.27% to 2.12% over the last 9 years. Therefore an increase in free cash margin from 1.15% in December 2007 to 1.63% in December 2008 is a significant increase of more than 41% and continued the upward trend that started in June 2007. This increase was due primarily to a reduction in capital expenditures as there was a small drop of 2.65% in operating cash margin since December 2007. Capital expenditures to revenue fell more than 12% from 2.45% in December 2007 to 2.15% in December 2008. During the recession of 2001, free cash margin in the industry averaged 1.01%, so the firms in this group were faring better comparatively, at least through the fourth quarter of 2008.

While free cash margin was much improved in the fourth quarter of 2008 it was done by slashing capital expenditures and not by improving overall operational efficiency – a method that is not sustainable over the long run. SG&A% did improve by nearly 9%, falling from 16.48% in December 2007 to 15.00% in December 2008. An indicator that the industry is cutting costs but not enough to offset the decrease of 9.62% in Gross Margin%. It fell from 23.31% to 21.07% over the same period. These factors lead to a minor decrease in the Operating Cushion of 3.4% from 5.84% to 5.64% between December 2007 and December 2008. The largest change in efficiencies came from the Cash Cycle. It increased 19.03% from 10.73 to 12.77 days. An improvement in AR Days was overcome by a significant Decrease in AP Days. Granted one quarter's results do not make a trend but this industry will be interesting to watch over the coming quarters.

There are no sub-industries in this four-digit industry group.

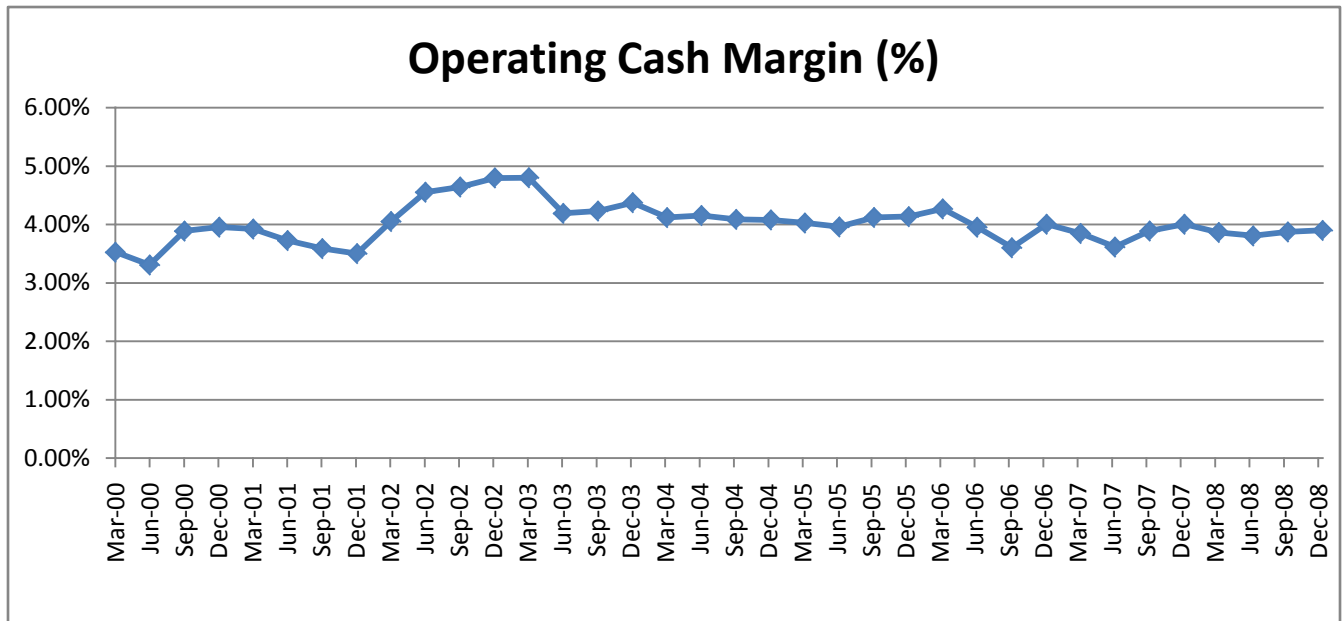
Cash Flow Margins

Exhibit 1: Median Free Cash Margin, 2000 – 2008, Food and Staples Retailing Industry (3010)



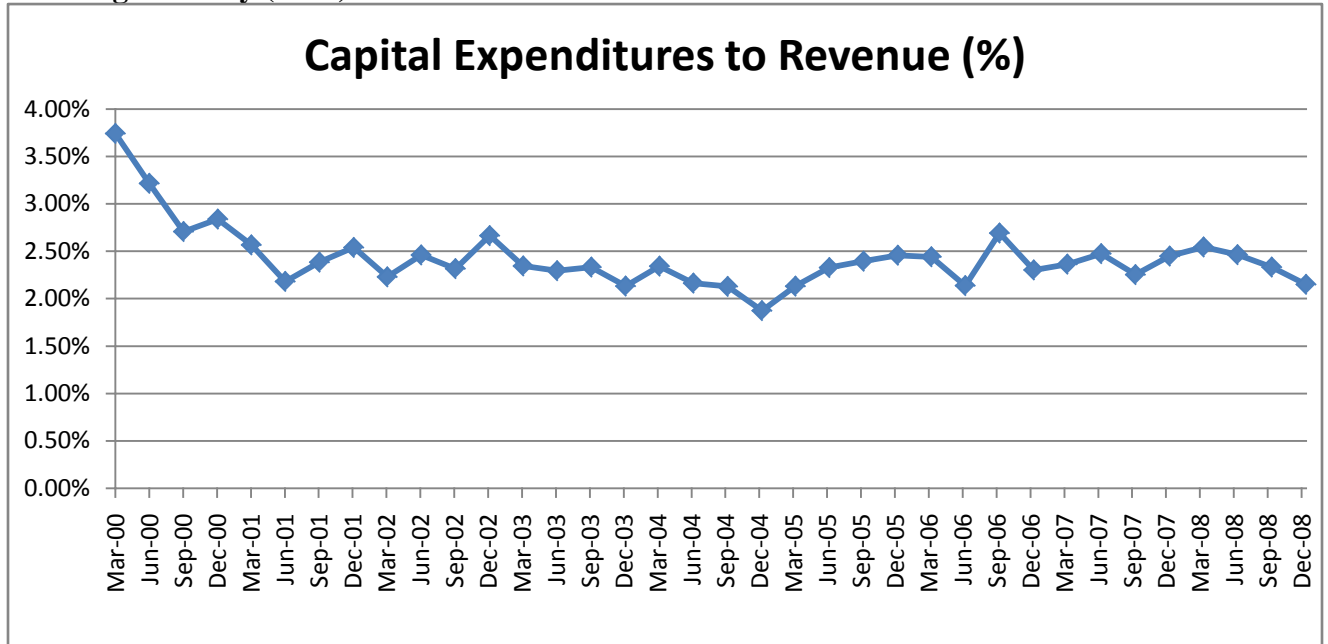
Refer to Table 1 for data supporting the graph.

Exhibit 2: Median Operating Cash Margin, 2000 – 2008, Food and Staples Retailing Industry (3010)



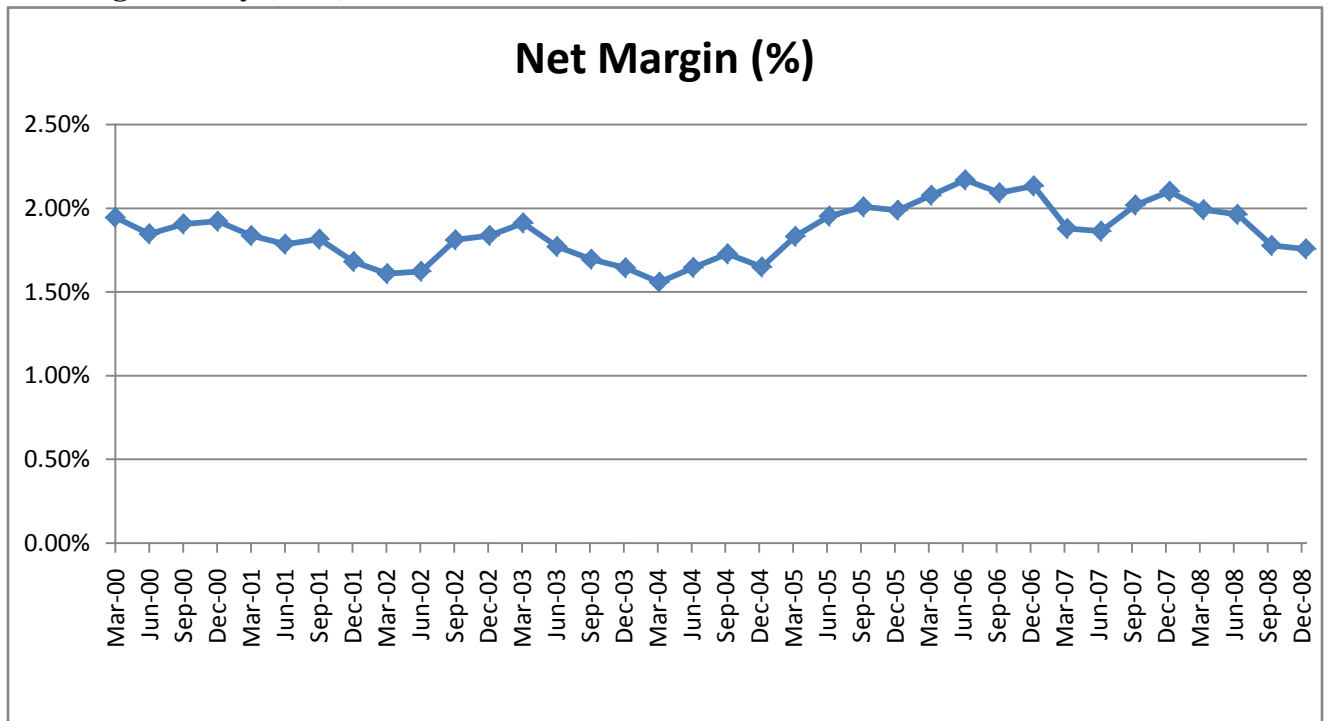
Refer to Table 1 for data supporting the graph.

Exhibit 3: The Ratio of Capital Expenditures to Revenue, 2000 – 2008, Food and Staples Retailing Industry (3010)



Refer to Table 1 for data supporting the graph.

Exhibit 4: Median Net Margin from Continuing Operations, 2000 – 2008, Food and Staples Retailing Industry (3010)



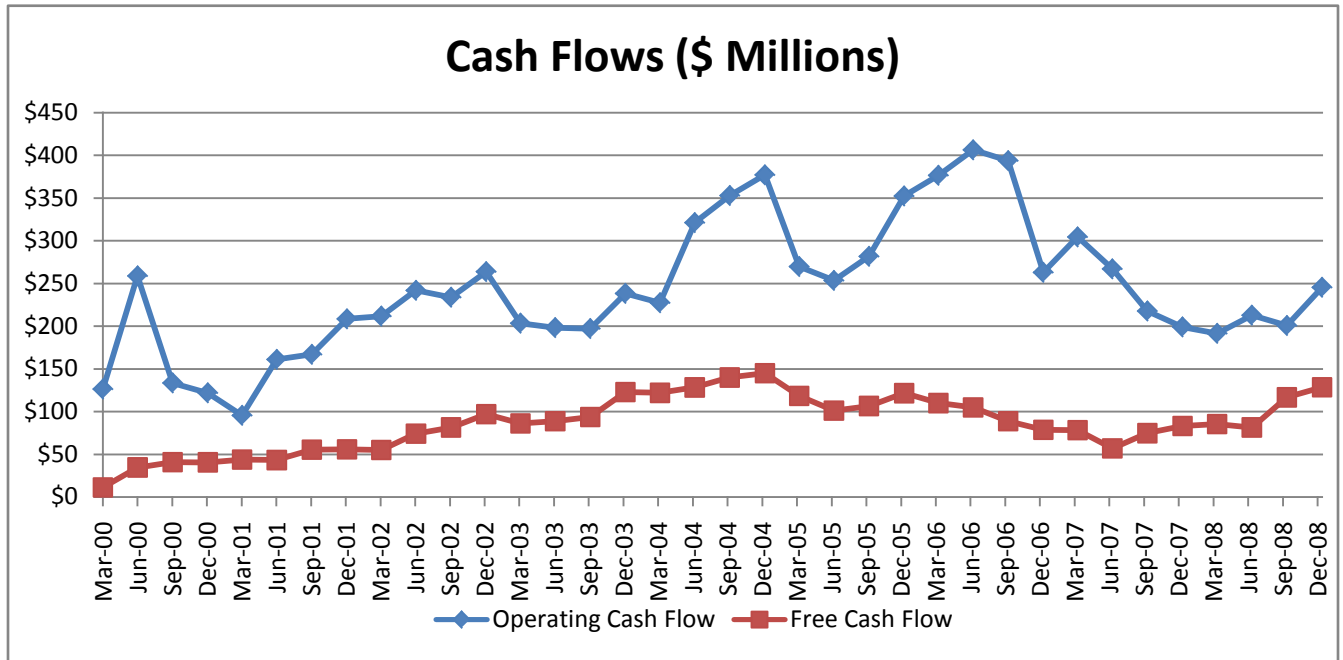
Refer to Table 1 for data supporting the graph.

Table 1: Median Margins, 2000 – 2008, Food and Staples Retailing Industry (3010)

Date	Operating Cash Margin (%)	Free Cash Margin (%)	Net Margin (%)	Capital Expenditures / Revenue (%)
Mar-00	3.52%	0.27%	1.95%	3.74%
Jun-00	3.31%	0.47%	1.85%	3.22%
Sep-00	3.89%	0.88%	1.91%	2.71%
Dec-00	3.95%	0.86%	1.92%	2.84%
Mar-01	3.92%	0.99%	1.84%	2.57%
Jun-01	3.73%	0.85%	1.79%	2.18%
Sep-01	3.59%	1.10%	1.82%	2.39%
Dec-01	3.50%	1.09%	1.68%	2.54%
Mar-02	4.05%	1.09%	1.61%	2.23%
Jun-02	4.55%	1.41%	1.62%	2.46%
Sep-02	4.64%	1.52%	1.81%	2.32%
Dec-02	4.80%	1.77%	1.84%	2.67%
Mar-03	4.80%	1.83%	1.91%	2.35%
Jun-03	4.19%	1.62%	1.77%	2.30%
Sep-03	4.23%	1.68%	1.70%	2.33%
Dec-03	4.37%	2.02%	1.64%	2.13%
Mar-04	4.12%	2.12%	1.56%	2.34%
Jun-04	4.15%	2.01%	1.65%	2.16%
Sep-04	4.09%	1.92%	1.73%	2.13%
Dec-04	4.08%	1.99%	1.65%	1.87%
Mar-05	4.03%	1.76%	1.83%	2.13%
Jun-05	3.96%	1.66%	1.95%	2.33%
Sep-05	4.12%	1.59%	2.01%	2.40%
Dec-05	4.13%	1.56%	1.99%	2.46%
Mar-06	4.27%	1.38%	2.08%	2.44%
Jun-06	3.95%	1.42%	2.17%	2.14%
Sep-06	3.60%	1.17%	2.09%	2.69%
Dec-06	4.00%	1.09%	2.13%	2.30%
Mar-07	3.85%	1.08%	1.88%	2.36%
Jun-07	3.61%	0.79%	1.86%	2.48%
Sep-07	3.89%	0.97%	2.02%	2.25%
Dec-07	4.00%	1.15%	2.10%	2.45%
Mar-08	3.86%	1.17%	1.99%	2.55%
Jun-08	3.80%	1.05%	1.96%	2.46%
Sep-08	3.87%	1.40%	1.78%	2.33%
Dec-08	3.90%	1.63%	1.76%	2.15%

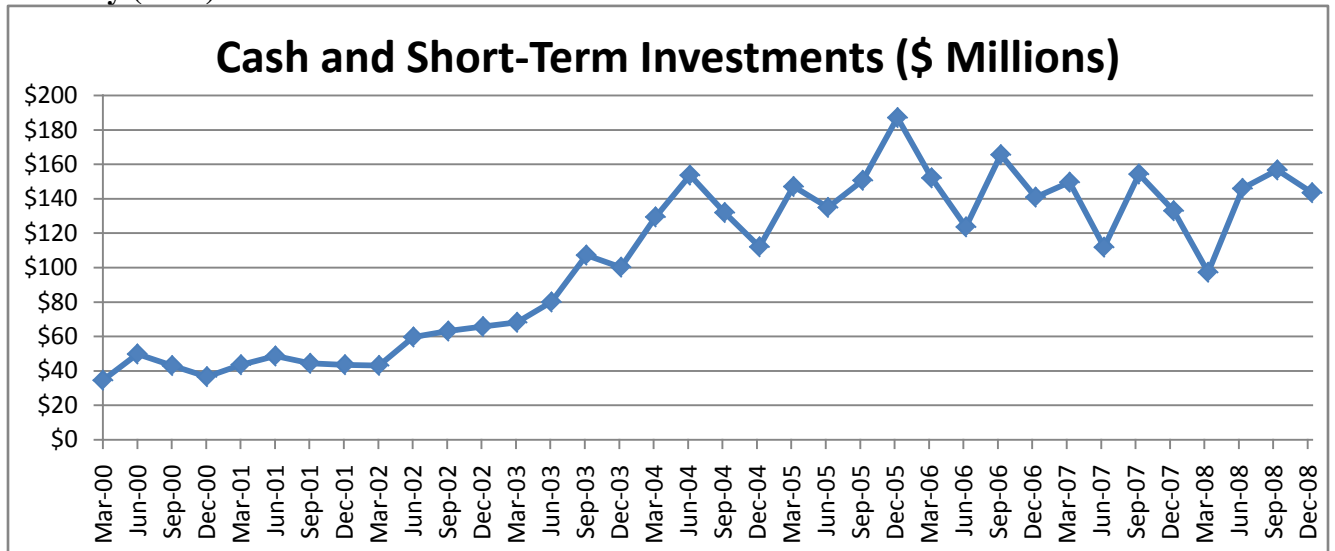
Cash Flow Measures

Exhibit 5: Median Free Cash Flow and Median Operating Cash Flow, 2000 – 2008, Food and Staples Retailing Industry (3010)



Refer to Table 2 for data supporting the graph.

Exhibit 6: Cash and Short-term Investments, 2000 – 2008, Food and Staples Retailing Industry (3010)



Refer to Table 2 for data supporting the graph.

Table 2: Cash Flow Measures, 2000 – 2008, Food and Staples Retailing Industry (3010)

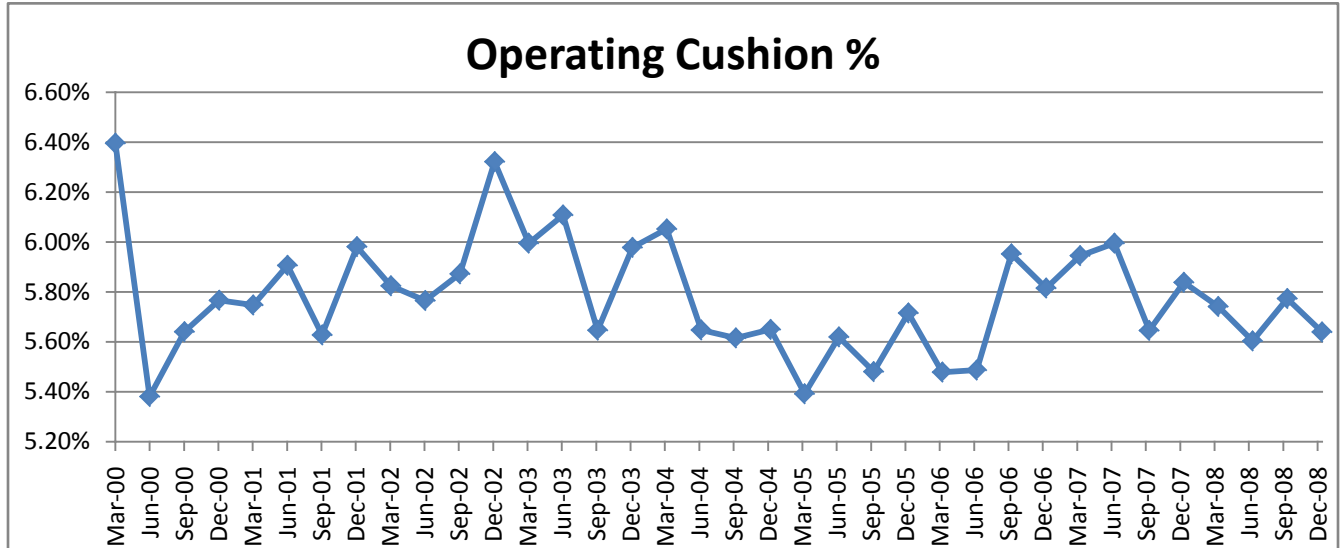
Date	Operating Cash Flow	% Change	Free Cash Flow	% Change	Cash and Short-Term Investments	% Change
Mar-00	126,393,500		11,043,037		34,538,500	
Jun-00	259,003,000	104.92%	34,441,792	211.89%	49,789,000	44.16%
Sep-00	133,530,500	-48.44%	40,550,043	17.73%	43,055,000	-13.53%
Dec-00	121,910,000	-8.70%	40,434,620	-0.28%	36,600,000	-14.99%
Mar-01	95,517,500	-21.65%	43,642,674	7.93%	43,538,500	18.96%
Jun-01	161,101,000	68.66%	43,113,695	-1.21%	48,605,000	11.64%
Sep-01	167,012,500	3.67%	55,314,948	28.30%	44,333,000	-8.79%
Dec-01	208,604,500	24.90%	55,757,329	0.80%	43,556,500	-1.75%
Mar-02	211,857,000	1.56%	54,833,540	-1.66%	43,131,000	-0.98%
Jun-02	242,039,000	14.25%	73,933,082	34.83%	59,660,000	38.32%
Sep-02	233,975,000	-3.33%	81,332,835	10.01%	63,103,000	5.77%
Dec-02	263,988,000	12.83%	96,831,989	19.06%	65,713,500	4.14%
Mar-03	203,552,500	-22.89%	85,916,450	-11.27%	68,198,000	3.78%
Jun-03	198,400,000	-2.53%	88,794,055	3.35%	80,033,000	17.35%
Sep-03	197,300,000	-0.55%	93,474,967	5.27%	107,300,000	34.07%
Dec-03	238,464,000	20.86%	122,820,791	31.39%	100,270,500	-6.55%
Mar-04	227,515,000	-4.59%	121,920,903	-0.73%	129,500,000	29.15%
Jun-04	321,477,000	41.30%	128,306,990	5.24%	153,800,000	18.76%
Sep-04	353,220,000	9.87%	139,938,364	9.07%	132,050,000	-14.14%
Dec-04	377,432,000	6.85%	144,914,996	3.56%	112,109,000	-15.10%
Mar-05	269,959,500	-28.47%	118,212,726	-18.43%	147,179,000	31.28%
Jun-05	253,672,000	-6.03%	101,091,913	-14.48%	135,000,000	-8.27%
Sep-05	281,900,000	11.13%	106,464,810	5.31%	150,776,000	11.69%
Dec-05	352,658,000	25.10%	121,520,776	14.14%	187,268,000	24.20%
Mar-06	376,900,000	6.87%	109,868,088	-9.59%	152,200,000	-18.73%
Jun-06	406,744,000	7.92%	104,935,937	-4.49%	123,692,000	-18.73%
Sep-06	394,100,000	-3.11%	88,635,775	-15.53%	165,700,000	33.96%
Dec-06	263,152,000	-33.23%	78,616,424	-11.30%	141,000,000	-14.91%
Mar-07	304,674,000	15.78%	78,229,970	-0.49%	149,700,000	6.17%
Jun-07	267,217,000	-12.29%	56,889,172	-27.28%	111,903,000	-25.25%
Sep-07	217,857,000	-18.47%	74,612,363	31.15%	154,415,000	37.99%
Dec-07	199,169,000	-8.58%	83,123,806	11.41%	133,100,000	-13.80%
Mar-08	191,605,000	-3.80%	85,316,423	2.64%	97,314,000	-26.89%
Jun-08	212,926,500	11.13%	81,342,352	-4.66%	146,071,000	50.10%
Sep-08	200,824,000	-5.68%	116,657,266	43.42%	156,814,000	7.35%
Dec-08	245,630,500	22.31%	128,321,654	10.00%	143,578,000	-8.44%

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Cash Flow Drivers

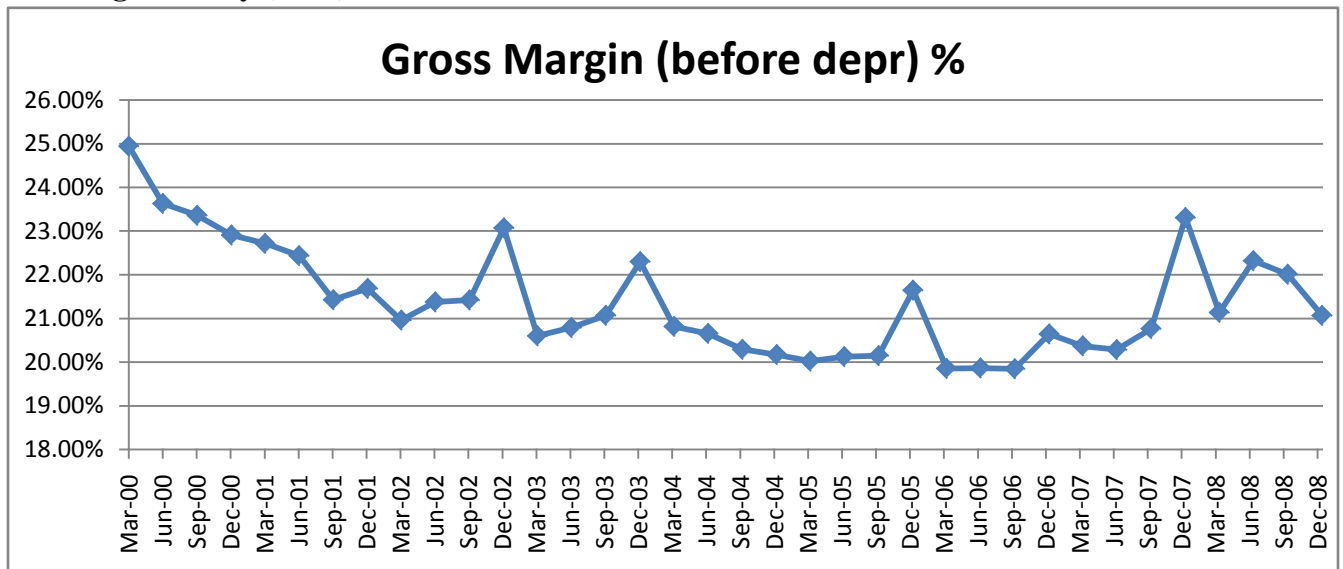
Profitability

Exhibit 7: Median Operating Cushion, 2000 – 2008, Food and Staples Retailing Industry (3010)



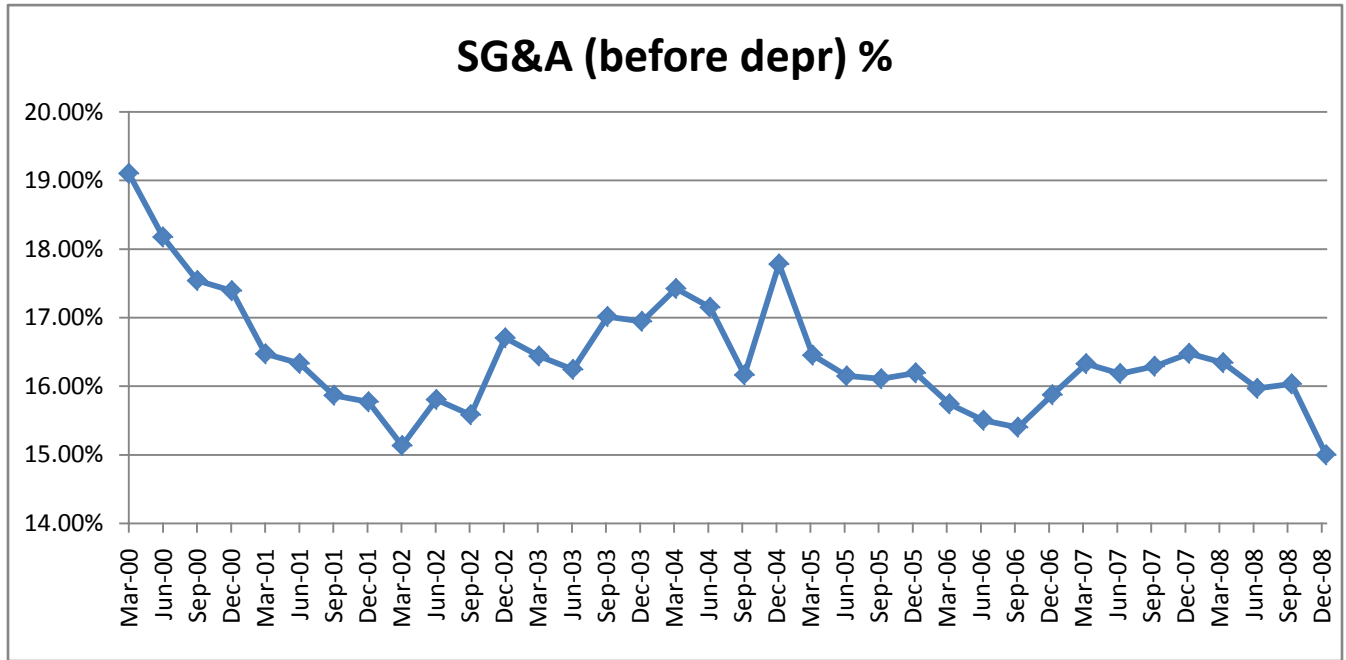
Refer to Table 3 for data supporting the graph.

Exhibit 8: Median Gross Margin % (before depreciation), 2000 – 2008, Food and Staples Retailing Industry (3010)



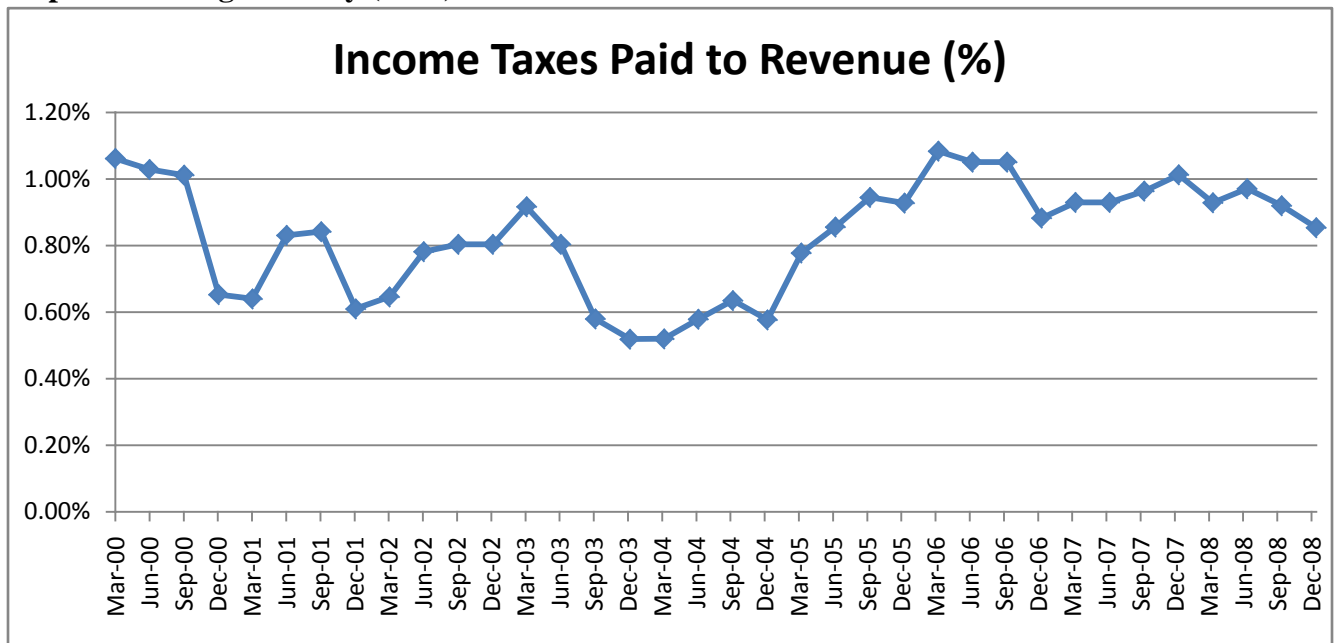
Refer to Table 3 for data supporting the graph.

Exhibit 9: Median Selling, General and Administrative Expense % (before depreciation), 2000 – 2008, Food and Staples Retailing Industry (3010)



Refer to Table 3 for data supporting the graph.

Exhibit 10: Median Income Taxes Paid % (before depreciation), 2000 – 2008, Food and Staples Retailing Industry (3010)



Refer to Table 3 for data supporting the graph.

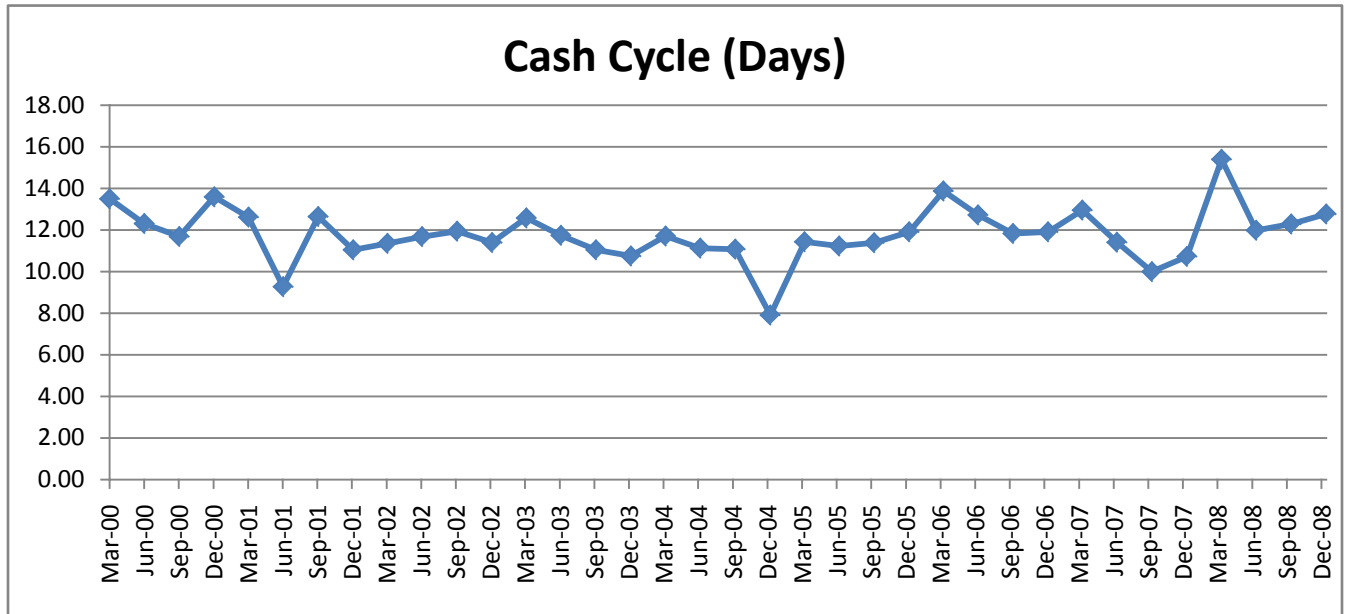
Table 3: Profitability, 2000 – 2008, Food and Staples Retailing Industry (3010)

Date	Operating Cushion %	Gross Margin (before depr) %	SG&A (before depr.) %	Revenue	% Change	Income Taxes Paid to Revenue
Mar-00	6.40%	24.95%	19.10%	4,135,969,000		1.06%
Jun-00	5.38%	23.63%	18.18%	7,375,116,000	78.32%	1.03%
Sep-00	5.64%	23.36%	17.54%	4,597,510,500	-37.66%	1.01%
Dec-00	5.77%	22.91%	17.39%	4,701,700,000	2.27%	0.65%
Mar-01	5.75%	22.71%	16.47%	4,403,902,500	-6.33%	0.64%
Jun-01	5.91%	22.44%	16.33%	5,048,442,000	14.64%	0.83%
Sep-01	5.63%	21.43%	15.87%	5,010,412,000	-0.75%	0.84%
Dec-01	5.98%	21.68%	15.77%	5,101,311,000	1.81%	0.61%
Mar-02	5.83%	20.96%	15.13%	5,030,600,000	-1.39%	0.65%
Jun-02	5.77%	21.38%	15.81%	5,236,054,000	4.08%	0.78%
Sep-02	5.87%	21.42%	15.58%	5,354,367,000	2.26%	0.80%
Dec-02	6.32%	23.07%	16.70%	5,458,398,500	1.94%	0.80%
Mar-03	6.00%	20.60%	16.44%	4,705,172,500	-13.80%	0.92%
Jun-03	6.11%	20.79%	16.24%	5,484,500,000	16.56%	0.80%
Sep-03	5.65%	21.07%	17.02%	5,567,300,000	1.51%	0.58%
Dec-03	5.98%	22.30%	16.95%	6,071,220,500	9.05%	0.52%
Mar-04	6.05%	20.81%	17.42%	5,753,700,000	-5.23%	0.52%
Jun-04	5.65%	20.65%	17.15%	6,396,161,000	11.17%	0.58%
Sep-04	5.62%	20.29%	16.16%	7,296,056,500	14.07%	0.64%
Dec-04	5.65%	20.17%	17.78%	7,271,199,000	-0.34%	0.58%
Mar-05	5.39%	20.02%	16.45%	6,728,100,500	-7.47%	0.78%
Jun-05	5.62%	20.12%	16.15%	6,100,900,000	-9.32%	0.86%
Sep-05	5.48%	20.15%	16.11%	6,695,900,000	9.75%	0.95%
Dec-05	5.72%	21.64%	16.19%	7,809,818,500	16.64%	0.93%
Mar-06	5.48%	19.85%	15.74%	7,949,934,000	1.79%	1.08%
Jun-06	5.49%	19.86%	15.50%	7,410,730,000	-6.78%	1.05%
Sep-06	5.95%	19.84%	15.40%	7,601,696,000	2.58%	1.05%
Dec-06	5.82%	20.64%	15.88%	7,212,516,000	-5.12%	0.88%
Mar-07	5.95%	20.37%	16.33%	7,236,815,000	0.34%	0.93%
Jun-07	6.00%	20.28%	16.18%	7,201,161,000	-0.49%	0.93%
Sep-07	5.65%	20.76%	16.29%	7,676,169,000	6.60%	0.96%
Dec-07	5.84%	23.31%	16.48%	7,228,157,000	-5.84%	1.01%
Mar-08	5.74%	21.14%	16.34%	7,267,157,000	0.54%	0.93%
Jun-08	5.60%	22.32%	15.97%	7,776,515,500	7.01%	0.97%
Sep-08	5.77%	22.01%	16.03%	8,320,775,000	7.00%	0.92%
Dec-08	5.64%	21.07%	15.00%	7,858,031,500	-5.56%	0.85%

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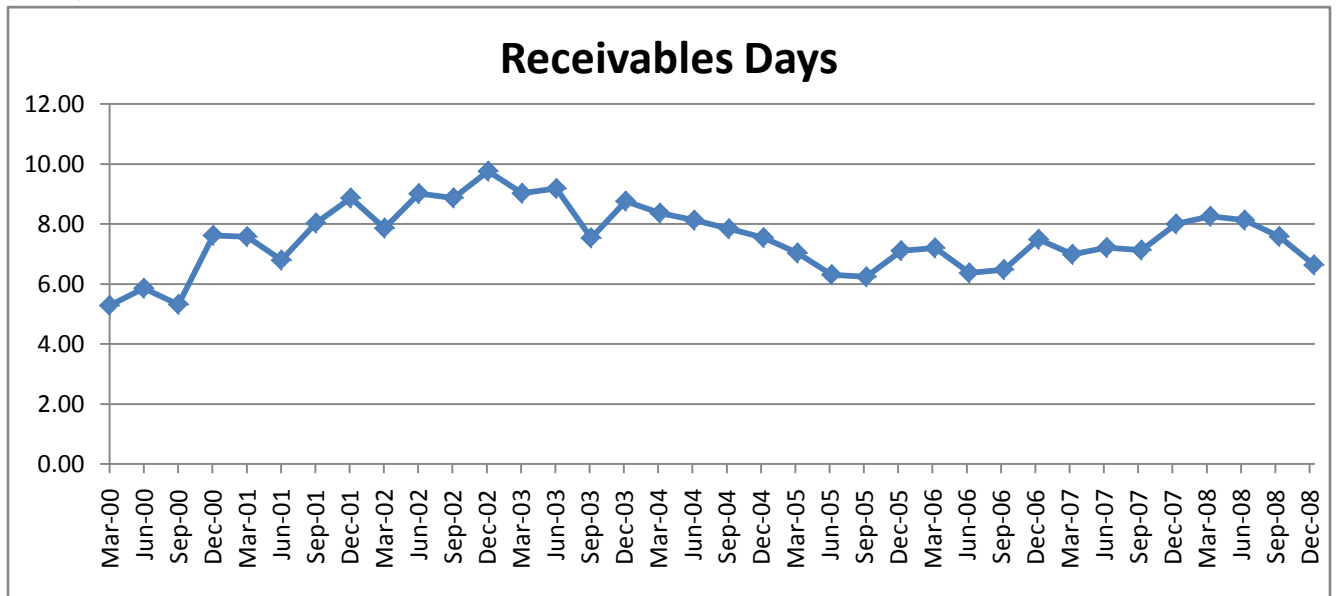
Efficiency

Exhibit 11: Median Cash Cycle, 2000 – 2008, Food and Staples Retailing Industry (3010)



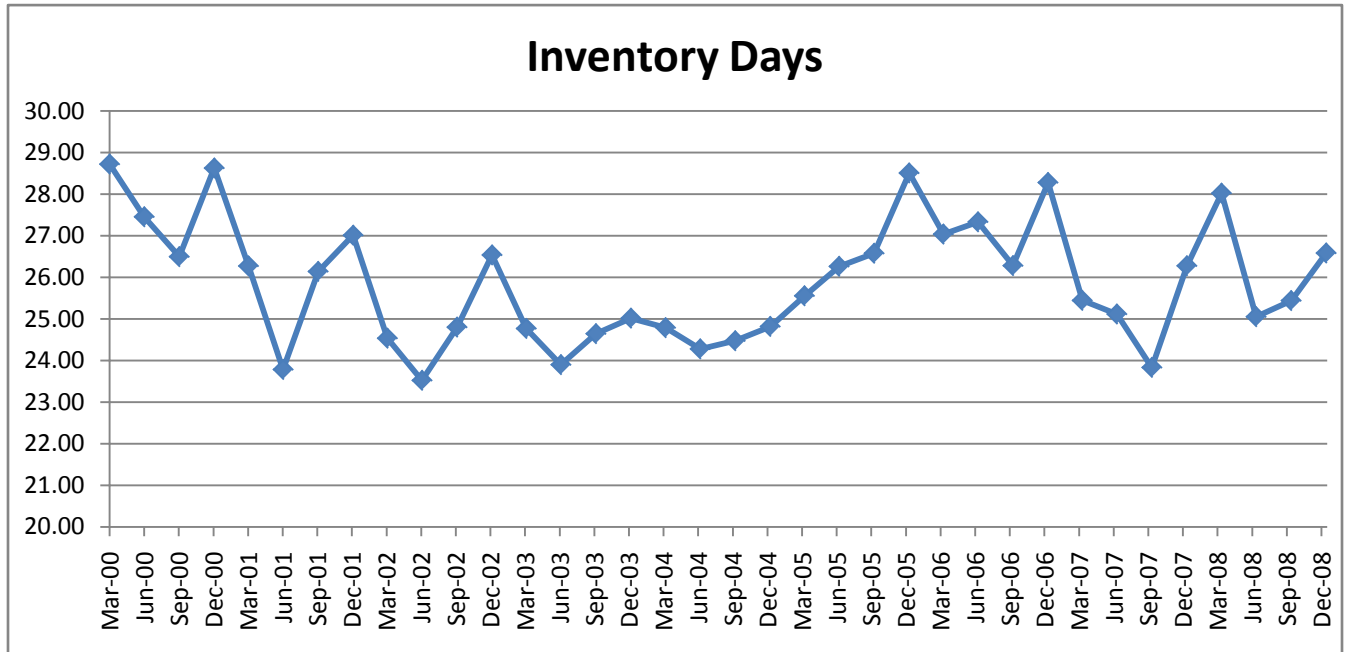
Refer to Table 4 for data supporting the graph.

Exhibit 12: Median Receivables Days, 2000 – 2008, Food and Staples Retailing Industry (3010)



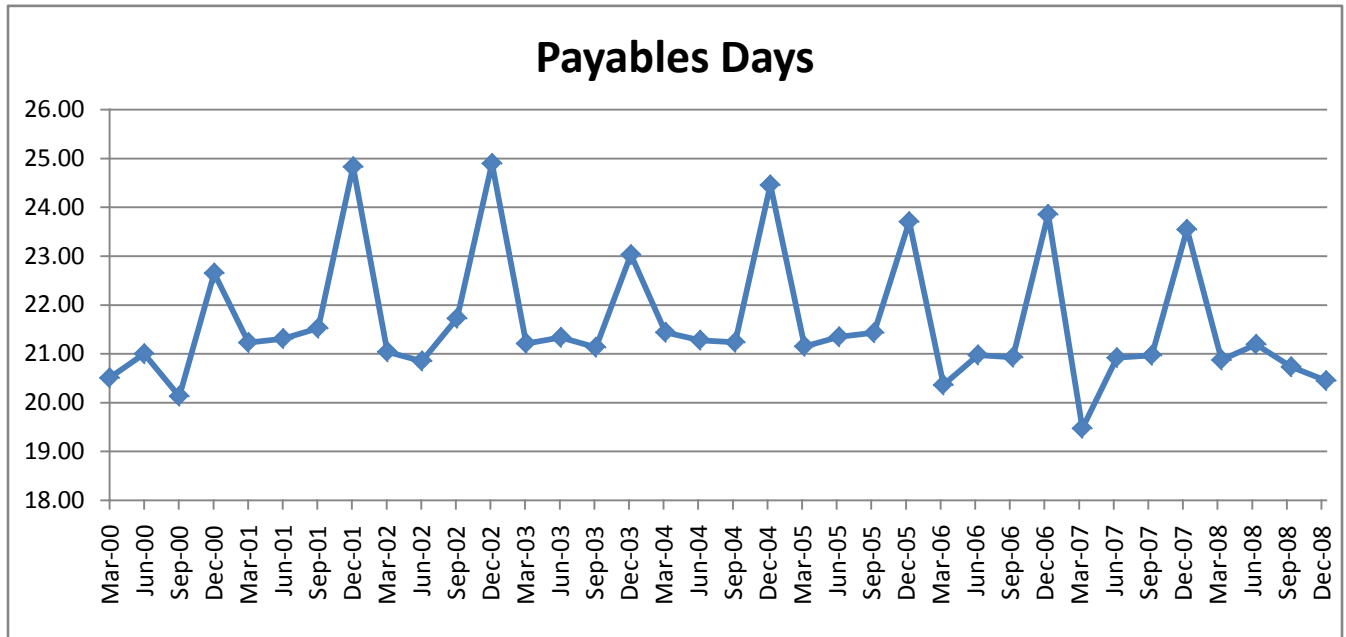
Refer to Table 4 for data supporting the graph.

Exhibit 13: Median Inventory Days, 2000 – 2008, Food and Staples Retailing Industry (3010)



Refer to Table 4 for data supporting the graph.

Exhibit 14: Median Payables Days, 2000 – 2008, Food and Staples Retailing Industry (3010)



Refer to Table 4 for data supporting the graph.

Table 4: Efficiency, 2000 – 2008, Food and Staples Retailing Industry (3010)

Date	Cash Cycle (Days)	Receivables Days	Inventory Days	Payables Days
Mar-00	13.50	5.28	28.72	20.51
Jun-00	12.31	5.85	27.46	21.00
Sep-00	11.68	5.32	26.50	20.13
Dec-00	13.59	7.62	28.63	22.65
Mar-01	12.62	7.57	26.27	21.23
Jun-01	9.27	6.79	23.79	21.31
Sep-01	12.65	8.03	26.14	21.52
Dec-01	11.04	8.86	27.01	24.83
Mar-02	11.35	7.86	24.54	21.04
Jun-02	11.68	9.01	23.52	20.85
Sep-02	11.94	8.86	24.80	21.73
Dec-02	11.39	9.75	26.54	24.90
Mar-03	12.58	9.02	24.77	21.21
Jun-03	11.74	9.18	23.90	21.33
Sep-03	11.04	7.53	24.65	21.13
Dec-03	10.75	8.76	25.02	23.03
Mar-04	11.71	8.36	24.79	21.44
Jun-04	11.13	8.12	24.28	21.28
Sep-04	11.08	7.83	24.48	21.23
Dec-04	7.90	7.54	24.82	24.46
Mar-05	11.43	7.03	25.56	21.15
Jun-05	11.23	6.31	26.27	21.35
Sep-05	11.39	6.24	26.58	21.43
Dec-05	11.91	7.11	28.51	23.71
Mar-06	13.88	7.20	27.04	20.36
Jun-06	12.72	6.36	27.34	20.97
Sep-06	11.83	6.48	26.28	20.93
Dec-06	11.91	7.48	28.28	23.85
Mar-07	12.96	6.98	25.45	19.47
Jun-07	11.41	7.21	25.12	20.92
Sep-07	9.99	7.13	23.83	20.97
Dec-07	10.73	8.00	26.28	23.55
Mar-08	15.40	8.25	28.02	20.87
Jun-08	11.98	8.12	25.05	21.19
Sep-08	12.29	7.58	25.44	20.73
Dec-08	12.77	6.63	26.59	20.45