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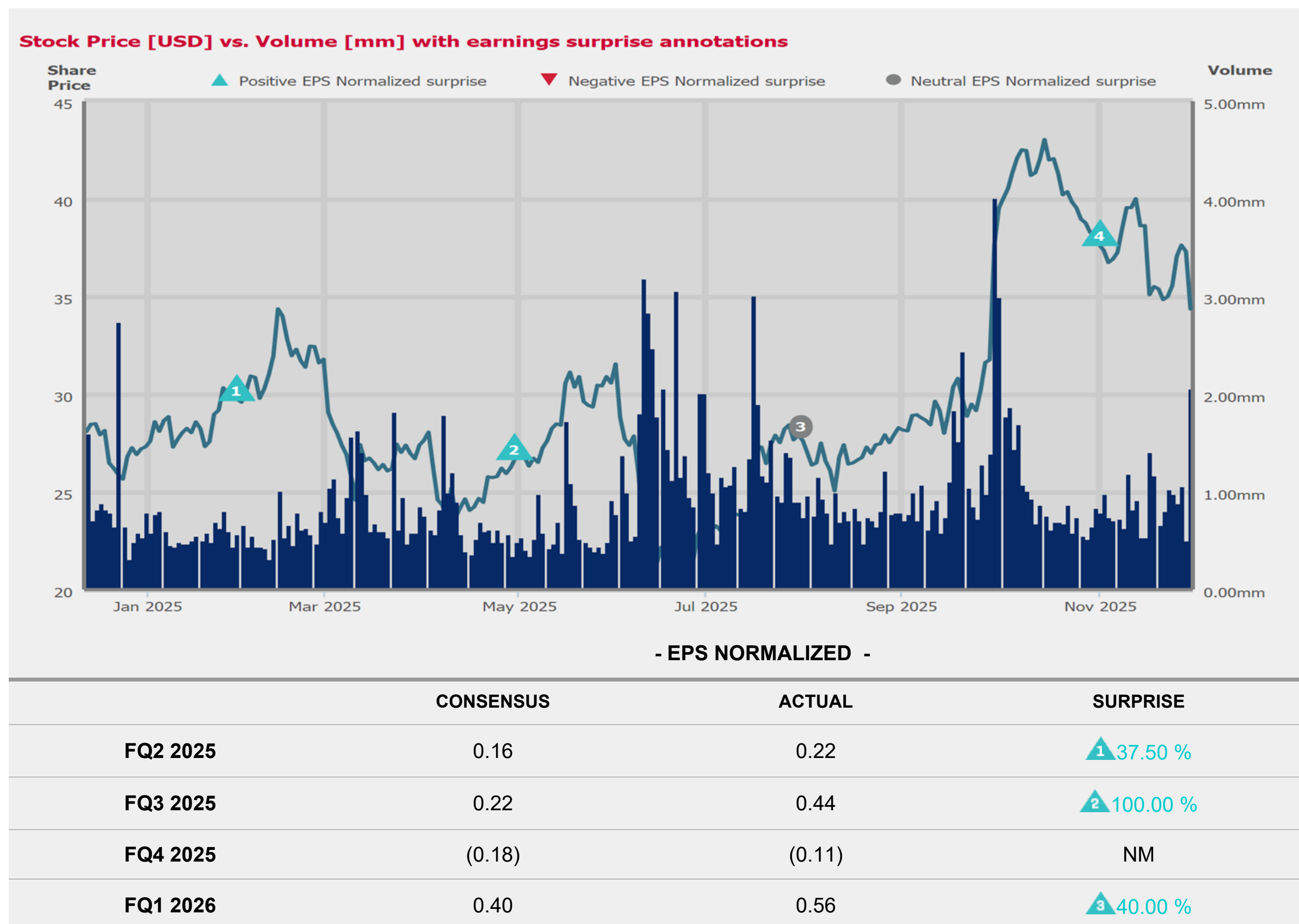
United Natural Foods, Inc. NYSE:UNFI
FQ1 2026 Earnings Call Transcripts

Tuesday, December 2, 2025 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2026-			-FQ2 2026-	-FY 2026-	-FY 2027-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.40	0.56	▲40.00	0.48	2.01	NA
Revenue (mm)	7907.79	7840.00	▼(0.86 %)	8157.38	32006.15	NA

Currency: USD
Consensus as of Dec-02-2025 4:33 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2025	0.16	0.22	▲1 37.50 %
FQ3 2025	0.22	0.44	▲2 100.00 %
FQ4 2025	(0.18)	(0.11)	NM
FQ1 2026	0.40	0.56	▲3 40.00 %

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Presentation

Operator

Thank you for standing by, and welcome to the UNFI First Quarter Fiscal 2026 Earnings Conference Call. [Operator Instructions]. I'd now like to turn the call over to Steve Bloomquist, Vice President of Investor Relations. You may begin.

Steven J. Bloomquist
Vice President Investor Relations

Good morning, everyone, and thank you for joining us on UNFI's First Quarter Fiscal 2026 Earnings Conference Call. By now you should have received a copy of the earnings release from this morning, the press release and earnings presentation, which management will speak to are available under the Investors section of the company's website at www.unfi.com.

We've also included a supplemental disclosure file in Microsoft Excel with the financial information.

Joining me for today's call are Sandy Douglas, our Chief Executive Officer; and Matteo Tarditi, our President and Chief Financial Officer. Sandy and Matteo will provide a business update, after which we'll take your questions.

Before we begin, I'd like to remind everyone that comments made by management during today's call may contain forward-looking statements. These forward-looking statements include plans, expectations, estimates and projections that might involve significant risks and uncertainties. These risks are discussed in the company's earnings release and SEC filings.

Actual results may differ materially from the results discussed in these forward-looking statements. I'd like to point out that during today's call, management will refer to certain non-GAAP financial measures. Definitions and reconciliations to the most comparable GAAP financial measures are included in our press release and the end of our earnings presentation.

I'd now ask you to turn to Slide 6 of our presentation as I turn the call over to Sandy.

James Alexander Miller Douglas
CEO & Director

Thanks, Steve, and thank you, everyone, for joining us this morning. In the first quarter of fiscal 2026, UNFI delivered solid results, including adjusted EBITDA and free cash flow meaningfully above prior year levels, while net leverage declined approximately 1 turn compared to the prior year quarter.

Importantly, we delivered these results amidst an operating environment that remains highly dynamic. Our first quarter net sales performance was driven by sustained natural and organic product growth, new business projects and strong retail execution across our customer base. Positive sales in our Natural Products segment largely offset declines in our Conventional Products segment, consistent with our expectations as part of our accelerated network optimization efforts, most notably at Allentown, which have proceeded ahead of schedule.

As we improve our network, we're focused on continuing to improve service levels for our customers and suppliers in a growing $90 billion target market and on further increasing our long-term profitability. Our adjusted EBITDA growth in the first quarter continued to be driven by improving execution, effectiveness and efficiency across the business. This reflects actions taken within our value delivery office to help support gross margins as well as continued progress managing shrink.

Free cash flow results improved by over $100 million compared to last year's first quarter, even as we took necessary steps to stock up on the inventory our customers need in advance of a high-volume holiday selling season that is now well underway. This performance enabled us to both improve fill rates and reduce net leverage sequentially compared to the end of fiscal 2025 and from prior year levels.

As a result of our solid Q1 performance, we're firmly on track to achieve our full year outlook, and we remain focused on executing our strategy, adding value for our customers and suppliers while becoming a more effective and efficient company. During the first quarter, we continued to make progress in both areas. I'll start with how we're adding value for our customers and suppliers.

At UNFI, we aim to do more than safely receive store and transport food. We're working to bring our customers the products, insights, programs and services that will help them execute their strategies and successfully differentiate themselves in a highly competitive environment. We know this environment is increasingly challenging, especially for traditional grocers. This is why we aren't stopping

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with what we can do for our customers and suppliers today. We're focused on what we can do to help them succeed for years to come. Our Commercial organization is working to revamp and strengthen our merchandising capabilities as a competitive advantage for our customers, because we believe tailored merchandising and competitive pricing on key items is critical to helping retailers more effectively differentiate and compete. This focus also helps our suppliers successfully build their brands across the diversified 30,000-plus retail locations that we serve.

A critical part of our broader merchandising capability is supported by our private brands portfolio. During the quarter, we appointed a new leader for this business with deep knowledge of how private brands can help retailers differentiate and drive value for consumers. We also continued taking action to improve the experience for independent customers and emerging suppliers who are critical to the vitality of our industry.

In fact, an early focus of our lean management Kaizen workshops has been to troubleshoot some of the areas that buyers have told us are important to them, such as time-to-shelf. Following a recent Kaizen continuous improvement workshop, we took swift action to improve item setup forms and processes to streamline the new items that are processed. This type of action not only directly helps our suppliers but also our customers by ensuring that they get access to innovative products that their shoppers want.

Turning to our focus on improving effectiveness and efficiency. In the first quarter, we took additional steps on our operational road map to pair advanced supply chain technologies with processes and capabilities that empower UNFI associates to champion operational excellence. We recently deployed the supply chain technology Relex across about half of our distribution network, with the second half expected to be completed by fiscal year-end.

This solution is helping us partner with our customers and suppliers to make smarter procurement decisions by using an AI-based platform, predict demand, avoid waste and reduce out of stocks. It is helping to deliver improved fill rates and inventory effectiveness as we expected, and we anticipate further benefits as we complete the rollout this year.

At the same time, we continue to scale lean daily management across our distribution network with 34 DCs now on-boarded through first quarter's end. In these DCs, we continue to see encouraging improvements in our KPIs for safety, quality, delivery and cost, all as a result of empowering our associates to see and solve problems faster and more effectively. Together, Relex and Lean are driving effectiveness and efficiency across our network. Our customer fill rates have improved and are now trending above fiscal 2024 and 2025 levels on average.

We still have work to do, but we see even more opportunities to improve as we continue to scale these initiatives in the months ahead.

During the first quarter, we also continued to optimize our network following the actions we took last fiscal year to streamline parts of our footprint while also strategically investing to support future growth. These actions were completed at an accelerated pace relative to our initial expectations. Our optimization efforts are enabling us to serve customers and suppliers through strategically located facilities with broad assortments while removing redundant and wasteful costs.

These actions have enabled us to continue to make network improvements and contributed meaningfully to our improved results.

During the first quarter, we ramped operations at our new automated natural product distribution center in Sarasota, Florida, which is expected to help address strong demand in that area. By combining the power of an optimized portfolio with the right mix of technology, processes and people, we are building a more responsive and resilient supply chain to support customer and supplier needs today and into the future.

At next week's Investor Day, we'll provide a closer look at the key capabilities that we're building to add more value for customers and suppliers and continue to drive effectiveness and efficiency across our business. We also look forward to giving everyone a chance to hear directly from several of the talented UNFI leaders who are leading this important work.

Together, all of us at UNFI remain focused on becoming the food retail industry's most valued partner. Our first quarter performance reinforces our confidence in our ability to continue to create sustainable long-term value for our customers, suppliers, associates and shareholders. With that, let me turn it over to Matteo to provide more detail about our first quarter performance. Matteo?

Giorgio Tarditi
President & CFO

Thank you, Sandy, and good morning, everyone. Our first quarter results reflect our focus on building capabilities to better support our customers while simultaneously improving profitability and free cash flow, resulting in meaningful progress on our de-leveraging efforts. We're also affirming our annual outlook for all key financial metrics. Today, I will provide additional insight into our first quarter results, our financial position and capital structure and our fiscal 2026 outlook. With that, let's review our Q1 results.

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Starting with Slide 8. Our first quarter sales came in at $7.8 billion, roughly flat to last year. This includes natural segment growth of 11% and reflecting strong unit growth, which outperformed the market. This growth, as Sandy mentioned, was driven by the performance of our customers, some new business products for existing customers as well as the continued secular strength in our natural, organic and specialty products.

In Conventional, as we anticipated and previously discussed, sales declined about 12% primarily driven by our accretive transition out of our Allentown Distribution Center, which was completed ahead of our expectations. While this move pressure the top line it supports improved profitability and free cash flow. Overall, wholesale inflation was about 3%. Unit volumes declined about 5%, driven primarily by network optimization and mix was positive during the quarter.

In retail, total sales fell 5% in the quarter, partly due to store closures over the past 12 months, reflecting our strategic decision to strengthen the store network improve future free cash flow. Same-store sales declined 3%, but we are optimistic about the impact that David Best and the strengthened leadership team will have on this business.

Moving to Slide 9, let's review profitability drivers in the quarter. Our gross margin rate in the first quarter was 13.4%, up 20 basis points versus the prior year quarter. This rate represents continued progress and execution to optimize our portfolio, our event supplier programs and higher levels of temporary procurement gains resulting from vendor price increases. Our operating expense rate was 12.7% of net sales compared to 12.9% last year. This improvement reflects the benefit of our effectiveness and efficiency initiatives driven by our value delivery office, network optimization, including continued strategic automation investments and acceleration of lean daily management across UNFI.

In addition, throughput, a key indicator of supply chain productivity measured by cases moving through the DCs over an hour increased by over 2% compared to last year's first quarter and by nearly 10% from Q1 2024.

Adjusted EBITDA for the first quarter was $167 million, up nearly 25% year-over-year. On a rate basis, adjusted EBITDA was 2.1% of net sales up 40 basis points year-over-year. All in, adjusted EPS for Q1 was $0.56 compared to $0.16 last year. This was driven by higher profitability including the benefit of lower net interest and depreciation expense, partially offset by a higher tax rate.

Turning to Slide 10. Free cash flow in Q1 was a use of $54 million which was an improvement of about $105 million compared to last year's first quarter. This was the result of higher adjusted EBITDA, more efficient working capital investment and lower levels of year-over-year capital spending.

We continue to expect capital investments to accelerate as we move further into the year based on the expected project schedule. The free cash flow performance in Q1, coupled with the higher adjusted EBITDA enabled us to lower our net leverage ratio sequentially to 3.2x and by 1 full turn compared to this time last year.

Historically, we have seen net leverage increase as we move from Q4 to Q1, and build inventory heading into the holiday season. However, our focus on customer service, combined with improved procurement processes and early benefits of Relex have led to higher average fee rates, while we continue to reduce net leverage.

With the strong first quarter performance, we remain confident that we will further reduce net leverage to our target of below 2.5x by the end of the fiscal year as we enter the seasonally higher free cash flow generation quarters. Flipping to Slide 11. We continue to deepen lean practices to drive benefits across safety, quality, delivery and cost. We have now implemented a lean daily management in 34 DCs as of the end of the first quarter, a sequential increase of 6 facilities in the quarter.

We're actively working to eliminate waste and improve distribution center effectiveness and efficiency, all driven by our strategy of adding value to our customers and suppliers.

As Sandy stated, we continue to focus on building enhanced capabilities including customer stewardship, merchandising, supply chain and technology. This builds on work done over the past few years to better understand the needs of all customers and suppliers, and will be an important part of the content at the next week's Investor Day. Looking at Slide 12. Our performance in Q1 keeps us solidly on track to deliver our full year outlook for fiscal 2026.

To review, our guidance ranges and increases compared to fiscal 2025 include sales of $31.6 billion to $32 billion. This includes the year-over-year loss of sales from our transition out of Allentown which will improve profitability and free cash flow but suppress the growth in consolidated net sales by about 3%. Adjusted EBITDA of $630 million to $700 million, representing a year-over-year increase of about 20% and an average annual growth rate of close to 15% at the midpoint relative to our reported fiscal 2024 results.

This implies about 35 basis points of margin expansion at the midpoint of our outlook. With an adjusted EPS range of $1.50 to $2.30 per share an increase of about $1.20 per share at the midpoint compared to last year. Our outlook for capital spending remains at $250

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million reflecting our focus on safety, modernization and continued prioritization of investment for growth. Finally, our free cash flow expectations remains at approximately $300 million.

We will continue to prioritize reducing net debt to improve our net leverage ratio to 2.5x or less by year-end. While it's still early in the year, we remain confident in delivering our plan as we move through the balance of fiscal 2026.

As highlighted on Slide 13, the strength of our customers and a focus on continuing to improve execution across our operations, including the benefit from lean and our network optimization efforts have led to a solid start to fiscal 2026. We are encouraged by our sustained progress on improving free cash flow and de-leveraging our balance sheet with our net leverage ratio decreasing by 1 turn versus this time last year.

We remain committed to our strategy of adding value to our customers and suppliers while making UNFI more effective and efficient as a business partner.
As we suggested on our last call, our goal this fiscal year is to accelerate the momentum, and we are on a path of doing just that. We look forward to sharing more with you at next week's Investor Day. With that, operator, please open the line for questions.

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Question and Answer

Operator

[Operator Instructions] Your first question today comes from the line of John Heinbockel from Guggenheim.

John Edward Heinbockel
Guggenheim Securities, LLC, Research Division

Sandy, two related questions on Natural growth, right? So growing 10%, markets growing, right, maybe mid-single digit. So can you talk to drop size right, or new account distribution versus existing growth. Is that sort of a 50-50 split by drop size up mid-single digit as well? And then you also mentioned fill rates. I know the fill rates in Natural are not where they need to be. Some of that structural, but how big of an opportunity is that?

James Alexander Miller Douglas
CEO & Director

Yes. I think, John, I would say the general trend in our drop sizes have been positive, largely because a lot of growth has happened with some of our larger customers who are at the same time, and this is the premise of your question, giving us more to do. I think as that dynamic happens, obviously, that makes us more efficient down through the line. But at the heart of it, it's strong growth, and it drops to EBITDA.

John Edward Heinbockel
Guggenheim Securities, LLC, Research Division

And the fill rate issue?

James Alexander Miller Douglas
CEO & Director

Yes, fill rate has been solid and we're very heartened by it actually. We've taken a number of steps to improve fill rate. It's obviously a key metric to our customers. And between the reintroduction of technology and the new implementation of Relex on a [indiscernible] of lean daily management and then driven by a more localized management structure that was put in place a couple of years ago is giving a sequential improvement in fill rates '25 versus '24 and then this year '26 versus '25. And we continue to see opportunity to improve in that area, and it's an area that's very important to us and to our customers.

John Edward Heinbockel
Guggenheim Securities, LLC, Research Division

And then my quick follow-up is if i look at EBITDA margin in the Conventional business, right? So this quarter, it's up over 100 -- or almost 100 basis points, right, north of 2%. How do you look at the potential of that business, right? It may not grow, but how much more profitable can it be?

Giorgio Tarditi
President & CFO

Yes, John. If you think about conventionally in Q1, the EBITDA reflected the benefit of the accretive network optimization, the supplier programs and then a little bit of temporary procurement gains that again, we continue to view as secondary and temporary to our strategy. The Conventional outlook for adjusted EBITDA for the rest of the year largely reflects the network optimization, the growth of the suppliers' funds, the continuous work that we do on shrink. And then the initiatives that we have deployed between Lean Daily Management and Indirect Cost Management, all kind of helping on the operating expenses and the leverage. So Q1 may be a little bit heightened by some temporary procurement gains. But in general, our strategy remains consistent of creating new capabilities to keep our customers competitive, merchandising, professional services brands while working the benefits of the network optimization and the Lean Daily Management and indirect cost actions.

James Alexander Miller Douglas
CEO & Director

John, just one sort of strategic overlay there around EBITDA margin. As we look ahead, our view is that the opportunities and in fact, the mandate to create value for customers in this environment is a very long-term opportunity for us to continue to get better, whether

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that's execution, whether it's services, whether it's programs, whether it's merchandising. And then if you look at our cost base, we have a huge amount of costs related to what we do, and we see a very long runway of continuous improvement opportunity there. So we would expect EBITDA margins to continue to edge up in the effectiveness and efficiency areas as well.

Operator

Your next question comes from the line of Ed Kelly from Wells Fargo.

Unknown Analyst

This is John Park on for Ed. I guess just kind of given the gross margin strength in the quarter, can you kind of talk about the sustainability of that? Maybe parsed out like how big of a benefit the network optimization efforts were in Q1?

Giorgio Tarditi
President & CFO

Yes. The gross margin rate -- like for the quarter was at 13.6% versus last year of 13.3%. So we were up about 30 basis points. The key drivers within the gross profit growth, obviously, we had a strong natural growth that brings gross profit and operating leverage based on their efficient business model. We had supplier funds and shrink continuing to help and accrete within the gross profit then we had some level of procurement gains that again, we continue to view as temporary and secondary, both in our financial construction and in the strategic partnership with our suppliers.

The EBITDA of $167 million. If you consider the large driver of productivity, the growth in natural is basically a fair presentation of the quarter in our run rate. So you can think about the $167 million as a normalized kind of EBITDA for the quarter, even if we had temporary procurement gains in a $32 billion business in a given quarter, you have a number of puts and takes. So the $167 million is a good kind of recurring run rate that we plan to sustain.

And then relative to incremental opportunities for gross profit, the capabilities that we're going to discuss next week at the Investor Day between merchandising, professional digital services, brands all help keeping our customers competitive, strengthening the relationship with our suppliers, but also helping on mix, which is an important component of our gross profit.

Unknown Analyst

Got it. And then just kind of switching gears a little bit. Can you talk about the competitive environment at retail for both Conventional and Natural. And are you seeing any changes out there more recently?

James Alexander Miller Douglas
CEO & Director

At 200,000 feet, one of the fun things about being in our seat in the industry is we get to see a lot of retailers work their magic. And this is no exception at this time. I mean clearly, given the stress that a significant percentage of the consumer base is feeling right now. Discount is very competitive and compelling, but that has stimulated a lot of innovation in Retail, and we see it across our customer base, whether it's in the pure-play Natural and Organic folks or customers who are beginning to rethink what they do, continue to bring different better and special offers in their market, community-based retailers, multicultural focused retailers.

And if you took the part of the industry that's innovating and differentiating and winning, they're growing very strongly. And so it really is a market-by-market, customer-by-customer, strategic and operational battle. And there's lots of winners. There are people that are challenged as well. And I think from our end, at least, we're busy trying to figure out how to help them win. And -- but it's very competitive out there, but that's creating a lot of innovation, and we continue to view the broader industry is very healthy.

Operator

Your next question comes from the line of Mark Carden from UBS.

Mark David Carden
UBS Investment Bank, Research Division

So you continue to generate quite strong growth in Natural Organic. How would Conventional have shaken out ex the Allentown transition? It sounds like the impact there may have been more than expected just given you completed it ahead of your expectations? And then what are you seeing with respect to the health of the consumer in both your Natural and Organic segments for the business?

James Alexander Miller Douglas

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CEO & Director

Mark. Yes, what I would say is the lion's share of our weakness in Conventional is because of network optimization. Obviously, the Allentown exit is the largest factor there, but there's been other tweaking across the country. Beyond that in Conventional, there's it's been a bumpy quarter for the consumer with the shutdown, creating general sentiment challenges with snap delayed for a while, created some issues in those weeks. And now retailers are coming back as that all comes back online. So very competitive and conventional and it sets up a mandate for us. It's the principal kind of north star of our merchandising reboot is to figure out how to get our customers in a place where they can be competitive in any scenario.

And then in the Natural environment, obviously, been very strong growth in that segment across the different retailers, the largest of which all are our customers, and we're getting the opportunity to serve them. We continue to believe over the long term that the natural business as an industry is a mid-single-digit grower, and we hope to be able to compete and support the retailers that are competing in that environment.

Mark David Carden
UBS Investment Bank, Research Division

That's great. And then as a follow-up, just at this stage, have you guys seen much incremental customer attrition following the cyber attack? You guys seem to be weathering it quite well last quarter. Just how was it compared to what you may have expected at the time of your last quarter call?

James Alexander Miller Douglas
CEO & Director

Yes, Mark, I don't think it's any different. My answer would be exactly the same as I answered it last quarter. We had one Southern customer that joined us, and we had one Upper Midwest customer leave us. But the -- I think the core answer is that we and our entire network, our sales, our merchandising, our supply chain teams are busy serving customers as well as they possibly can. And we continue to manage through a couple of situations there.

But as far as customer retention, we've been extremely fortunate and we're working very, very hard to earn that. And hope to continue to be the best choice for customers going forward.

Operator

Your next question comes from the line of Kelly Bania from BMO Capital Markets.

Kelly Ann Bania
BMO Capital Markets Equity Research

Matteo, just a follow-up first on the procurement gains, I guess that helped Q1 a little bit. But if I heard you right, that's -- there's nothing there in the plan going forward. So wondering if you could just confirm I heard that right? And then can you help us understand did those procurement gains drive some upside to your plan, your internal plan for the quarter? And was that specific to any categories that you can help us just understand what was happening there?

Giorgio Tarditi
President & CFO

Kelly. So answering the first part of your question, we have not modeled any procurement gains in our 2026 or 2027 outlook. So we continue to describe those as temporary and secondary. They happened in the first quarter, but as I was saying before, in a given quarter, we had puts and takes. And so some of the upside from the procurement games were offset by other dynamics. In relative to kind of how we are thinking about the procurement gains, our strategy is always to work with the suppliers and build a strong relationship with them, making sure that through that kind of strategic partnership, we keep our customers competitive, keep our prices low, stable and predictable.

So we don't rely on procurement gains in order to achieve our financial targets. And again, we continue to do them as temporary. Relative to specific categories has been a little bit of a combination of many. You can imagine, partly related to tariffs, partly related to kind of the general inflation that is still in the 2.5% to 3% range. So modestly up versus 2025.

Kelly Ann Bania
BMO Capital Markets Equity Research

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Okay. That's very helpful. Now I was also wondering if I just ask a couple of questions about top line on the two sides of the Wholesale business. So first, on Conventional, I guess, excluding the optimization, it looks like sales were down in the mid-single-digit range. You called out some of the factors, I guess, going on during the quarter. But I guess, can you continue to hit your targets with that magnitude of kind of core sales pressure in Conventional? And are you seeing or hearing suppliers in those categories becoming more promotional to help maybe drive some volume in those categories?

James Alexander Miller Douglas
CEO & Director

Yes. Kelly, this is Sandy. What I would say is the general environment in Conventional get out of our optimization, which is the large majority of our decline, by the way. So more of the decline that I think your question framed. But be that as it may. There is pressure in Conventional and it seemed broadly and the major source of that pressure comes from the consumer situation the bumpiness with snap and then the efficacy of a discount positioning in that environment. And so retailers are responding to that in obviously different ways.

But if you were to draw broad themes, it's to respond by getting more competitive on key value items to start for sure. Secondly, it's to look at product assortments and seek to innovate in a way that fits the retailers positioning and minimizes comparability. And then the third area is kind of the secret sauce of the Retailer, whether it's food service or customer service or community or local sourcing or whatever it might be.

And you can see evidence of that formula working in Conventional across the country, just think of the retailers that might fit that, many of whom are customers of ours in one way or another. So we see a great opportunity to try to continue to help retailers break that code and manage through the kind of consumer stress which as it abates, we'll continue to favor them, particularly those who've executed that formula well in their businesses.

Kelly Ann Bania
BMO Capital Markets Equity Research

Sandy. Can I just also ask about the Natural side and obviously, very strong there. Just wondering if you could comment a little bit more about how widespread that growth is? You talked about getting kind of more business with large customers. But are you seeing kind of more broad-based adoption of natural and organic? Because there has been some signs of a slowdown. It seems like you have a different point of view there. So wondering if you could just elaborate.

James Alexander Miller Douglas
CEO & Director

Sure. I think -- very much like the Conventional business. It's a retailer-by-retailer story. Our business, as you know, is slightly different than just a pure mirror of retail. We we also do project work. We do market entry services as an example of project work. And so sometimes we have business in a particular channel or with a given customer that might be temporary as they make a strategic transition in their business.

So if you look at our report, you'll see strong growth. You'll see a number of customers performing very well. You see a component of it that is project related, where we're helping customers execute against short-term initiatives. And then you'll see the ongoing secular health of the Natural, Organic and Specialty categories.

The way we think about it is that the category based on the same information you all have. Looks like it's a mid-single-digit grower. And we'd like to believe that we'll punch our weight strongly in that industry going forward. But certainly, our performance in the last quarter and over the last 1.5 years or so because of the project work we've been doing has been very strong.

Giorgio Tarditi
President & CFO

Kelly, Sandy, let me maybe after 2 or 3 questions on sales, [helicopter] up and say a couple of words on how we're thinking about the sales outlook. So in Q1, sales were roughly flat compared to the prior year. And the midpoint of our outlook $31.6 billion to $32 billion is also flat. So Q1 has been consistent with the outlook. The outlook reflects the expectation that the underlying natural growth for the year will be similar to the long-term industry average, which is [MSD].

Now when we think about the rest of the year into doing conventional will have the full top line impact as well as the full adjusted EBITDA benefits of the Allentown for Wayne billings and [Bismark] optimizations, versus Q2 '25 when we were just in the early innings of the network optimization. When we think about the third quarter, we will be ramping down some of the critical customer

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project base, that we started 12 months ago, but then we know it also can ramp up very quickly and that is part of the solution that we offer to our customers and how we create value.

And then in the fourth quarter, obviously, you have an easier comp as we will have the non-repeat tailwind of the $400 million of cyber-related losses. So it is a full year framework. We don't guide by quarter, but wanted to offer a little bit of helicopter view on how we're thinking about the next 9 months through that kind of framework of flat to midpoint.

Operator

Your next question comes from the line of Chuck Cerankosky from Northcoast Research.

Charles Edward Cerankosky
Northcoast Research Partners, LLC

As we look at the margin improvement going forward that we anticipate, what's left realistically left in the shrink area and where might that come from? Is it lower inventories leading to less spoilage, less breakage, but can you talk about that in some detail, please?

Giorgio Tarditi
President & CFO

So on margins, the current outlook calls for 35 basis points of margin expansion in 2026. And then if you think about '24 through '27, it's about 60 basis points of margin expansion. And that is really rooted into large productivity programs, the benefit of the network optimization, the supplier programs then there is still a contribution from shrink.

Now as you think about '25 to '24, shrink was a very important contributor -- in the end, our goal is to continue to improve and eliminate waste. I mean it's a main principle of Lean that is now at 34 of 49 distribution centers. So there will be a relentless effort on reducing shrink. We closed pretty well at the end of the first quarter. We are pleased with the progress. So we'll probably see less of a large-dollar contribution compared to other productivity programs and some of the capabilities that will help on mix. But our focus on eliminating waste and inventory-related waste will continue for a very long time.

Operator

Your next question comes from the line of Leah Jordan from Goldman Sachs.

Leah Dianne Jordan
Goldman Sachs Group, Inc., Research Division

Sandy, you talked about new business projects in the prepared remarks, and it sounds like you're doing more with your largest customer. So just, if we could get an update on your new business pipeline? What are the opportunities between new versus existing at this point? And then I think ultimately, more importantly, how do you view the competitive environment for winning new business across wholesale? What are the differences here between Conventional versus Natural in the current landscape?

James Alexander Miller Douglas
CEO & Director

Sure. Let me comment on projects and then just to make sure that I'm being precise in the way I'm defining them and distinguishing them from general pipeline-type either expansion with an existing customer or a new customer.

The way we talk about projects is imagine a retailer is moving into a new region, and they're building a DC. They might hire us to be their distribution for a couple of years. That's a project. We know it's a beginning, and we know it's an end, and we're happy to facilitate their strategy and happy to earn that business, assuming it's profitable, that we would call that a project, whereas a customer might hire us to start to handle their culinary or a different category that we haven't carried before. That would be pipeline and obviously, a new banner would be a pipeline expansion.

So just getting the definitions right. From our perspective, the pipeline is strong on both Natural and Conventional. What I would say to you that enhanced is we have a very disciplined review process where we assess all of those programs and deals for profitability for sustainability, for operational sensitivity and for value for the customer, and we're very disciplined.

We do not pursue business for business sake. That's what our network optimization is unwinding right now. So there's a highly disciplined underwriting process that our Presidents and Matteo very carefully review. But pipelines are strong in both sides.

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Our basis of competition typically is when it's a product, a service or a program that helps the customer differentiate as opposed to price for price sake. We have to be very competitive, make no mistake, our customers expect that, but we try to bring a whole package and that it allows for us to have a win-win and it fit the customer because of things -- some of the things that we can do, we do better. And we're continuing to work as we'll explain next week at Investor Day. We see a significant opportunity to continue to improve the offer and we'll be talking about that next week.

Leah Dianne Jordan
Goldman Sachs Group, Inc., Research Division

That's very helpful. And then one thing that stood out in the deck, you really were highlighting a refocused effort it seemed on private label. There seems to be new leadership there. Just seeing if you can provide more detail on your updated strategy, what are the opportunities in Natural versus Conventional for that category? What are the points of differentiation you're providing? And I don't think we've had an update, where are percent of sales on private label today as well?

James Alexander Miller Douglas
CEO & Director

Okay. Thanks, Leah. Yes, I mean, broadly speaking, you all see it. Natural brands are strong and strengthening relative to the whole store for consumer value reasons. But increasingly, there's opportunities to build them across good, better and best, so all 3 tiers. We did strengthen our leadership there with a veteran of private brands from another wholesaler who -- she's absolutely outstanding and we're thrilled to have her join the team.

We see a significant opportunity to increase penetration here. This is not our penetration of private brands is not at industry levels, and we see it as an opportunity for growth and an opportunity to create more value for customers. And so we're very focused on achieving it, and it's a long-term opportunity.

Again, I'll say this a few times today, but we'll talk more about it next week. So -- but that's the long and short of it. It's a great opportunity across good, better and best, and we're working on all 3.

The other thing that I would say for a little more color is the portfolio of private brands is segmented. It's not the same portfolio going into a traditional grocery store as it is to a natural store. So there's opportunities on both sides.

Operator

Your next question comes from the line of Scott Mushkin from R5 Capital.

Scott Andrew Mushkin
R5 Capital LLC

So I wanted to -- we've been spending a lot of time on sales. And I think the reason is as you guys, especially on the Organic, Natural Organic side surprised the heck out of a lot of people. So it seems like the incremental growth is organic growth with your -- what the industry is doing, and I think we all have seen it slow across even your customers. More store openings, winning more business, and I think you've talked about incremental projects.

So taking the other side of the sales slowdown idea -- if the industry [Technical Difficulty] accelerates again. Could we expect your business to accelerate?

James Alexander Miller Douglas
CEO & Director

So Scott, I'm going to paraphrase the question because we lost you for a couple of seconds there. You were commenting that you'd seen the industry slow down and you're wondering if our sales would accelerate if it accelerated. Do you want to rephrase that one more time?

Scott Andrew Mushkin
R5 Capital LLC

Yes. I mean, I guess what I'd say is we've seen some of your customers slow down their organic growth or comp your business moved, I think, higher surprised us. Surprised The Street. So what I was wondering is taking the other side of it, can we actually see your sales accelerate in natural organic if the growth rate returns to some of these customers on a comp basis?

James Alexander Miller Douglas

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CEO & Director

Yes. So let's try to look at the pieces. We don't give guidance by division. But what we said earlier is that our external analysis points to kind of mid-single-digit growth in the Natural, Organic and Specialty categories. Then how I might look at that, if I was trying to think about UNFI's growth is how would UNFI's customers tend to perform against that average, and how effective is UNFI are doing more to serve those customers or gaining more customers.

But from a print of plus 10%, which has a significant amount of project work that will annualize in the next couple months, you can develop your own forecast. What we would say about our business is we continue to expect to compete and perform strongly in those categories.

Scott Andrew Mushkin
R5 Capital LLC

All right. Perfect. And then the other question is turning now towards the Conventional side. I think, Sandy, you mentioned that it's gotten tougher. We see that. Our research is seeing that. But that also is spurring more promos for manufacturers. So just walk us out like 6 to 12 months and say the industry continues, the Conventional side continues to deteriorate from a competitive standpoint, how does that impact your business? I mean, obviously, it would slow the sales a little bit. But overall, how does that impact your business, if we kind of take the line down and continue to take it down in the competitive environment deteriorates further?

James Alexander Miller Douglas
CEO & Director

So Scott, first, let's talk about the pieces of the industry because I think this is really important. It is a well-documented, well talked about fact that the biggest 4 have been taken share for decades in the so-called Conventional part of the industry. What doesn't get talked about, though, is there aren't only two piles of customers in that segment.

There's many piles. And if you take a third pile and say, I'm going to put the innovative retailers who've been aggressive in keeping their center store costs down that have innovative relative to assortment and avoiding unnecessary comparability with the [big 4] and then have their own secret sauce, whether it's food service, prepared food, great customer service, local associates, whatever it might be. And you put that group in a pile, they're outperforming everybody.

And our strategic work is, first and foremost, to try to be the partner of choice for that pile. That's why we took our addressable market from $150 billion down to $90 billion as we just said, we're probably not going to be good at folks that are just trying to find the drayage partner to try to duke it out on price alone. We got to be sharp on price, but we've got to be good in helping customers implement it more, let's call it, differentiated strategy. So I would encourage everybody to look at the industry in a more segmented way.

The next comment I'd make relative to promotions, and this is the commentary about merchandising. We're going to talk about this a little bit next week. But we actually think that, as I mentioned when I went through that set of things that we're seeing the [indiscernible], that wholesale supported retailers need more help and need to work together with their wholesaler to negotiate better costs relative to EDLP.

It's not just promotional dollars. That game is not working very effectively for a lot of people. That's not say it doesn't work for anybody. But -- so our merchandising effort now is going to work backwards from the shelf and say, what conditions have to be there so that our customers have a credible center of the store? And what programming is there for that suppliers who might want to invest in because they do with the [big four] how can we get them to invest through to help and continue to build a robust supermarket channel.

So lots of work going on there, but macro trends are macro trends, but within them, there are winners, and it's a sizable chunk, and that's a lot of what's on our work desk right now, some of which we'll be able to give updates on work and progress updates next week in New York.

Scott Andrew Mushkin
R5 Capital LLC

Perfect. And just to clarify, it was a great answer. But -- so I guess your expectations that the industry continues to deteriorate, you guys should be okay. Is that a good summation of what you just said to me?

James Alexander Miller Douglas
CEO & Director

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Well, I don't want to accept the premise. I believe that in tough times, people that partner with an industry have to step up. That's as far as I'll go in my crystal ball.

Operator

And your final question today comes from the line of Peter Saleh from BTIG.

Peter Mokhlis Saleh
BTIG, LLC, Research Division

Great. I just had one question on capital allocation. I know you're at 3.2 turns now on leverage, and that's down pretty substantially from last year. And well on your way to 2.5 turns by the end of this year. So how should we be thinking about modeling out your capital allocation strategy capital returns going forward? When you get to 2.5x will you continue to focus on de-leveraging? Or should we consider more capital returns to shareholders? How do we think about that going forward?

Giorgio Tarditi
President & CFO

Peter. So 2026, our goal is to de-leverage to 2.5x or lower, and in the last earnings call, we also affirmed that in 2027, we want to de-leverage to 2 turns or less. So our capital allocation and our application of the free cash flow that we generate remains solely focused on de-leveraging and reducing debt. If you think about the outperformance in the quarter, we improved by about $100 million year-over-year combination of better EBITDA and better working capital management. For the rest of the year, we continue to see the EBITDA at the midpoint, obviously, accreting more than $100 million for the full year. And then that implied math to be at 2.5x would be basically free cash flow performance closer to $225 million, $250 million, and we have an outlook at $300 million. So there is clearly multiple ways to achieve the 2.5 turns and less.

And the same carries over into 2027 where, again, we plan to print another $65 million of EBITDA as the current outlooks and generate another $300 million of free cash flow.

The only comment that I wanted to make is that in the first quarter is CapEx was low by design. In the end, we focused on regular maintenance and some of the technology investments, but we have a very tight monthly steering committee with the business president that review both the new projects but also the cadence of spending.

So within the $250 million outlook, we still have all the projects and all the schedule lined up to consume that envelope in the usual 3 partition of maintenance and modernization, safety, technology and then automation and growth investments.

Operator

And that concludes our question-and-answer session. I will now turn the call back over to Sandy Douglas for closing remarks.

James Alexander Miller Douglas
CEO & Director

Thank you, operator. We remain focused on executing our strategy to add value for our customers and suppliers while becoming a more effective and efficient company. As we continue to strengthen our operational execution, we're steadily improving our service levels, profitability, free cash flow and capital structure. We have a long runway of opportunity to continue improving in these areas while building capabilities to help our customers and suppliers differentiate, compete and grow profitably in a dynamic marketplace. We look forward to providing more details on our journey to create long-term shared value for all our stakeholders at our Investor Day next week. To our customers and suppliers, we thank you for your continued partnership, collaboration and support. We look forward to serving you during this busy holiday season. To the UNFI associates listening today are thanks for all that you continue to do for our customers, our suppliers, our communities and each other. And to our shareholders, we thank for the trust you continue to place in us. Thanks again for joining us this morning. We look forward to updating everyone on our progress, and I hope you'll join us at our Investor Day next week.

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