

# United Natural Foods, Inc. (NYSE:UNFI)



**Ishfaq Peerally**  
eToro Elite Popular Investor  
(Approved Value Investor)



## Trading Statistics (USD)

<b>Market Cap (bb)</b>	1.92	<b>LTM EPS</b>	2.67	<b>Update Date</b>	10 Jun 2021
<b>Current Price</b>	34	<b>LTM P/E</b>	12.7	<b>Recommendation</b>	BUY
<b>52 Wk L - H</b>	14 - 42	<b>EV / EBITDA</b>	5.6	<b>Price Target</b>	NONE

## Business Description

- Largest wholesale distributor in the US and Canada with over 60 distribution centers
- distributes over 275,000 natural, organic and conventional products to more than 30,000 customers including natural product superstores, independent retailers, conventional supermarket chains, ecommerce retailers and food service industry
- Customers include Whole Foods (Amazon), Wegmans, The Fresh Market and Kroger
- Acquisition of competitor SuperValu in 2018 - Retail business

## Financial Summary

	FY17	FY18	FY19	FY20	TTM
<b>Revenue (mm)</b>	9,274	10,227	22,307	26,514	27,870
<b>EBITDA (mm)</b>	317	314	66	115	738
<b>Margins</b>	3.4%	3.1%	0.3%	0.4%	2.6%
<b>Net Income (mm)</b>	130	163	-285	-274	158
<b>Margins</b>	1.4%	1.6%	-1.3%	-1.0%	0.5%

## Investment Thesis

### Business Description:

- \$140 billion potential market with currently \$27 billion market and \$38 billion existing customer opportunity
- Major Competitors: SpartanNash (NASDAQ:SPTN), C&S Wholesales Groger and Kehe
- Minor competitors (serves mostly to restaurants, schools and other small units): Sysco (NYSE:SY) and US Food Holdings (NYSE:USFD)
- Over 60 distribution centers (total 28.8 million sq ft) vs 19 for SPTN (8.2 million sq ft)
- Diversified with moat in fast growing natural and organic

	UNFI	C&S Wholesales Groger	SpartanNash	KeHE	Category Growth
Conventional	✓	✓	✓		12.4%
Natural	✓			✓	16.3%
Specialty	✓			✓	10.0%
Services	✓				
Protein / Produce	✓	✓	✓		16.0%
Deli	✓				1.9%
Private Brands > \$1B	✓				12.3%
eComm	✓	✓	✓	✓	40%

Natural	Conventional	Premium	Ethnic	Value

- Customers:
  - Chains
  - Independent retailers
  - supernatural
  - retail
- Largest customer: Whole Foods with about 18% of revenues in 2020
- 6 product categories:
  - Grocery and general merchandise
  - Produce

- Perishables and frozen foods
- Nutritional supplements and sports nutrition
- Bulk and food service products
- Personal care items
- 2 business segments
  - Wholesale
  - Retail

#### Catalysts:

- Changing consumer habits into natural and organic
- Deal with Amazon extended till 2027
- Divestiture of retail business to raise capital for debt repayment
- Inflation is a tailwind

#### Risks:

- Took high debt for Supervalu acquisition with high interest payments
- Depends on derivatives to handle debt repayments at lower interest rates
- Unionized workers and high pension expenses

#### Financial Analysis:

- Revenues of \$6.62 billion in 3Q21 down 5.3% from 3Q20
- Revenues of \$27.8 billion in TTM up from 26.5 billion in FY20 (ended in July 2020) and \$8.4 billion in FY16
- Adjusted EBITDA of \$206 million in 2Q21 up 54% from 2Q20
- Net income of \$48.5 million in 3Q21 vs \$88.1 million in 3Q20 (net tax benefits of \$18 million compared to 3Q21)
- Net income of \$198 million in TTM vs net loss of \$254 million for FY20
- Net loss in FY19 and FY20 mostly because of impairment of goodwill of \$293 million and \$495 million respectively, after the Supervalu acquisition
- FCF of \$117 million vs \$284 million for FY20 (excluding \$102 million in divestitures from sales of retail stores)
- Owner's earnings (including divestitures as they offset interest payments to bondholders) of \$219 million in TTM vs \$382 million in FY20
- Net debt repayment of \$62 million in 3Q21
- Balance Sheet
  - Total assets: \$7.52 billion ; total liabilities: \$6.21 billion; book value: \$1.30 billion
  - Cash: \$39 million, debts: \$2.33 billion, current assets: \$3.58 million, current liabilities: \$2.26 billion

(\$'s in Millions)							
	Maturity	Rate	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21
Secured term loan B-1 <sup>(1), (2)</sup>	October 2025	L + 3.50%	\$ 1,778	\$ 1,773	\$ 1,165	\$ 1,015	\$ 1,002
\$2.1B ABL revolver <sup>(1)</sup>	October 2023	L + 1.25% / Prime + 0.25%	816	757	987	885	839
Senior unsecured notes <sup>(2)</sup>	October 2028	6.75%	-	-	500	500	500
Finance leases	Various	Various	160	156	151	146	144
Equipment loans	Various	Various	52	49	46	43	40
<b>Total Debt and Finance Leases (face value)</b>			<b>\$ 2,806</b>	<b>\$ 2,735</b>	<b>\$ 2,849</b>	<b>\$ 2,589</b>	<b>\$ 2,525</b>
Balance sheet cash <sup>(3)</sup>			(59)	(47)	(49)	(41)	(40)
<b>Total Debt and Finance Leases Net of Cash (face value)</b>			<b>\$ 2,747</b>	<b>\$ 2,688</b>	<b>\$ 2,800</b>	<b>\$ 2,548</b>	<b>\$ 2,485</b>
<b>Last-four-quarter Adjusted EBITDA</b>			<b>\$ 641</b>	<b>\$ 673</b>	<b>\$ 710</b>	<b>\$ 785</b>	<b>\$ 743</b>
<b>Face Value Net Debt / LFQ Adjusted EBITDA <sup>(4)</sup></b>			<b>4.3x</b>	<b>4.0x</b>	<b>3.9x</b>	<b>3.2x</b>	<b>3.3x</b>
<b>Available Liquidity <sup>(5)</sup></b>			<b>\$ 1,213</b>	<b>\$ 1,282</b>	<b>\$ 1,058</b>	<b>\$ 1,158</b>	<b>\$ 1,182</b>

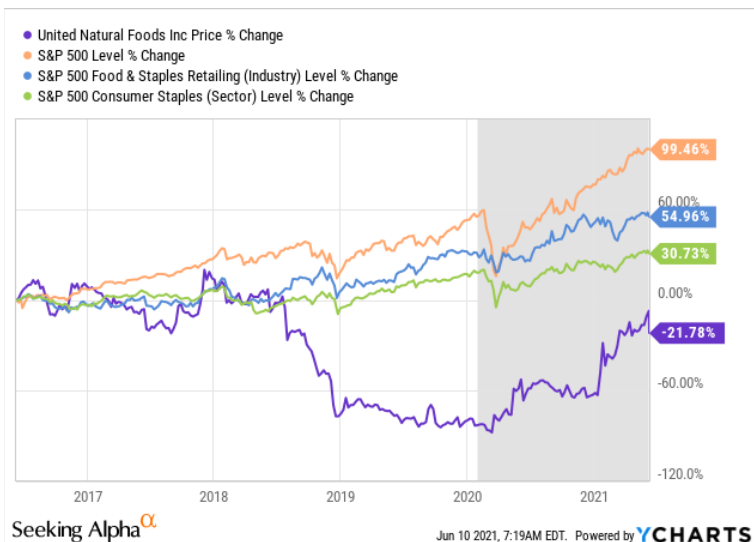
#### Valuations

- My personal Biases:
  - Bullish on industry
  - Belief in ability to repay debt with divestitures
  - Largest position of my portfolio at 7.0%
- Assumptions for base case:
  - Use Discounted Owner's earnings to calculate intrinsic value
  - \$100 million in divestitures in 2022 and 2023 each
  - Revenue growth of 4% per year
  - Profit margins of 1.5% in the long-term (2021 and 2022 lower with synergy costs)
  - Depreciations of \$300 million per year and Capex of \$250 million per year
  - All of owner's earnings used to repay debt
  - Discount Rate of 15% till 2026

○ Terminal Growth rate of 2%

	2015	2016	2017	2018	2019	2020 TTM (3Q21)	2021	2022	2023	2024	2025	2026	
Revenues	\$ 8,185	\$ 8,470	\$ 9,274	\$ 10,227	\$ 22,307	\$ 26,514	\$ 27,870	\$ 27,000	\$ 28,080	\$ 29,203	\$ 30,371	\$ 31,586	\$ 32,850
Net Income	\$ 139	\$ 126	\$ 130	\$ 163	\$ (286)	\$ (254)	\$ 158	\$ 200	\$ 300	\$ 438	\$ 456	\$ 474	\$ 493
Depreciation	\$ 64	\$ 71	\$ 86	\$ 88	\$ 248	\$ 282	\$ 280	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300
Capex	\$ (129)	\$ (41)	\$ (56)	\$ (45)	\$ (228)	\$ (173)	\$ (219)	\$ (250)	\$ (250)	\$ (250)	\$ (250)	\$ (250)	\$ (250)
Goodwill impairment	\$ -	\$ -	\$ -	\$ 11	\$ 293	\$ 425	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Owner's Earnings	\$ 74	\$ 156	\$ 160	\$ 217	\$ 73	\$ 382	\$ 219	\$ 250	\$ 450	\$ 588	\$ 506	\$ 524	\$ 543
FCF	\$ (80)	\$ 255	\$ 217	\$ 64	\$ 56	\$ 284	\$ 117	\$ 250	\$ 350	\$ 488	\$ 506	\$ 524	\$ 543
Divestitures	\$ -	\$ 8	\$ 3	\$ (7)	\$ 46	\$ 102	\$ -	\$ -	\$ 100	\$ 100	\$ -	\$ -	\$ -
Net Issuance of Debt	\$ 93	\$ 58	\$ (215)	\$ (26)	\$ 2,039	\$ (462)	\$ (298)	\$ (250)	\$ (500)	\$ (597)	\$ (647)	\$ (160)	\$ (160)
Interest Expense	\$ (14)	\$ (15)	\$ (17)	\$ (16)	\$ (181)	\$ (192)	\$ (86)	\$ (120)	\$ (118)	\$ (118)	\$ (93)	\$ (100)	\$ (18)
Debt Due (as of 3Q21)							\$ 23	\$ 14	\$ 14	\$ 839	\$ 18	\$ 1,502	
Total Debt	\$ 536	\$ 588	\$ 373	\$ 309	\$ 2,819	\$ 2,427	\$ 2,337	\$ 2,087	\$ 1,587	\$ 990	\$ 343	\$ 183	\$ 23

	Owner's Earnings Discounted OE	
TTM	\$ 219	
2021	\$ 250	\$ 250
2022	\$ 450	\$ 391
2023	\$ 588	\$ 445
2024	\$ 506	\$ 333
2025	\$ 524	\$ 300
2026	\$ 543	\$ 270
Terminal Value		\$ 2,076
Intrinsic Value		\$ 4,064
Per Share		\$ 68



- Bull case with extra 10% extra revenues in 2026 compared to base
- Bear case with 10% less revenues in 2026 compared to base
- Shares outstanding grow from 59 million to 70 million

		P/OE Exit Multiples					
2026 OE/share		X4	X6	X8	X10	X12	
Bear	\$ 6.97	\$ 27.88	\$ 41.82	\$ 55.76	\$ 69.70	\$ 83.64	
Base	\$ 7.75	\$ 31.00	\$ 46.50	\$ 62.00	\$ 77.50	\$ 93.00	
Bull	\$ 8.52	\$ 34.08	\$ 51.12	\$ 68.16	\$ 85.20	\$ 102.24	
Returns		-23%	29%	72%	115%	184%	
CAGR		-5.0%	5.3%	11.5%	16.6%	23.2%	
Probability		5%	15%	40%	25%	15%	
Expectation	13%	0%	1%	5%	4%	3%	

Conclusion

- Undervalued even with 50% margin of safety
- 13% expected returns per year