

United Natural Foods, Inc. (NYSE:UNFI)



Ishfaaq Peerally
eToro Elite Popular Investor
(Approved Value Investor)

Trading Statistics (USD)

Market Cap (bb)	3.22	LTM EPS	3.91	Update Date	9 Dec 2021
Current Price	55	LTM P/E	14	Recommendation	BUY
52 Wk L - H	14 - 57	EV / EBITDA	7.9	Price Target	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

	FY18	FY19	FY20	FY21	TTM
Revenue (mm)	10,227	22,307	26,514	27,870	27,274
EBITDA (mm)	314	66	115	630	697
Margins	3.1%	0.3%	0.4%	2.2%	2.5%
Net Income (mm)	163	-285	-274	149	227
Margins	1.6%	-1.3%	-1.0%	0.5%	0.8%

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	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
WHOLE FOODS MARKET	Wegmans	THE FRESH MARKET	LOTTE market	Shoppers Value Foods
Kroger	Publix	KOWALSKI'S	NORTHGATE MARKET	B. GREEN CASH & CARRY
SPROUTS FARMERS MARKET	Stop&Shop	Dierbergs	eCom	Alternative
National coop Grocers			VITACOST	MILLS FLEET FARM
			Jet	

- 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
- 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
- Not going through with divestitures of retail business
- New CEO yet to prove himself

Financial Analysis:

(mm USD)	1Q22	1Q21	% change		1Q22	1Q21	% change
Revenues	\$ 6,997	\$ 6,684	5%	Net income	\$ 76	\$ (1)	N/A
Operating Income	\$ 76	\$ (1)	N/A	FCF	\$ (137)	\$ (99)	N/A
Total Assets	Total Liabilities	Book Value	Cash	Debt	Current Assets	Current Liabilities	
\$ 7,999	\$ 6,412	\$ 1,515	\$ 46	\$ 2,376	\$ 4,019	\$ 2,691	

(\$'s in Millions)							
	Maturity	Rate	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22
Secured term loan B-1 ⁽¹⁾	October 2025	L + 3.25% ⁽²⁾	\$ 1,165	\$ 1,015	\$ 1,002	\$ 1,002	\$ 994
\$2.1B ABL revolver ⁽¹⁾	October 2023	L + 1.25% / Prime + 0.25%	987	885	839	701	910
Senior unsecured notes	October 2028	6.75%	500	500	500	500	500
Finance leases	Various	Various	150	147	144	142	139
Equipment loans	Various	Various	46	43	40	37	34
Original issue discount / deferred finance fees			(64)	(56)	(54)	(52)	(48)
Total Debt and Finance Leases (GAAP)			\$ 2,784	\$ 2,534	\$ 2,471	\$ 2,330	\$ 2,529
Balance sheet cash ⁽³⁾			(49)	(41)	(40)	(41)	(46)
Net Debt (GAAP)			\$ 2,735	\$ 2,493	\$ 2,431	\$ 2,289	\$ 2,483
Adjusted EBITDA (last four quarters)			\$ 710	\$ 785	\$ 743	\$ 746	\$ 776
Net Debt / Adjusted EBITDA ⁽⁴⁾			3.9x	3.2x	3.3x	3.1x	3.2x
Available Liquidity ⁽⁵⁾			\$ 1,058	\$ 1,158	\$ 1,182	\$ 1,321	\$ 1,112

Valuations

- My personal Biases:
 - Bullish on industry
 - Expecting high inflation in the coming years with economic expansion
 - Belief in ability to repay debt
 - Largest position of my portfolio at 12.2%
- Assumptions for base case:
 - Use Discounted Owner's earnings to calculate intrinsic value
 - Revenue growth of 4% per year (as per forecast)
 - Earnings Growth of 16% per year (as per forecast)
 - Depreciations of \$300 million per year and Capex of \$300 million per year
 - Look at extreme case scenario to see if the company can repay its debts
 - All of owner's earnings used to repay debt
 - Discount Rate of 13% till 2026
 - Terminal Growth rate of 3%

	2015	2016	2017	2018	2019	2020	2021	TTM (1Q22)	2022	2023	2024	2025	2026
Revenues	\$ 8,185	\$ 8,470	\$ 9,274	\$ 10,227	\$ 22,307	\$ 26,514	\$ 27,870	\$ 27,274	\$ 28,050	\$ 29,172	\$ 30,339	\$ 31,552	\$ 32,815
Net Income	\$ 139	\$ 126	\$ 130	\$ 163	\$ (286)	\$ (254)	\$ 149	\$ 227	\$ 228	\$ 264	\$ 307	\$ 356	\$ 413
Depreciation	\$ 64	\$ 71	\$ 86	\$ 88	\$ 248	\$ 282	\$ 285	\$ 277	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300
Capex	\$ (129)	\$ (41)	\$ (56)	\$ (45)	\$ (228)	\$ (173)	\$ (301)	\$ (316)	\$ (300)	\$ (300)	\$ (300)	\$ (300)	\$ (300)
Goodwill impairment	\$ -	\$ -	\$ -	\$ 11	\$ 293	\$ 425	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Owner's Earnings	\$ 74	\$ 156	\$ 160	\$ 217	\$ 73	\$ 382	\$ 133	\$ 188	\$ 228	\$ 264	\$ 307	\$ 356	\$ 413
Divestitures	\$ -	\$ 8	\$ 3	\$ (7)	\$ 46	\$ 102	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Issuance of Debt	\$ 93	\$ 58	\$ (215)	\$ (26)	\$ 2,039	\$ (462)	\$ (347)	\$ (201)	\$ (125)	\$ (264)	\$ (307)	\$ (356)	\$ (413)
Debt Due	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14	\$ 14	\$ 917	\$ 1	\$ 1,002
Total Debt	\$ 536	\$ 588	\$ 373	\$ 309	\$ 2,819	\$ 2,427	\$ 2,175	\$ 2,376	\$ 2,251	\$ 1,987	\$ 1,680	\$ 1,324	\$ 911

Year	OE	Discounted OE
TTM	\$ 188	
Year 1	\$ 228	\$ 202
Year 2	\$ 264	\$ 207
Year 3	\$ 307	\$ 213
Year 4	\$ 356	\$ 218
Year 5	\$ 413	\$ 224
Terminal Value		\$ 2,240
Intrinsic Value		\$ 3,304
Per share		\$ 58.53

- United Natural Foods Inc Price % Change
- S&P 500 Level % Change
- S&P 500 Food & Staples Retailing (Industry) Level % Change
- S&P 500 Ex-Consumer Staples Level % Change
- S&P 1500 Food Distributors (Sub-Industry) Level % Change

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- Bull case with extra 10% extra Owner's earnings in 2026 compared to base
- Bear case with 10% less owner's earning in 2026 compared to base
- No change in shares outstanding

		2026 Price to OE Ratio				
2026 OE/share		6	8	10	12	14
Bull	\$ 8.04	\$ 48.25	\$ 64.33	\$ 80.41	\$ 96.49	\$ 112.57
Base	\$ 7.31	\$ 43.86	\$ 58.48	\$ 73.10	\$ 87.72	\$ 102.34
Bear	\$ 6.58	\$ 39.47	\$ 52.63	\$ 65.79	\$ 78.95	\$ 92.11
Returns @	\$ 55.61	-29%	5%	31%	58%	102%
CAGR		-7%	1%	6%	10%	15%
Probability		5%	15%	40%	25%	15%
Expectation	7%	0%	0%	2%	2%	2%

Conclusion

- Slightly Undervalued but not with margin of safety
- 7% expected returns per year