

United Natural Foods, Inc. (NYSE:UNFI)



Ishfaq Peerially
eToro Elite Popular Investor
(Approved Value Investor)

Trading Statistics (USD)

Market Cap (bb)	2.02	LTM EPS	3.47	Update Date	11 Mar 2021
Current Price	36.06	LTM P/E	10.4	Recommendation	BUY
52 Wk L - H	5.06 - 37.30	EV / EBITDA	5.9	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

	FY17	FY18	FY19	FY20	TTM
Revenue (mm)	9,274	10,227	22,307	26,514	27,918
EBITDA (mm)	317	314	66	115	735
Margins	3.4%	3.1%	0.3%	0.4%	2.6%
Net Income (mm)	130	163	-285	-274	198
Margins	1.4%	1.6%	-1.3%	-1.0%	0.7%

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
- Pandemic favors business
- Leased trucks - no fear of depreciation of assets or electrification

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 \$6.9 billion in 2Q21 up 7.1% from 2Q20
- Revenues of \$27.9 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 \$58.9 million in 2Q21 vs net loss of \$30.7 million in 2Q20
- 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 \$365 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 \$403 million in TTM vs \$382 million in FY20
- Net debt repayment of \$242 million with lowering of borrowing rate by 0.75 pp
- Balance Sheet
 - Total assets: \$7.49 billion ; total liabilities: \$6.26 billion; book value: \$1.22 billion
 - Cash: \$40 million, debts: \$2.37 billion, current assets: \$3.64 million, current liabilities: \$2.29 billion

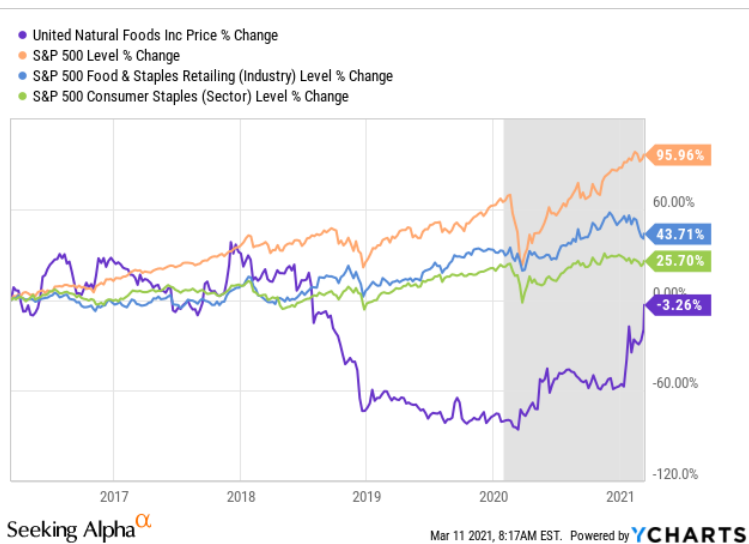
(\$'s in Millions)							
	<u>Maturity</u>	<u>Rate</u>	<u>Q2 FY20</u>	<u>Q3 FY20</u>	<u>Q4 FY20</u>	<u>Q1 FY21</u>	<u>Q2 FY21</u>
Secured term loan B-1 ⁽¹⁾	October 2025	L + 3.50% ⁽²⁾	\$ 1,782	\$ 1,778	\$ 1,773	\$ 1,165	\$ 1,015
\$2.1B ABL revolver ⁽¹⁾	October 2023	L + 1.25% / Prime + 0.25%	1,187	816	757	987	885
Senior unsecured notes ⁽³⁾	October 2028	6.75%	-	-	-	500	500
Finance leases ⁽⁴⁾	Various	Various	70	160	156	151	146
Equipment loans	Various	Various	55	52	49	46	43
Total Debt and Finance Leases (face value)			\$ 3,094	\$ 2,806	\$ 2,735	\$ 2,849	\$ 2,589
Balance sheet cash ⁽⁵⁾			(42)	(59)	(47)	(49)	(41)
Total Debt and Finance Leases Net of Cash (face value)			\$ 3,052	\$ 2,747	\$ 2,688	\$ 2,800	\$ 2,548
Last-four-quarter adjusted EBITDA			\$ 587	\$ 641	\$ 673	\$ 710	\$ 785
Face Value Net Debt / LFQ Adjusted EBITDA ⁽⁶⁾			5.2x	4.3x	4.0x	3.9x	3.2x
Available Liquidity ⁽⁷⁾			\$ 869	\$ 1,213	\$ 1,282	\$ 1,058	\$ 1,158

Valuations

- My personal Biases:
 - Bullish on industry
 - Belief in ability to repay debt with divestitures
- Assumptions for base case:
 - Use Discounted Owner's earnings to calculate intrinsic value
 - \$100 million in divestitures in 2021 and 2022 each
 - Revenue growth of 10% 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 \$200 million per year
 - All of owner's earnings used to repay debt
 - Discount Rate of 17% till 2026 (down from 18% from last analysis because of extended Amazon deal)
 - Terminal Growth rate of 2%

	2015	2016	2017	2018	2019	2020	TTM (2Q21)	2021	2022	2023	2024	2025	2026
Revenues	\$ 8,185	\$ 8,470	\$ 9,274	\$ 10,227	\$ 22,307	\$ 26,514	\$ 27,918	\$ 27,400	\$ 30,140	\$ 33,154	\$ 36,469	\$ 40,116	\$ 44,128
Net Income	\$ 139	\$ 126	\$ 130	\$ 163	\$ (286)	\$ (254)	\$ 198	\$ 184	\$ 300	\$ 497	\$ 547	\$ 602	\$ 662
Depreciation	\$ 64	\$ 71	\$ 86	\$ 88	\$ 248	\$ 282	\$ 288	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300
Capex	\$ (129)	\$ (41)	\$ (56)	\$ (45)	\$ (228)	\$ (173)	\$ (187)	\$ (200)	\$ (200)	\$ (200)	\$ (200)	\$ (200)	\$ (200)
Goodwill impairment	\$ -	\$ -	\$ -	\$ 11	\$ 293	\$ 425	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Owner's Earnings	\$ 74	\$ 156	\$ 160	\$ 217	\$ 73	\$ 382	\$ 403	\$ 384	\$ 500	\$ 597	\$ 647	\$ 702	\$ 762
FCF	\$ (80)	\$ 255	\$ 217	\$ 64	\$ 56	\$ 284	\$ (33)	\$ 284	\$ 400	\$ 597	\$ 647	\$ 702	\$ 762
Divestitures	\$ -	\$ 8	\$ 3	\$ (7)	\$ 46	\$ 102	\$ 104	\$ 100	\$ 100	\$ -	\$ -	\$ -	\$ -
Net Issuance of Debt	\$ 93	\$ 58	\$ (215)	\$ (26)	\$ 2,039	\$ (462)	\$ (117)	\$ (384)	\$ (500)	\$ (597)	\$ (647)	\$ (160)	\$ (160)
Interest Expense	\$ (14)	\$ (15)	\$ (17)	\$ (16)	\$ (181)	\$ (192)	\$ (205)	\$ (137)	\$ (118)	\$ (118)	\$ (93)	\$ (100)	\$ (18)
Debt Due (as of 2Q21)								\$ 72	\$ 14	\$ 14	\$ 757	\$ 18	\$ 1,683
Total Debt	\$ 536	\$ 588	\$ 373	\$ 309	\$ 2,819	\$ 2,427	\$ 2,374	\$ 1,990	\$ 1,490	\$ 893	\$ 246	\$ 86	\$ (74)

	Owner's Earnings	Discounted OE
TTM	\$ 403	
2021	\$ 384	\$ 384
2022	\$ 500	\$ 427
2023	\$ 597	\$ 436
2024	\$ 647	\$ 404
2025	\$ 702	\$ 374
2026	\$ 762	\$ 348
Terminal Value		\$ 2,320
Intrinsic Value		\$ 4,694
Per Share		\$ 78



- 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		X1	X3	X5	X10	X15	
Bear	\$ 9.79	\$ 9.79	\$ 29.37	\$ 48.95	\$ 97.90	\$ 146.85	
Base	\$ 10.88	\$ 10.88	\$ 32.64	\$ 54.40	\$ 108.80	\$ 163.20	
Bull	\$ 11.97	\$ 11.97	\$ 35.91	\$ 59.85	\$ 119.70	\$ 179.55	
Returns		-73%	-9%	51%	202%	399%	
CAGR		-22.9%	-1.9%	8.6%	24.8%	37.9%	
Probability		5%	15%	40%	25%	15%	
Expectation	14%	-1%	0%	3%	6%	6%	

Conclusion

- Undervalued even with 50% margin of safety
- 14% expected returns per year
- Debt risk can be offset by divestitures of generation of cash from operations
- Moderate risk but high reward potential, BUY rating at current price