United Natural Foods, Inc. Reports First Quarter Fiscal 2021 Results

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PROVIDENCE, R.I.--(BUSINESS WIRE)--United Natural Foods, Inc. (NYSE: UNFI) (the “Company” or “UNFI”) today reported financial results for the first quarter of fiscal 2021 (13 weeks) ended October 31, 2020.

First Quarter Fiscal 2021 Highlights (comparisons to first quarter fiscal 2020)

- **Net Sales increased 6.0% to $6.67 billion**
- **Net loss of $1 million, including $43 million in pre-tax charges and costs**
- **Adjusted EBITDA increased 30.6% to $159 million**
- **Loss per diluted share of $0.02, reflective of charges and costs**
- **Adjusted earnings per share (EPS) increased by $0.47 to $0.51**
- **Prior guidance affirmed for net sales, adjusted EBITDA, and adjusted EPS**

“I am pleased with the start to fiscal 2021 as UNFI leveraged strong sales growth into year-over-year expanded adjusted EBITDA margins for the third consecutive quarter,” said Steven L. Spinner, Chairman and Chief Executive Officer. “We’ve done a great job protecting the safety of our associates and helping our customers succeed in an evolving operating environment while building for the future through new distribution centers, customer solutions, and innovation across our business. Our newest distribution center will be a campus in Allentown, PA to service Key Food beginning next fall and facilitate further growth in the greater New York metropolitan market.”

	13-Week Period Ended		
($ in millions, except per share data)	**October 31, 2020**	**November 2, 2019**	**Percent Change**
Net Sales	$ 6,673	$ 6,297	6.0%
Chains[1]	$ 3,020	$ 2,875	5.0%
Independent retailers	$ 1,672	$ 1,557	7.4%
Supernatural	$ 1,214	$ 1,111	9.3%
Retail	$ 595	$ 515	15.5%
Other[1]	$ 581	$ 590	(1.5)%
Eliminations[1]	$ (409)	$ (351)	16.5%
Net Loss	$ (1)	$ (384)	99.7%
Adjusted EBITDA[2]	$ 159	$ 122	30.6%
Loss Per Diluted Share	$ (0.02)	$ (7.21)	99.7%
Adjusted EPS[2]	$ 0.51	$ 0.04	1,175.0%

(1) In first quarter of fiscal 2021, the presentation of net sales by customer channel has been recast to present the Chains and Other channel exclusive of the intercompany eliminations and present total eliminations as a separate sales channel. There was no impact to the Condensed Consolidated Statements of Operations. UNFI believes this new basis better reflects its channel presentation, as it further aligns with segment presentation and how sales channel information would appear following disposition of Retail, assuming all banners retain a supply agreement.

(2) Please refer to the tables in this press release for a reconciliation of these non-GAAP financial measures to the most directly comparable financial measure calculated in accordance with U.S. GAAP.

First Quarter Fiscal 2021 Summary

Net sales from continuing operations benefited from strong customer demand from existing and new retailers, including the continued benefits of cross selling. The increase in Retail sales included the benefit of an approximately 200% increase in eCommerce sales at Cub Foods.

Gross margin rate in the first quarter of fiscal 2021 was 14.48% of net sales compared to 14.41% of net sales for the first quarter of fiscal 2020. Retail contributed approximately 17 basis points to the growth in the consolidated gross margin rate as a result of lower promotional spending and the retail segment representing a greater percentage of total net sales. Wholesale and the remaining business reduced the growth in the consolidated gross margin rate by approximately 10 basis points driven by lower levels of supplier-related income.

Operating expenses in the first quarter of fiscal 2021 were $901.0 million, or 13.50% of net sales. Operating expenses for the first quarter of fiscal 2020 were $883.7 million, which included charges and expenses of $18.0 million primarily related to customer notes receivable and surplus property depreciation. When excluding these items, operating expenses in the first quarter of fiscal 2020 were $865.7 million, or 13.75% of net sales. The decrease in operating expenses as a percent of net sales was driven by lower administrative costs and leveraging fixed operating expenses over higher net sales partially offset by higher operating costs related to the start up of three distribution centers.

Goodwill and asset impairment charge was $425.4 million in the first quarter of fiscal 2020 primarily reflecting the remaining goodwill attributable to the U.S. Wholesale reporting unit. There were no such charges in the first quarter of fiscal 2021.

Restructuring, acquisition and integration related expenses in the first quarter of fiscal 2021 were $16.4 million, primarily reflecting costs associated with advisory and transformational activities as we position our business for further value-creation post-acquisition, as well as distribution center consolidations, compared to $14.7 million in the first quarter of fiscal 2020.

Operating income in the first quarter of fiscal 2021 was $49.3 million and included $16.4 million of restructuring, acquisition and integration related expenses. When excluding this item, operating income in the first quarter of fiscal 2021 was $65.8 million, or 0.99% of net sales. Operating loss in the first quarter of fiscal 2020 was $416.5 million and included $425.4 million of goodwill and asset impairment charges, $14.7 million of restructuring, acquisition, and integration related expenses, and $18.0 million of additional charges and expenses, primarily related to customer notes receivable and surplus property depreciation. When excluding these items, operating income in the first quarter of fiscal 2020 was $41.6 million, or 0.66% of net sales. The increase in adjusted operating income, as a percent of net sales, was driven by higher net sales, the benefit of a higher gross margin rate, lower administrative costs and leveraging fixed operating expenses over higher net sales partially offset by higher operating costs related to the start up of three distribution centers.

Interest expense, net for the first quarter of fiscal 2021 was $69.1 million which included $24.1 million of non-cash charges primarily related to the acceleration of unamortized debt issuance costs and original issue discounts due to $608 million of term loan prepayments made in the quarter, driven by the $500 million senior unsecured notes issuance. When excluding these items, interest expense, net for the first quarter of fiscal 2021 was $45.1 million. Interest expense, net for the first quarter of fiscal 2020 was $49.7 million. The remaining decrease in interest expense, net was driven by lower amounts of outstanding debt and lower average interest rates.

Effective tax rate for continuing operations for the first quarter of fiscal 2021 was a benefit of 50.5% of pre-tax loss compared to a benefit of 14.7% for the first quarter of fiscal 2020. The change in the effective tax rate was primarily driven by a discrete tax benefit in the first quarter of fiscal 2021 related to employee stock awards compared to a discrete tax expense for this item in the first quarter of fiscal 2020. In addition, the first quarter of fiscal 2020 was impacted by a goodwill impairment charge.

Net loss for the first quarter of fiscal 2021 was $1.0 million, which included $16.4 million of restructuring, acquisition and integration related expenses and $24.1 million of non-cash charges primarily related to the acceleration of unamortized debt issuance costs and original issue discounts from the prepayment of the term loan. The net loss for the first quarter of fiscal 2020 was $383.9 million primarily due to the goodwill impairment charge in the first quarter of fiscal 2020 that did not recur in the first quarter of fiscal 2021.

Net loss per diluted share was $0.02 for the first quarter of fiscal 2021 compared to $7.21 for the first quarter of fiscal 2020. Adjusted earnings per share (adjusted EPS) was $0.51 for the first quarter of fiscal 2021 compared to adjusted EPS of $0.04 in the first quarter of fiscal 2020.

Adjusted EBITDA for the first quarter of fiscal 2021 was $159.0 million compared to $121.7 million for the first quarter of fiscal 2020. The increase primarily reflects the items discussed in operating income.

Total Outstanding Debt, net of cash, ended the quarter at $2.73 billion, reflecting an increase of $128 million in the first quarter of fiscal 2021 (compared to the fourth quarter of fiscal 2020). Cash used in operating activities was $58 million, reflecting the normal course increase in working capital to support the holiday selling period, which, combined with $41 million of capital expenditures, resulted in negative free cash flow of $99 million. The net debt to adjusted EBITDA leverage ratio improved to 3.9x.

Fiscal 2021 Outlook [1]

The Company is reaffirming its full-year outlook for net sales, adjusted EPS, and adjusted EBITDA and updating its outlook for net income, EPS, and capital expenditures as stated below. The updated outlook for capital expenditures is driven by the strategic investment in a new distribution center to service a major new customer and position the Company for growth in the New York metropolitan market. This outlook assumes that food-at-home consumption remains elevated and exceeds food consumed away from home for the rest of fiscal 2021. Compared to fiscal 2020, the sales growth of nearly $900 million (at the midpoint of the range provided below) will be more pronounced in the first half of fiscal 2021 prior to cycling the pandemic-related increase in customer demand that began in the third quarter of fiscal 2020.

Fiscal Year Ending July 31, 2021		**% Growth Over FY20 at Midpoint**
Net Sales *($ in billions)*	$27.0 - $27.8	3.3%
Net Income *($ in millions)*	$130 - $160	—
Earnings Per Diluted Share (EPS)	$2.15 - $2.65	—
Adjusted EPS [2][3]	$3.05 - $3.55	21.3%
Adjusted EBITDA[3] *($ in millions)*	$690 - $730	5.5%
Capital Expenditures *($ in millions)*	$250 - $300	—

(1) The outlook provided above is for fiscal 2021 only and replaces and supersedes any and all guidance provided prior to the date hereof covering fiscal 2021 or subsequent years. This outlook is forward-looking, is based on management's current estimates and expectations and is subject to a number of risks, including many that are outside of management's control. See cautionary Safe Harbor Statement below.

(2) The Company uses an adjusted effective tax rate in calculating Adjusted EPS. The adjusted effective tax rate is calculated based on adjusted net income before tax. It also excludes the potential impact of changes to uncertain tax positions, valuation allowances, stock compensation accounting (ASU 2016-09) and discrete GAAP tax items which could impact the comparability of the operational effective tax rate. The Company believes using this adjusted effective tax rate provides better consistency across the interim reporting periods since each of these discrete items can cause volatility in the GAAP tax rate that is not indicative of the underlying ongoing operations of the Company. By providing this non-GAAP measure, management intends to provide investors with a meaningful, consistent comparison of the Company's effective tax rate on ongoing operations.

(3) Please refer to the tables in this press release for a reconciliation of these non-GAAP financial measures to the most directly comparable financial measures calculated in accordance with GAAP.

Conference Call and Webcast

The Company's first quarter fiscal 2021 conference call and audio webcast will be held today, Wednesday, December 9, 2020 at 8:30 a.m. ET. A webcast of the conference call (and supplemental materials) will be available to the public, on a listen only basis, via the internet at the Investors section of the Company's website www.unfi.com. The call can also be accessed at (877) 682 - 3423 (conference ID 8959225). An online archive of the webcast (and supplemental materials) will be available for 120 days.

About United Natural Foods

UNFI is North America's premier food wholesaler delivering the widest variety of products to customer locations throughout North America including natural product superstores, independent retailers, conventional supermarket chains, ecommerce retailers, and food service customers. By providing this deeper 'full-store' selection and compelling brands for every aisle, UNFI is uniquely positioned to deliver great food, more choices, and fresh thinking to customers everywhere. Today, UNFI is the largest publicly-traded grocery distributor in America. To learn more about how UNFI is Moving Food Forward, visit www.unfi.com.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Statements in this press release regarding the Company's business that are not historical facts are "forward-looking statements" that involve risks and uncertainties and are based on current expectations and management estimates; actual results may differ materially. The risks and uncertainties which could impact these statements are described in the Company's filings under the Securities Exchange Act of 1934, as amended, including its annual report on Form 10-K for the year ended August 1, 2020 filed with the Securities and Exchange Commission (the "SEC") on September 29, 2020 and other filings the Company makes with the SEC, and include, but are not limited to, the impact and duration of the COVID-19 outbreak; the Company's dependence on principal customers; the Company's sensitivity to general economic conditions including changes in disposable income levels and consumer spending trends; the Company's ability to realize anticipated benefits of its acquisitions and dispositions, in particular, its acquisition of SUPERVALU; the Company's reliance on the continued growth in sales of higher margin natural and organic foods and non-food products in comparison to lower margin conventional grocery products; increased competition in the Company's industry as a result of increased distribution of natural, organic and specialty products and direct distribution of those products by large retailers and online distributors; the possibility that restructuring, asset impairment, and other charges and costs we may incur in connection with the sale or closure of our retail operations will exceed our current expectations; increased competition as a result of continuing consolidation of retailers in the natural product industry and the growth of supernatural chains; the addition or loss of significant customers *or material changes to the Company's relationships with these customers; union-organizing activities that could cause labor relations difficulties and increased costs; the Company's ability to operate, and rely on third parties to operate reliable and secure technology systems; the relatively low margins of the Company's business; moderated supplier promotional activity, including decreased forward buying opportunities; the Company's ability to timely and successfully deploy its warehouse management system throughout its distribution centers and its transportation management system across the Company and to achieve efficiencies and cost savings from these efforts; the potential for additional asset impairment charges; the Company's sensitivity to inflationary and deflationary pressures; the potential for disruptions in the Company's supply chain or its distribution capabilities by circumstances beyond its control, including a health epidemic; the risk of interruption of supplies due to lack of long-term contracts, severe weather, work stoppages or otherwise; volatility in fuel costs; volatility in foreign exchange rates; and our ability to identify and successfully complete asset or business acquisitions. Any forward-looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made. The Company is not undertaking to update any information in the foregoing reports until the effective date of its future reports required by applicable laws. Any estimates of future results of operations are based on a number of assumptions, many of which are outside the Company's control and should not be construed in any manner as a guarantee that such results will in fact occur. These estimates are subject to change and could differ materially from final reported results. The Company may from time to time update these publicly announced estimates, but it is not obligated to do so.*

Non-GAAP Financial Measures: To supplement the financial information presented on a U.S. generally accepted accounting principles ("GAAP") basis, the Company has included in this press release non-GAAP financial measures for adjusted EBITDA, adjusted earnings per diluted common share ("adjusted EPS"), adjusted effective tax rate, free cash flow and Adjusted EBITDA leverage. The non-GAAP adjusted earnings per diluted common share measure is a consolidated measure, which the Company reconciles by adding Net income attributable to UNFI plus goodwill and asset impairment benefits and charges, restructuring, acquisition, and integration related expenses, certain legal charges and gains, surplus property depreciation and interest expense, losses on debt extinguishment, discontinued operations store closures and other charges, net, the impact of diluted shares when GAAP earnings is presented as a loss and non-GAAP earnings represent income, and the tax impact of adjustments and the adjusted effective tax rate, which tax impact is calculated using the adjusted effective tax rate, and certain other non-cash charges or items, as determined by management. The non-GAAP adjusted effective tax rate excludes the potential impact of changes to various uncertain tax positions and valuation allowances, as well as stock compensation accounting (ASU 2016-09). The non-GAAP adjusted EBITDA measure is defined as a consolidated measure inclusive of continuing and discontinued operations results, which we reconcile by adding Net (loss) income from continuing operations, plus Total other expense, net and (Benefit) provision for income taxes, plus Depreciation and amortization calculated in accordance with GAAP, plus non-GAAP adjustments for Share-based compensation, Restructuring, acquisition and integration related expenses, Goodwill and asset impairment charges, Loss (gain) on sale of assets, certain legal charges and gains, certain other non-cash charges or items, as determined by management, plus Adjusted EBITDA of discontinued operations calculated in a manner consistent with the results of continuing operations outlined above. The non-GAAP free cash flow measure is defined as net cash provided by operating activities less capital expenditures. The non-GAAP net debt to adjusted EBITDA leverage is defined as the total face value of the Company's outstanding short and long term debt and finance lease liabilities less net cash and cash equivalents, the sum of which is divided by adjusted EBITDA.

The reconciliation of these non-GAAP financial measures to their comparable GAAP financial measures and the calculation of net debt to adjusted EBITDA leverage are presented in the tables appearing below. The presentation of non-GAAP financial measures is not intended to be considered in isolation or as a substitute for any measure prepared in accordance with GAAP. The Company believes that presenting the non-GAAP financial measures adjusted EBITDA and adjusted EPS aids in making period-to-period comparisons, assessing the performance of our business and understanding the underlying operating performance and core business trends by excluding certain adjustments not expected to recur in the normal course of business and are meaningful indicators of actual and estimated operating performance. The inclusion of free cash flow assists investors in understanding the cash generating ability of the Company separate from cash generated by the sale of assets. Net debt to adjusted EBITDA leverage ratio is a commonly used metric that assists investors in understanding and evaluating the Company's capital structure and changes to its capital structure over time. The Company currently expects to continue to exclude the items listed above from non-GAAP financial measures. Management utilizes and plans to utilize these non-GAAP financial measures to compare the Company's operating performance during the 2021 fiscal year to the comparable periods in the 2020 fiscal year and to internally prepared projections. These non-GAAP financial measures may differ from similarly titled measures of other companies.