

UNFI reported first-quarter earnings yesterday and the market really liked it



You will notice that most days, most stocks will move in sync with the market. It is the exceptional days that often cause the divergences.

Let's first look at the earnings presentation

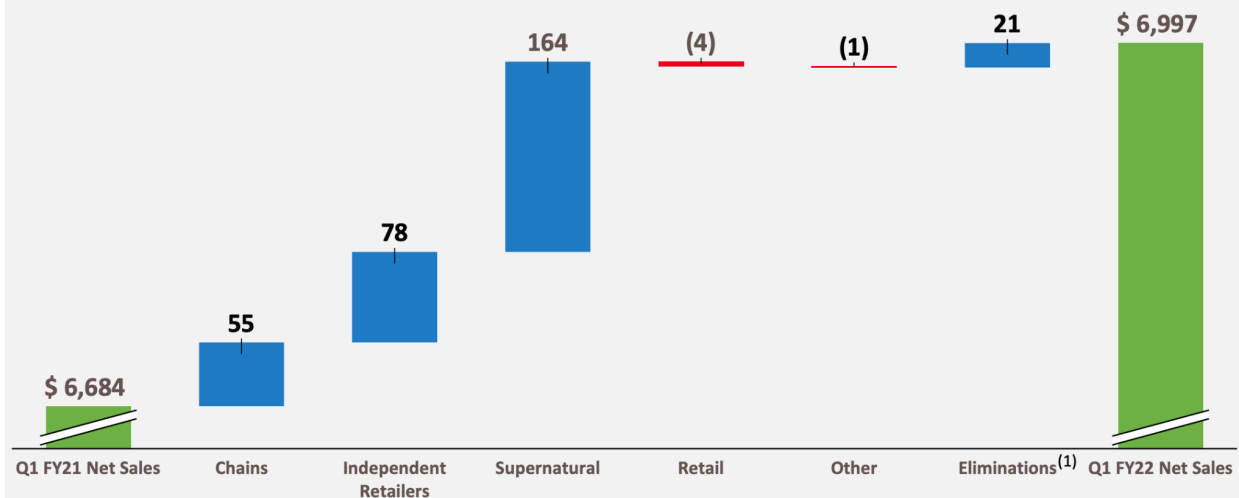
https://s22.q4cdn.com/589001886/files/doc_presentations/2021/12/Fiscal-2022-Q1-Supplemental-Slides.pdf

- Sales of \$7.0 billion, an increase of 4.7% compared to first quarter of fiscal 2021
- Adjusted EBITDA⁽¹⁾ of \$189 million, up 19% despite a challenging operating environment
- Credit rating upgrades by Moody's and S&P / following Q1, repriced Term Loan B with savings of 25 bps
- Announced reseller agreement with DoorDash to bring grocery delivery solutions to independent retailers
- Continued investment in distribution center labor to better support our customers
- Awarded Progressive Grocer Impact Award for sustainability and resource conservation

YoY increase of 4.7% in revenues, a little better than our 4% forecast

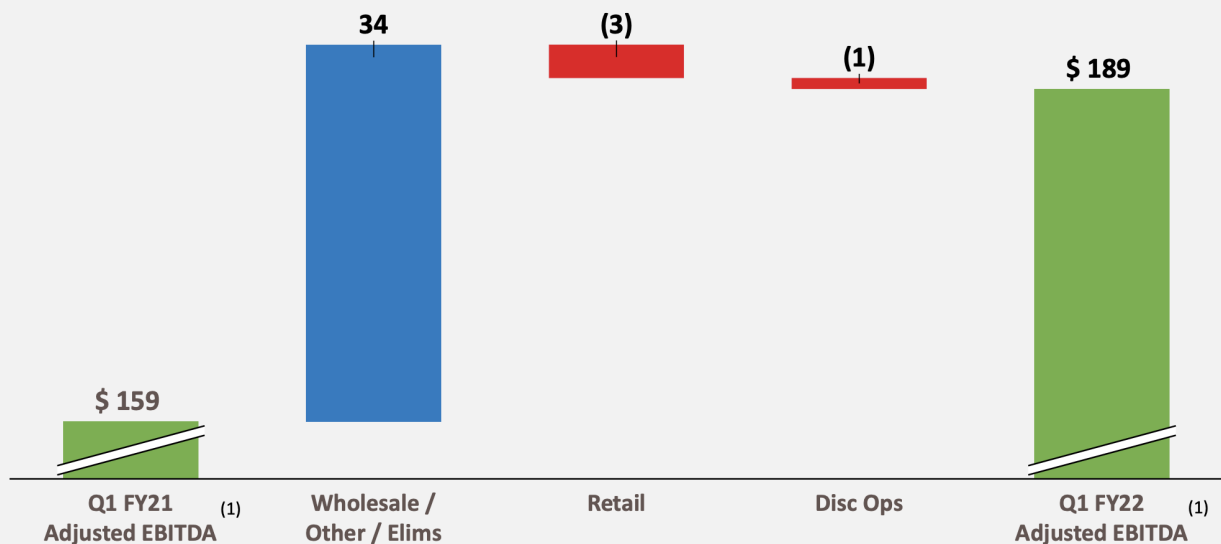
Q1 consolidated sales – broad based growth

(\$'s in millions)



Q1 adjusted EBITDA

(\$'s in millions)



This doesn't really tell us anything unless we know why the EBITDA was that low last year. We will find this out shortly when looking at the official filings.

Capital structure reflects ~ \$250M of net debt reduction in last 12 months

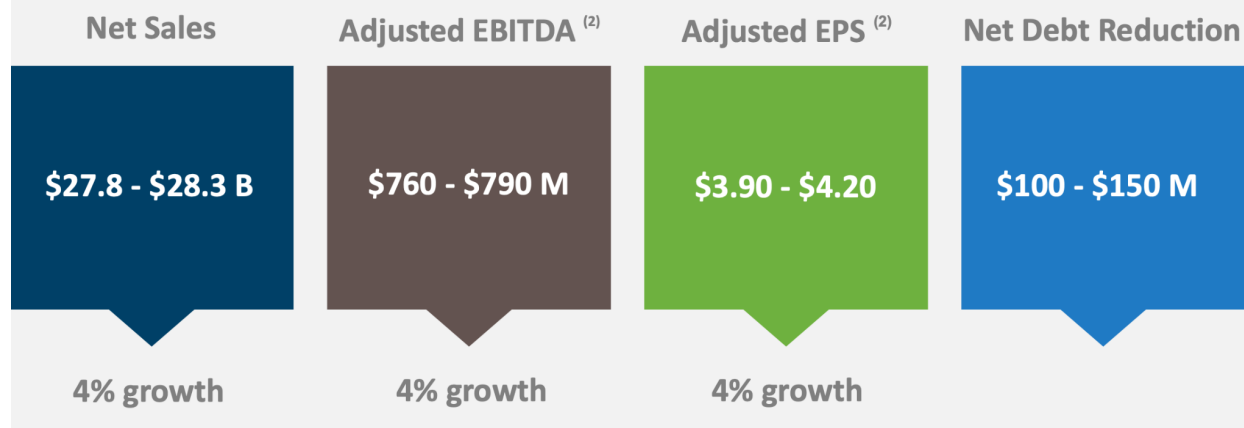
Q1 net debt increase driven by seasonal working capital needs

(\$'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

Slight increase in debt, coming from the October 2023 revolver

Affirming Fiscal 2022⁽¹⁾ Outlook

Includes sales growth of ~ \$1 billion (at midpoint) within the \$140 billion addressable market



Let's look at the 10-Q

<https://d18rn0p25nwr6d.cloudfront.net/CIK-0001020859/d6cacd7a-5146-4f70-b692-8533c0af59a9.pdf>

	October 30, 2021	July 31, 2021
ASSETS		
Cash and cash equivalents	\$ 46	\$ 41
Accounts receivable, net	1,249	1,103
Inventories, net	2,537	2,247
Prepaid expenses and other current assets	187	157
Current assets of discontinued operations	—	2
Total current assets	4,019	3,550
Property and equipment, net	1,769	1,784
Operating lease assets	1,095	1,064
Goodwill	20	20
Intangible assets, net	873	891
Deferred income taxes	49	57
Other long-term assets	174	157
Long-term assets of discontinued operations	—	2
Total assets	<u>\$ 7,999</u>	<u>\$ 7,525</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 1,896	\$ 1,644
Accrued expenses and other current liabilities	326	341
Accrued compensation and benefits	206	243
Current portion of operating lease liabilities	142	135
Current portion of long-term debt and finance lease liabilities	121	120
Current liabilities of discontinued operations	—	4
Total current liabilities	2,691	2,487
Long-term debt	2,376	2,175
Long-term operating lease liabilities	988	962
Long-term finance lease liabilities	32	35
Pension and other postretirement benefit obligations	51	53
Other long-term liabilities	274	299
Total liabilities	<u>6,412</u>	<u>6,011</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, authorized 5.0 shares; none issued or outstanding	—	—
Common stock, \$0.01 par value, authorized 100.0 shares; 58.7 shares issued and 58.1 shares outstanding at October 30, 2021; 57.0 shares issued and 56.4 shares outstanding at July 31, 2021	1	1
Additional paid-in capital	582	599
Treasury stock at cost	(24)	(24)
Accumulated other comprehensive loss	(24)	(39)
Retained earnings	1,054	978
Total United Natural Foods, Inc. stockholders' equity	1,589	1,515
Noncontrolling interests	(2)	(1)
Total stockholders' equity	<u>1,587</u>	<u>1,514</u>
Total liabilities and stockholders' equity	<u>\$ 7,999</u>	<u>\$ 7,525</u>

	13-Week Period Ended	
	October 30, 2021	October 31, 2020
Net sales	\$ 6,997	\$ 6,684
Cost of sales	5,955	5,714
Gross profit	1,042	970
Operating expenses	932	904
Restructuring, acquisition and integration related expenses	3	16
Operating income	107	50
Net periodic benefit income, excluding service cost	(10)	(17)
Interest expense, net	40	69
Other, net	1	(1)
Income (loss) from continuing operations before income taxes	76	(1)
Benefit for income taxes	(1)	(1)
Net income from continuing operations	77	—
Income from discontinued operations, net of tax	—	—
Net income including noncontrolling interests	77	—
Less net income attributable to noncontrolling interests	(1)	(1)
Net income (loss) attributable to United Natural Foods, Inc.	\$ 76	\$ (1)
Basic earnings (loss) per share:		
Continuing operations	\$ 1.34	\$ (0.03)
Discontinued operations	\$ —	\$ 0.01
Basic earnings (loss) per share	\$ 1.34	\$ (0.02)
Diluted earnings (loss) per share:		
Continuing operations	\$ 1.25	\$ (0.03)
Discontinued operations	\$ —	\$ 0.01
Diluted earnings (loss) per share	\$ 1.25	\$ (0.02)
Weighted average shares outstanding:		
Basic	57.0	55.2
Diluted	61.1	55.2

It seems the low EBIDTA of last year was primarily from lower sales itself and higher cost of sales

	13-Week Period Ended	
	October 30, 2021	October 31, 2020
(in millions)		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income including noncontrolling interests	\$ 77	\$ —
Income from discontinued operations, net of tax	—	—
Net income from continuing operations	77	—
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	69	77
Share-based compensation	11	12
Closed property and other restructuring charges	1	—
Net pension and other postretirement benefit income	(10)	(17)
Deferred income tax benefit	—	2
LIFO charge	11	7
Provision for losses on receivables	1	—
Non-cash interest expense and other adjustments	5	28
Changes in operating assets and liabilities	(246)	(164)
Net cash used in operating activities of continuing operations	(81)	(55)
Net cash used in operating activities of discontinued operations	—	(3)
Net cash used in operating activities	(81)	(58)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for capital expenditures	(56)	(41)
Proceeds from dispositions of assets	1	4
Payments for investments	(26)	—
Net cash used in investing activities of continuing operations	(81)	(37)
Net cash provided by investing activities of discontinued operations	—	2
Net cash used in investing activities	(81)	(35)

CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings of long-term debt	—	500
Proceeds from borrowings under revolving credit line	1,238	1,569
Repayments of borrowings under revolving credit line	(1,028)	(1,339)
Repayments of long-term debt and finance leases	(13)	(614)
Proceeds from the issuance of common stock and exercise of stock options	5	—
Payment of employee restricted stock tax withholdings	(33)	(9)
Payments for debt issuance costs	—	(11)
Distributions to noncontrolling interests	(2)	—
Repayments of other loans	—	(1)
Net cash provided by financing activities	167	95
EFFECT OF EXCHANGE RATE ON CASH		
NET INCREASE IN CASH AND CASH EQUIVALENTS	5	2
Cash and cash equivalents, at beginning of period	41	47
Cash and cash equivalents, at end of period	\$ 46	\$ 49
<i>Supplemental disclosures of cash flow information:</i>		
Cash paid for interest	\$ 46	\$ 44
Cash (refunds) payments for federal, state, and foreign income taxes, net	\$ (1)	\$ 6
Leased assets obtained in exchange for new operating lease liabilities	\$ 71	\$ 71
Additions of property and equipment included in Accounts payable	\$ 17	\$ 21

Negative FCF mainly from change in working capital

(in millions)	Net Sales for the 13-Week Period Ended					
	October 30, 2021					
	Wholesale	Retail	Other	Eliminations ⁽¹⁾	Consolidated	
Customer Channel						
Chains	\$ 3,082	\$ —	\$ —	\$ —	\$ 3,082	
Independent retailers	1,750	—	—	—	1,750	
Supernatural	1,378	—	—	—	1,378	
Retail	—	602	—	—	602	
Other	524	—	56	—	580	
Eliminations	—	—	—	(395)	(395)	
Total	\$ 6,734	\$ 602	\$ 56	\$ (395)	\$ 6,997	

(in millions)	Net Sales for the 13-Week Period Ended					
	October 31, 2020					
	Wholesale	Retail	Other	Eliminations ⁽¹⁾	Consolidated	
Customer Channel						
Chains	\$ 3,027	\$ —	\$ —	\$ —	\$ 3,027	
Independent retailers	1,672	—	—	—	1,672	
Supernatural	1,214	—	—	—	1,214	
Retail	—	606	—	—	606	
Other	525	—	56	—	581	
Eliminations	—	—	—	(416)	(416)	
Total	\$ 6,438	\$ 606	\$ 56	\$ (416)	\$ 6,684	

(1) Eliminations primarily includes the net sales elimination of Wholesale's sales to the Retail segment and the elimination of sales from segments included within Other to Wholesale.

Customer Channel ⁽¹⁾	13-Week Period Ended		Increase (Decrease)	
	October 30, 2021	October 31, 2020	\$	%
Chains	\$ 3,082	\$ 3,027	\$ 55	1.8 %
Independent retailers	1,750	1,672	78	4.7 %
Supernatural	1,378	1,214	164	13.5 %
Retail	602	606	(4)	(0.7)%
Other	580	581	(1)	(0.2)%
Eliminations	(395)	(416)	21	(5.0)%
Total net sales	\$ 6,997	\$ 6,684	\$ 313	4.7 %

Revenue growth across all segments look great

NOTE 8—LONG-TERM DEBT

The Company's long-term debt consisted of the following:

<i>(in millions)</i>	Average Interest Rate at October 30, 2021	Fiscal Maturity Year	October 30, 2021	July 31, 2021
Term Loan Facility	3.59%	2026	\$ 994	\$ 1,002
ABL Credit Facility	1.46%	2024	910	701
Senior Notes	6.75%	2029	500	500
Other secured loans	5.15%	2024-2025	34	37
Debt issuance costs, net			(32)	(35)
Original issue discount on debt			(16)	(17)
Long-term debt, including current portion			2,390	2,188
Less: current portion of long-term debt			(14)	(13)
Long-term debt			<u>\$ 2,376</u>	<u>\$ 2,175</u>

<https://d18rn0p25nwr6d.cloudfront.net/CIK-0001020859/c0f10da1-8d99-4bfc-ae4e-5e544e4b42c8.pdf>

Fiscal Year Ending July 30, 2022		% Growth Over FY21 at Midpoint
Net Sales (\$ in billions)	\$27.8 - \$28.3	4%
Net Income (\$ in millions)	\$221 - \$243	56%
EPS	\$3.60 - \$3.90	51%
Adjusted EPS ⁽²⁾⁽³⁾	\$3.90 - \$4.20	4%
Adjusted EBITDA ⁽³⁾ (\$ in millions)	\$760 - \$790	4%
Capital Expenditures (\$ in millions)	~ \$300	(3)%

Let's see if anything interesting was said during the conference call

<https://seekingalpha.com/article/4474094-united-natural-foods-inc-unfi-ceo-sandy-douglas-on-q1-2022-results-earnings-call-transcript>

Turning to the balance sheet. We finished the quarter with total outstanding net debt of \$2.48 billion, a \$194 million increase compared to year-end. This reflects our customary first quarter investment in working capital as we add inventory going into the holiday selling season in support of our customers, as well as the addition of inventory into our newest distribution center. The expected seasonal increase in working capital should convert to a source of cash in the second quarter.

An explanation on the debt issuance and the change in working capital

We now believe that inflation will be above the 1% level we provided on our last call, but that more prolonged challenges across the supply chain will offset potential sales impacts. Our base measure of inflation is the increase to our landed cost of goods, which was approximately 4% for the quarter. However, we believe the inflation impact to our net sales, as Chris discussed, was approximately 2.5% to 3% when we factor in changes in consumer buying habits, including mix shifts in certain fresh categories. Although our sales were impacted by inflation, there are offsets in our P&L that include a higher LIFO charge and an increase in certain operating expenses.

Impact of inflation not significant yet

As far as acquisition of new customers, that is an attractive selling point, in addition to since COVID hit almost 20 months ago, it stressed the supply chain. And what we have found is that, our customers are looking for alternatives in this stressed environment. And what we found is UNFI is an attractive alternative, not only because of the product availability that you asked about, but also just the consistency and the size and the scale of the network. So that's been helpful for us to attract new customers.

The pandemic as expected was a boon for the business

Peter Saleh

Great. Thank you for that. And then just lastly on the leverage. I know it ticked up a little bit here. Can we expect – or what's the timing you guys anticipate to get to call that 2.5x leverage? Can we anticipate that you might get there by the end of FY 2022, or is this more of a sometime in '23 target?

Sandy Douglas

Yes. So what we've put out there, Peter, is we talked about getting to the 2 to 2.5 range as part of our Investor Day, which would be the end of FY 2024 for us. And certainly, we'll be doing it on a gradual basis. We're forecasting being in below 3x at the end of this fiscal year. And we're anticipating, at this point, continuing that trend to get to that 2 to 2.5 range by the end of FY 2024.

Let's see how much is the company worth and if it is still a good investment

Even though the Capex of the company is going to increase in the coming years, it can still repay its debt with the owner's earnings it is generating

	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

I'm changing the discount rate from 15% to 13% given that the company now looks more stable

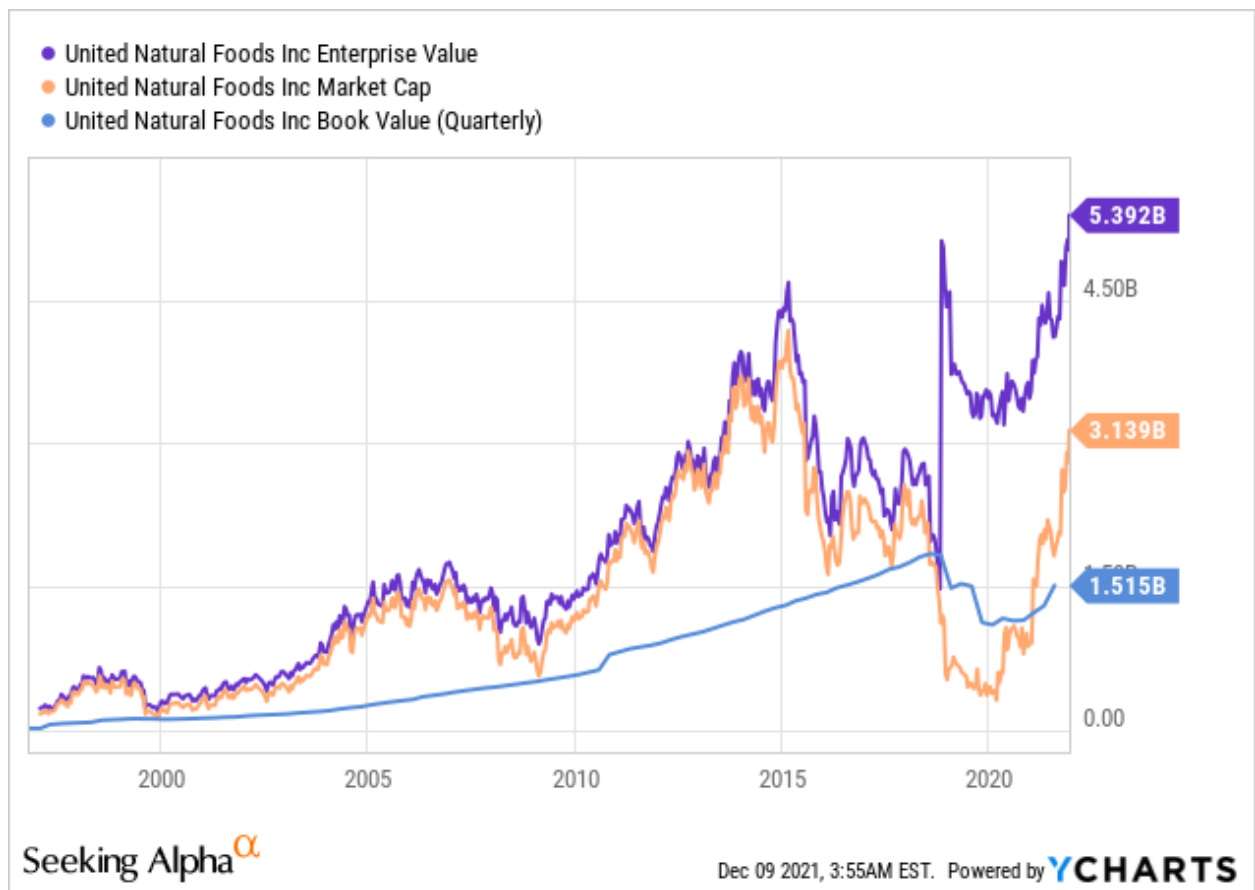
We're also increasing the terminal growth rate from 2% to 3%

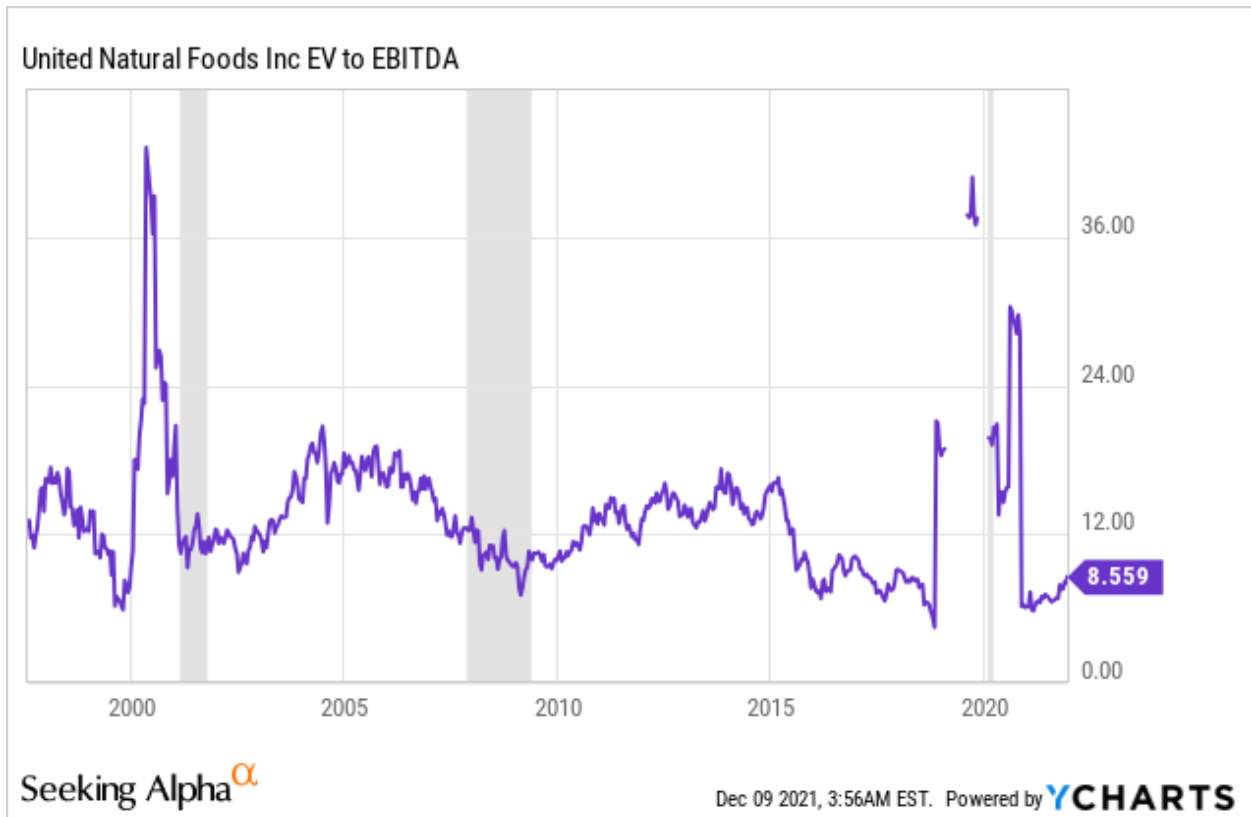
Year	OE	Discounted OE
TTM	\$ 188	
Year 1	\$ 228	\$ 202
Year 2	\$ 264	\$ 207
Year 3	\$ 307	\$ 213
Year 4	\$ 356	\$ 218
Year 5	\$ 413	\$ 224
Terminal Value		\$ 2,240
Intrinsic Value		\$ 3,304
Per share		\$ 58.53

It is trading around its intrinsic value

		2026 Price to OE Ratio				
2026 OE/share		6	8	10	12	14
Bull	\$ 8.77	\$ 52.63	\$ 70.18	\$ 87.72	\$ 105.26	\$ 122.81
Base	\$ 7.31	\$ 43.86	\$ 58.48	\$ 73.10	\$ 87.72	\$ 102.34
Bear	\$ 5.85	\$ 35.09	\$ 46.78	\$ 58.48	\$ 70.18	\$ 81.87
Returns @	\$ 55.61	-37%	5%	31%	58%	121%
CAGR		-9%	1%	6%	10%	17%
Probability		5%	15%	40%	25%	15%
Expectation	7%	0%	0%	2%	2%	3%

Expected growth is reasonable





If we assume EBITDA growth of 8% as predicted by the company with EV/EBITDA of 10 in 2026, then, we have an annual expected growth rate of 11%.

Our analysis was much more conservative

UNFI is today 12.2% of my portfolio

At about \$70/share, I will consider taking profits