

United Natural Foods, Inc. (NYSE:UNFI)



Ishfaq Peerally
eToro Elite Popular Investor
(Approved Value Investor)



Trading Statistics (USD)

Market Cap (bb)	2.86	LTM EPS	2.48	Update Date	30 Sep 2021
Current Price	50	LTM P/E	20	Recommendation	BUY
52 Wk L - H	14 - 51	EV / EBITDA	6.7	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	FY21
Revenue (mm)	9,274	10,227	22,307	26,514	27,870
EBITDA (mm)	317	314	66	115	672
Margins	3.4%	3.1%	0.3%	0.4%	2.4%
Net Income (mm)	130	163	-285	-274	149
Margins	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
- 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:

- Revenues of \$6.7 billion in 4Q21 down 0.5% from 4Q20
- Revenues of \$26.9 billion in FY21 up from 26.5 billion in FY20 (ended in July 2020) and \$8.4 billion in FY16
- Net income of \$43 million in 4Q21 vs \$52.3 million in 4Q20
- Net income of \$149 million in FY21 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 \$304 million vs \$284 million for FY20 (excluding \$102 million in divestitures from sales of retail stores)
- Balance Sheet
 - Total assets: \$7.52 billion ; total liabilities: \$6.01 billion; book value: \$1.51 billion
 - Cash: \$41 million, debts: \$2.17 billion, current assets: \$3.55 million, current liabilities: \$2.48 billion

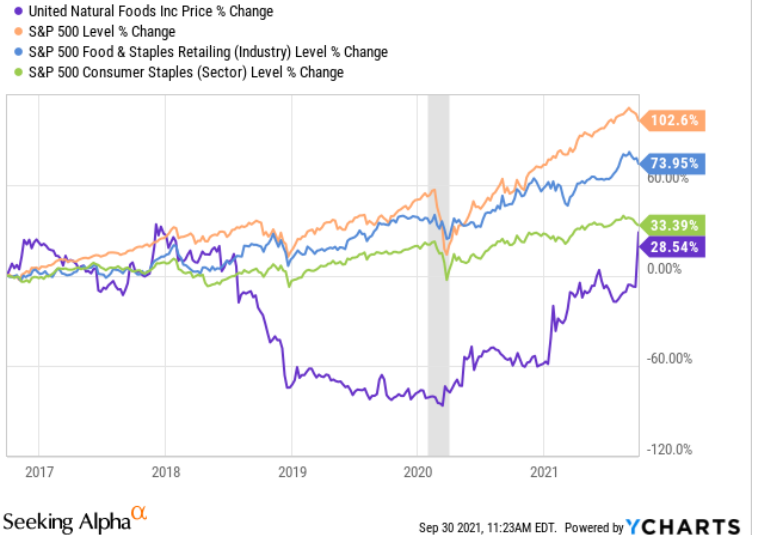
(\$'s in Millions)							
	Maturity	Rate	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
Secured term loan B-1 ^{(1),(3)}	October 2025	L + 3.50% ⁽²⁾	\$ 1,773	\$ 1,165	\$ 1,015	\$ 1,002	\$ 1,002
\$2.1B ABL revolver ⁽¹⁾	October 2023	L + 1.25% / Prime + 0.25%	757	988	885	839	701
Senior unsecured notes ⁽³⁾	October 2028	6.75%	-	500	500	500	500
Finance leases	Various	Various	156	150	147	144	142
Equipment loans	Various	Various	49	46	43	40	37
Original issue discount / deferred finance fees			(82)	(64)	(56)	(54)	(52)
Total Debt and Finance Leases (GAAP)			\$ 2,653	\$ 2,785	\$ 2,534	\$ 2,471	\$ 2,330
Balance sheet cash ⁽⁴⁾			(47)	(49)	(41)	(40)	(41)
Net Debt (GAAP)			\$ 2,606	\$ 2,736	\$ 2,493	\$ 2,431	\$ 2,289
Adjusted EBITDA ⁽⁵⁾			\$ 673	\$ 710	\$ 785	\$ 743	\$ 746
Net Debt / Adjusted EBITDA ^{(5) (6)}			3.9x	3.9x	3.2x	3.3x	3.1x
Available Liquidity ⁽⁷⁾			\$ 1,282	\$ 1,058	\$ 1,158	\$ 1,182	\$ 1,321

Valuations

- My personal Biases:
 - Bullish on industry
 - Belief in ability to repay debt with divestitures
 - Largest position of my portfolio at 11.3%
- 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 \$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	2021	2022	2023	2024	2025	2026
Revenues	\$ 8,185	\$ 8,470	\$ 9,274	\$ 10,227	\$ 22,307	\$ 26,514	\$ 27,870	\$ 28,050	\$ 29,172	\$ 30,339	\$ 31,552	\$ 32,815
Net Income	\$ 139	\$ 126	\$ 130	\$ 163	\$ (286)	\$ (254)	\$ 149	\$ 243	\$ 282	\$ 327	\$ 379	\$ 440
Depreciation	\$ 64	\$ 71	\$ 86	\$ 88	\$ 248	\$ 282	\$ 285	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300
Capex	\$ (129)	\$ (41)	\$ (56)	\$ (45)	\$ (228)	\$ (173)	\$ (301)	\$ (250)	\$ (250)	\$ (250)	\$ (250)	\$ (250)
Goodwill impairment	\$ -	\$ -	\$ -	\$ 11	\$ 293	\$ 425	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Owner's Earnings	\$ 74	\$ 156	\$ 160	\$ 217	\$ 73	\$ 382	\$ 133	\$ 293	\$ 332	\$ 377	\$ 429	\$ 490
Divestitures	\$ -	\$ 8	\$ 3	\$ (7)	\$ 46	\$ 102	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Issuance of Debt	\$ 93	\$ 58	\$ (215)	\$ (26)	\$ 2,039	\$ (462)	\$ (347)	\$ (125)	\$ (332)	\$ (377)	\$ (429)	\$ (490)
Debt Due								\$ 14	\$ 14	\$ 709	\$ 1	\$ 1,002
Total Debt	\$ 536	\$ 588	\$ 373	\$ 309	\$ 2,819	\$ 2,427	\$ 2,175	\$ 2,050	\$ 1,718	\$ 1,341	\$ 912	\$ 422

	OE	Discounted OE
2021	\$ 133	\$ 133
2022	\$ 293	\$ 255
2023	\$ 332	\$ 251
2024	\$ 377	\$ 248
2025	\$ 429	\$ 245
2026	\$ 490	\$ 244
Terminal Value		\$ 1,876
Intrinsic Value		\$ 3,252



- 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
- Shares outstanding grow from 59 million to 70 million

		P/OE Exit Multiples					
2026 OE/share		X6	X8	X10	X12	X14	
Bear	\$ 6.30	\$ 37.80	\$ 50.40	\$ 63.00	\$ 75.60	\$ 88.20	
Base	\$ 7.00	\$ 42.00	\$ 56.00	\$ 70.00	\$ 84.00	\$ 98.00	
Bull	\$ 7.70	\$ 46.20	\$ 61.60	\$ 77.00	\$ 92.40	\$ 107.80	
Returns		-24%	12%	40%	68%	116%	
CAGR		-5.4%	2.3%	7.0%	10.9%	16.6%	
Probability		5%	15%	40%	25%	15%	
Expectation	8%	0%	0%	3%	3%	2%	

Conclusion

- Undervalued but not with margin of safety
- 8% expected returns per year