

United Natural Foods, Inc. NYSE:UNFI

FQ2 2026 Earnings Call Transcripts

Tuesday, March 10, 2026 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2026-			-FQ3 2026-	-FY 2026-	-FY 2027-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.51	0.62	▲ 21.57	0.59	2.18	NA
Revenue (mm)	8108.33	7947.00	▼ (1.99 %)	7941.22	31930.41	NA

Currency: USD

Consensus as of Jan-08-2026 5:48 AM GMT

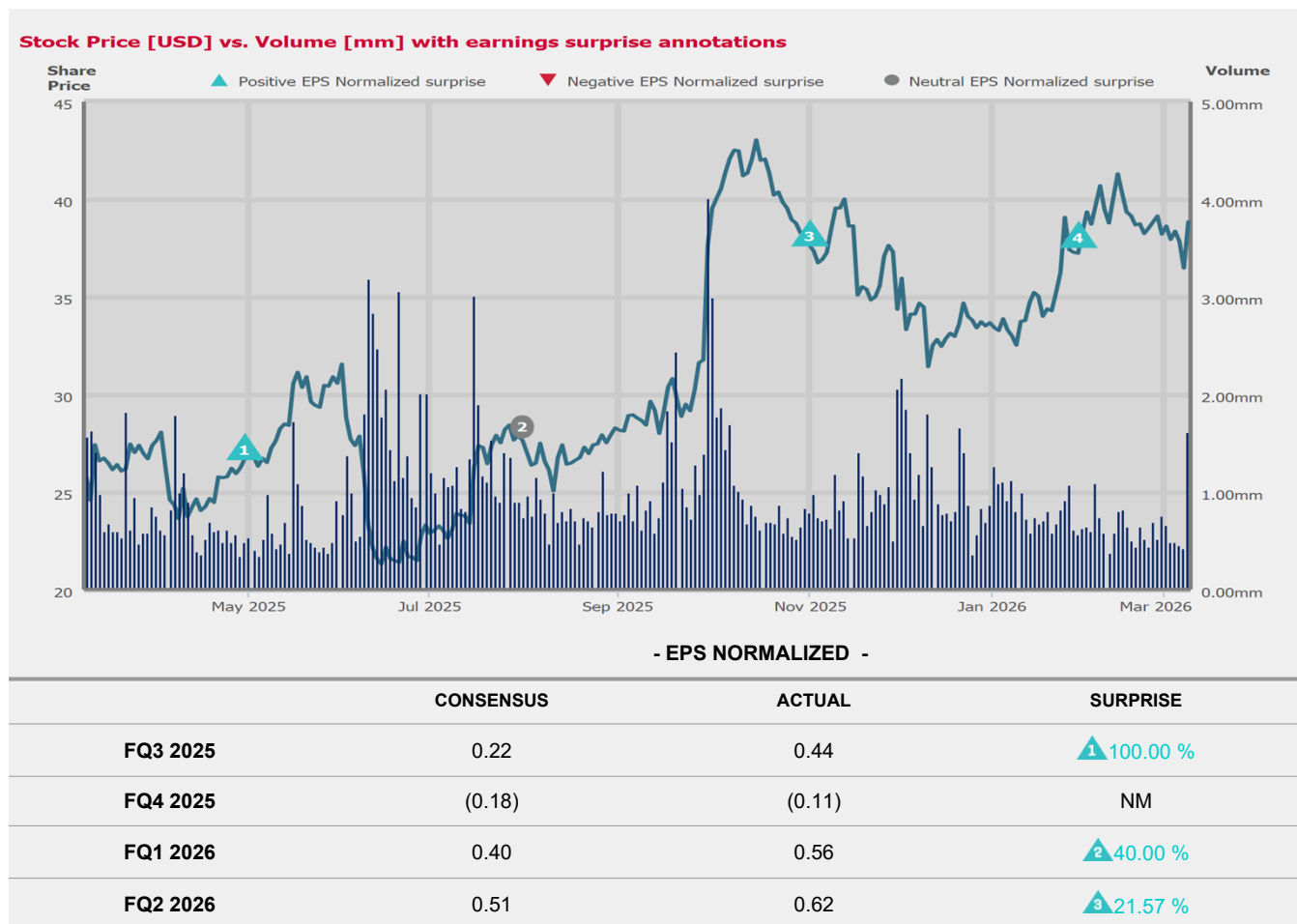


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Call Participants

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Presentation

Operator

Thank you for standing by. At this time, I would like to welcome everyone to the UNFI Second Quarter Fiscal 2026 Earnings Call. [Operator Instructions] I would now like to turn the call over to Steve Bloomquist, Vice President of Investor Relations. You may begin.

Steven J. Bloomquist

Vice President of Investor Relations

Good morning, everyone, and thank you for joining us on UNFI's Second 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 key 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 second quarter of fiscal 2026, UNFI continued to advance our value creation strategy, focused on achieving shared, profitable growth with our customers and suppliers. Through our team's disciplined execution of this strategy, including our accretive optimization actions, profitability and free cash flow are growing ahead of our expectations enabling us to further strengthen our balance sheet and increase our financial flexibility.

During our Investor Day in December, we outlined the strategic capabilities we're building to add value for our customers and suppliers and to become a more effective and efficient company. These include enhancements in customer stewardship merchandising and supplier support, professional and digital services, private brands, technology, supply chain and productivity. With our operational rigor and lean mindset as a foundation, we're executing management and reporting routines against each of these capabilities and are delivering continuous improvement and accountability throughout the organization.

Let me take a moment to highlight a few examples from the second quarter. First, as a part of our focus on building a next-generation supply chain, to serve our partners more effectively and efficiently. We're continuing to expand [Relax], an AI-powered supply chain planning platform across our entire network. Roughly another dozen distribution centers are expected to go live next week, and we expect we will complete our implementation by fiscal year-end. As our [Relaxed] implementation progresses, it's helping us to improve customer service, fill rates and inventory management, which is in turn improving our free cash flow.

We're also focused on growing our private brands assortment to help our customers differentiate and create value for their shoppers. This fiscal year to date, we've launched nearly 50 new private label SKUs and that lean into innovation and emerging shopper trends from health and wellness to value and convenience. While it's still early, we're encouraged by the early adoption of these new products. These new products and thousands more from our broad supplier network were on display at our spring and summer selling shows in Long Beach, California and in Orlando, Florida which collectively brought nearly 7,000 customers and suppliers together to plan for the upcoming selling season.

At the shows, members of our leadership team and I spent time with our partners, listened to their feedback, sought to understand their roadblocks and discuss how we can help them execute their unique strategies. These discussions help to ensure alignment that

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we're investing in the right talent and building the appropriate capabilities to support shared profitable growth for our customers, our suppliers and in turn, for UNFI. The progress we're making across our strategic priorities is directly translating into our second quarter results.

Overall, our second quarter performance reflects the resilience of our customers, our sharpened focus on a growing \$90 billion target addressable market and the strong execution of our strategy, including the successful completion of our network optimization plans. Adjusted EBITDA and free cash flow grew 23% and 26%, respectively. This enabled us to continue deleveraging with net leverage down 1 turn from the prior year quarter to 2.7 turns. In line with our strategy, we have been accelerating our optimization initiatives. These efforts benefited our profitability and free cash flow and have temporarily negatively impacted our sales growth by nearly 500 basis points, primarily driven by the consolidation of our Allentown facility completed last quarter.

During the second quarter, the large majority of our customer base continued to grow in a dynamic environment despite some softness in food retail. Excluding the impact of optimization, UNFI's wholesale sales grew in line with our target addressable markets estimated low single-digit growth rate this quarter. Though we will always review opportunities to improve the effectiveness and efficiency of our network. We've now completed the initial planned customer conversations and are in various stages of implementation. With these plans now realized, coupled with our strong new business pipeline, we expect that the cycling of larger optimization actions in Q1 2027 will allow our business to return to growth in fiscal 2027. We remain confident in our long-term expectation to deliver low single-digit average sales growth for fiscal 2026 through fiscal 2028.

As we continue to focus on best serving our target addressable market, we expect grocers focused on differentiation to be the primary source of sustained long-term growth within our industry. We believe our heritage and natural, organic and specialty products, along with the additional capabilities we are building can help these resilient retailers deliver compelling value, differentiated products and enhanced shopping experiences that will set them apart from mass and discount retailers and support sustainable, profitable growth moving forward.

In summary, the strong execution of our strategy is delivering results and has improved profitability and free cash flow ahead of our expectations. We continue to strengthen our balance sheet and enhance our financial flexibility, which in turn supports our ability to invest in growth and create long-term share value for our stakeholders. This progress is reflected in our updated outlook for the year, which Matteo will discuss shortly.

As UNFI marks its 50th anniversary in 2026, our team is poised to build on and accelerate the company's legacy of connecting grocery retailers to food retailing's most innovative products and shopping experiences. We remain laser-focused on becoming our industry's most valued partner by helping retailers and suppliers drive profitable growth for themselves and for UNFI.

With that, let me turn it over to Matteo for more detail about our second quarter performance and updated financial outlook.

Giorgio Tarditi
President & CFO

Thank you, Sandy, and good morning, everyone. Our second quarter results reflect our focus on building capabilities to create more value for our customers and suppliers while continuing to improve profitability and free cash flow and further reduce leverage. We're also updating our annual outlook based on our year-to-date performance and our current view of the rest of the year.

Today, I will provide additional insight into our second quarter operating results, our financial position and capital structure and our fiscal 2026 outlook. With that, let's start with our Q2 results.

If you go to Slide 8, our second quarter sales came in at nearly \$8 billion, a decline of 2.6% to last year and includes an impact of nearly 500 basis points from our accretive optimization actions. These results also reflect inflation, favorable mix and sequentially weaker underlying food retail trends partially driven by a snap uncertainty, weather-related volatility and a dynamic operating backdrop. Excluding the impacts of planned optimization, our overall business outperformed the market and performed in line with our target addressable market.

Natural Product sales grew 7%, again outperforming the market, driven by continued shopper demand for natural, organic and specialty products and strong execution from our customers. We also saw benefits from short-term project work, portions of which we expect will wind down during the second half of fiscal 2026. Conventional Product sales declined 12%, with the primary driver, again, being our strategic network optimization. The majority of this was the result of our planned exit from the Allentown distribution center. As a reminder, we expect the cycling of larger optimization actions in Q1 2027 will allow our business to return to growth in fiscal 2027, and we remain confident in our longer-term expectations to deliver low single-digit average sales growth from fiscal 2026 through fiscal 2028.

In retail, total sales fell 8% largely due to strategic store closures, the retail team has completed to optimize its footprint and strengthen the foundation of the business for the future. Same-store sales improved sequentially by 100 basis points declining by 2% during the quarter compared to 3% last quarter. And as discussed at our Investor Day, our team remains focused on continuing to enhance [CAP's] value proposition product assortment and shopping experience in the Minneapolis market.

Moving to Slide 9. Let's review profitability drivers in the quarter. Our gross margin rate in the second quarter was 13.2% up 10 basis points versus last year's second quarter. This includes benefits from our optimization work as well as a modestly higher level of procurement gains. These were partially offset by a lower margin rate of retail, driven in part by pharmacy product mix shift. Operating expenses improved compared to the prior year reflecting a decline of nearly 6% compared to the prior year and a 40 basis point reduction in our operating expense rate to 12.2% of net sales. Importantly, we increased DC productivity by over 6%. This performance reflects ongoing benefits from our effectiveness and efficiency initiatives including multiple projects overseen by our value delivery office, network optimization, automation and incremental productivity gains from lean daily management as it continues to expand across our network.

Our disciplined execution, including our focus on capability building, a higher gross margin rate and reduced operating expenses drove adjusted EBITDA growth of over 23% to \$179 million. On a rate basis, adjusted EBITDA was 2.3% of net sales, up about 50 basis points year-over-year. The strong growth in profitability along with lower net interest from reduced debt levels and lower depreciation expense resulted in adjusted EPS of \$0.62, a meaningful increase compared to last year's \$0.22.

Flipping to Slide 10. Our second quarter results reflect the continued strengthening of lean practices across the organization, driving measurable gains in safety, quality, delivery and cost. We have now implemented lean daily management team 36 DCs as of the end of the second quarter, a sequential increase of 2 facilities from Q1. We are actively working to improve distribution center effectiveness and efficiency while further eliminating waste, and we continue to see significant short-, medium- and long-term opportunities to do so.

Beyond our DCs, we're also focused on extending lean practices across the broader organization. Our lean team helped conduct 12 process improvement workshops over the last quarter. Their work included improving the seasonal item buying process, reducing new customer onboarding time and improving out of top product rates. These efforts as well as the broader adoption of a lean mindset are continuing to drive tangible improvements across our business. Since the prior year quarter, across the enterprise, we have reduced shrink by over 11%, while throughput and on-time deliveries have both increased nearly 7% each. And importantly, while we have made meaningful progress on lean implementations, we are still in the early stages of our lean transformation and believe there is a significant value to be unlocked for customers, suppliers, associates and shareholders as we continue our lean journey in the months and years ahead.

Turning to Slide 11. The strategic and operational discipline, combined with more efficient capital investment and working capital use enabled us to increase quarterly free cash flow by \$50 million to \$243 million. The strong free cash flow performance in Q2, coupled with a higher adjusted EBITDA enabled us to reduce net debt to its lowest level since fiscal 2018 and to lower our net leverage ratio to 2.7x. It has turned sequential improvement compared to Q1 and a full turn improvement over the past 12 months.

Given the progress we have already made in our higher outlook for profitability and free cash flow, we are confident that we will continue to deleverage in line with our multiyear targets. We also repurchased nearly 750,000 shares of stock for approximately \$25 million at an average price of \$33.66. This reflects our conviction in the long-term value creation potential of our business, and we expect to make further opportunistic repurchases as we continue to reduce leverage as part of our capital allocation process. In support of this, after the end of the second quarter, we made a voluntary \$115 million prepayment on our senior notes at par, which reduced the outstanding amount of the 2028 maturity to \$385 million. This is expected to reduce annualized net interest expense by over \$2 million.

Looking at Slide 12. Based on our year-to-date performance and forecast for the balance of the year, we are updating our full year outlook for each of our financial metrics as follows: we are lowering our expectations for full year sales to a new range of \$31 billion to \$31.4 billion which represents a 1.9% reduction at the midpoint. This new range reflects optimization work that is ahead of schedule as well as some deceleration in food retail sales trends within a backdrop that remains highly dynamic, as I described earlier. Additionally, while our new business pipeline is strong, we expect these opportunities will be more meaningful contributors to next fiscal year sales. As we described earlier, we expect that this new business pipeline, combined with the cycling of larger optimization actions in Q1 2027 will allow our business to return to growth in fiscal 2027.

We are increasing our full year outlook for both adjusted EBITDA and adjusted EPS. Our updated expectation for adjusted EBITDA is \$680 million to \$710 million, a \$30 million increase at the midpoint. The new midpoint represents about a 26% increase compared to fiscal 2025, with an implied margin rate expansion of around 50 basis points. The updated range for adjusted EPS is now \$2.30 to

\$2.70 per share, which incorporates the revised range for adjusted EBITDA as well as updated estimates for both depreciation and interest expense. We're also maintaining our full year outlook for capital spending at \$250 million. We expect second half investment to further accelerate based on the anticipated timing of capital projects including our ERP implementation and automation.

Finally, we are increasing our free cash flow expectation to approximately \$330 million. For the full year, based on our year-to-date performance in our increased profitability expectations. As a result of our higher adjusted EBITDA and free cash flow expectations we also anticipate we will be well below our previous year-end net leverage target of 2.5 turns and now expect to be around 2.3 turns at year-end. This updated outlook reflects our confidence in our ability to deliver our plan and to continue to create value for our customers, suppliers, associates and shareholders.

As highlighted on Slide 13, we have delivered a solid first half of the year, driven by the strength of our customers and improving operational effectiveness and efficiency through lean methodical technology investments and network optimization. Our updated year-end net leverage expectation embeds higher adjusted EBITDA and free cash flow reflects the strong execution of our value creation strategy. As we move into the second half of the fiscal year, we are focused on building the capabilities that we believe will help our customers and suppliers better execute their strategies while making UNFI a more effective and efficient business partner. With that, operator, please open the line for questions.

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Kelly Bania with BMO Capital Markets.

Benjamin Wood

BMO Capital Markets Equity Research

This is Ben Wood on for Kelly. Just wanted to start on the Conventional side, I know you guys called out a 5% headwind from network optimization. That looks like a little bit of an acceleration from the first quarter. I know the majority of it, it seems like it's the Allentown exit. I believe that was planned at 3% headwind to top line. Is that still the right way to think about it? I'm just trying to understand if more work was done or is there something particular about the quarterly cadence that I'm missing?

Giorgio Tarditi

President & CFO

Yes, on -- so on the Conventional front, think about the 500 basis points being significantly higher as an impact because 500 basis points of optimization headwind is on the total Natural plus Conventional. And on a Conventional basis, it's more impactful. So the majority of the decline, the 12% decline in Conventional was driven by the accretive network optimization that offer them benefits, as you noticed on the EBITDA growth of almost 40% in Conventional in the first half of the year.

Relative to the 2 elements of the accelerated optimization we exited the Allentown facility at a faster pace than we anticipated and released some accretive benefits in the first quarter. And also, as we started executing the second quarter, in a net of optimization with customers, but also some win-win retention. We have further opportunities to drive accretive network optimization inside Conventional. That's kind of what is reflected in the 500 basis points of second quarter headwind but also in the 24% of EBITDA growth in the first half of the year.

Benjamin Wood

BMO Capital Markets Equity Research

That's helpful. And then just staying on the Conventional side as a follow-up. If we peel away the network optimization, it looks like kind of the underlying business may have improved towards lower single-digit declines versus maybe low to mid-single-digit declines in Q1. And it seems like based on your retail comp disclosures, that's in line with what you thought at the retail business. But wondering if you could expand on maybe what's driving that improvement? Is it better volume? Is it prices? And then just any details you can share about the current operating environment that you're seeing on the conventional side. I know you called out snap headwinds and maybe some weather. But it seems like underlying trends got maybe a little bit better this quarter.

Giorgio Tarditi

President & CFO

Let me elevate for a moment because you are picking up an important trend in our business. So if you normalize the 2.5% sales decline with the 500 basis points of network optimization we actually saw low single-digit growth in the product business, which is in line with the \$90 billion target market and reflective of how many of our customers have performed.

Relative to then the double-click into Conventional and Natural. So Natural grew 7%, so enduring strong trends in the Natural Products. And relative to the Conventional Products, if you remove call it, 800, 900 basis points of the network optimization impact, the decline was in the low single digit. So stable to kind of what we've seen in the first quarter, a little bit of help from inflation and then volume declines, call them in the [MSD] range.

James Alexander Miller Douglas

CEO & Director

I think one other thing to throw on top of that is that over 90% of our customers buy natural or both Natural and Conventional Products. And that's core to our strategy to help them differentiate and why our target addressable market is growing and why our customer base excluding the optimization efforts, which are accretive to profitability and were planned are driving consistent growth, consistent with our long-term plan.

Operator

Your next question comes from the line of John Heinbockel with Guggenheim.

John Edward Heinbockel
Guggenheim Securities, LLC, Research Division

I want to start first. You talked about the pipeline. So what -- can you dive into that a little bit, when you think about Conventional versus Natural and is it new accounts, new categories. So what does that composition look like? And then when you talked about low single-digit CAGR, right, '26 to '28. So I take that -- tell me if I'm wrong, you take that to be the CAGR, meaning the out years will grow closer to 4% than what we're seeing -- obviously, we're seeing a decline this year, but the real out-year number is more in that 4% range? Or is that wrong?

James Alexander Miller Douglas
CEO & Director

John, I'll let Matteo characterize the modeling relative to our long-term growth algorithm. But the answer to the first part of your question on pipeline as usual, it's a combination of things. The majority is incremental categories with existing customers, which continues to be the most profitable way to expand and as I've said before, it's my favorite kind of growth because it reflects a healthy relationship where we're already adding value and where we're being given more work to do. There are brand-new relationships as well but the large majority of our pipeline is growth with existing customers. And the tail on the out-year modeling?

Giorgio Tarditi
President & CFO

Yes, John. So when you think about the agreement through 2028. That is an LSD that will get us from [\$25 billion, \$31.8 billion] to roughly \$33 billion by 2028. So embedded in that, there is LSD that is going to get us in '27 and '28 to approximately \$33 billion of sales in the -- by 2028 to our outlook.

John Edward Heinbockel
Guggenheim Securities, LLC, Research Division

Okay. And maybe the follow-up, productivity, right? So that was up 6%, which I think is above what you would characterize as sustainable. I think maybe this may be wrong, but like 3 to 5 is fair. So maybe touch on that and then if a lot of this growth is new categories, right? So you would think cases per mile driven. Is that now going to be a big contributor to productivity gains?

Giorgio Tarditi
President & CFO

Yes. So first of all, John, we are pleased with the margin improvement that we've seen in the first half. The EBITDA growth of 24% in the first half it also embeds 45 basis points or so of margin expansion. Some coming from natural growth and gross profit expansion, but a lot of it coming from the OpEx controls and improvements that we established in the last 18 months. So think about throughput through automation, think about the value of the productivity projects through value delivery office and many more things that we're doing through our lean and the indirect cost spending. So we're pleased with the progress. It is a little bit higher than we were expecting.

As again, we realized faster benefits from the network optimization and we also continue to have a very rich pipeline of cost initiatives, including the \$2 billion of indirect expenses that we are methodically analyzing both with lean methodology as well as the support of our supply chain team.

Relative to the question on the cost per case, that is obviously a metric that we track very, very closely. And again, initiatives like lean, automation, relax, the new routes that we continue to identify with the route team are all contributing to that productivity. So we are encouraged with what we've seen in the first half is exactly in line with what we've been saying for some time that we continue through lean and methodologies to find many opportunities to become more effective and more efficient to support our customers and drive share profitable growth together.

James Alexander Miller Douglas
CEO & Director

And John, Matteo said at the end, the one simple through line that I'd like to reinforce, which is as he leads the implementation of lean in the company, lean starts with safety goes to quality and delivery and then delivers cost and it creates a virtuous cycle. Our fill rates are higher than they were last year, higher than they were 2 years ago. Our on time continues to improve. Our shrink is down and so a lot of the productivity, we always say effectiveness before efficiency as a theme to make sure that the strategy is robust for

customer benefit and then creates a virtuous cycle of improvement. And that's the early days results we're achieving and the significant opportunity that we see ahead through the strategic plan, but beyond actually.

Operator

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

Unknown Analyst

This is [Matthew Rothway] on for Mark Carden. So I was wondering if you could help us understand to what degree natural was helped by project work in the quarter versus more kind of underlying growth in the category. Would you say underlying growth was more in the low single-digit range or mid-single digit?

Giorgio Tarditi
President & CFO

Yes. Matthew, so as we said before, in 2025, we started ramping some project-based business inside the Natural business. The Natural Product business that ramped very, very quickly in the second half of 2025. And as the customer completes their strategies is going to start winding down in the second half of 2026. So what I would say is that in the 7% performance in the second quarter following the roughly 11% growth in the first quarter, there is really the enduring dynamic of the natural organic specialty products. And then what we would expect in the second half is to see a little bit of the impact of the wind down of the project-based business while, again, the underlying fundamentals though, of the Natural Products remain strong.

Unknown Analyst

Great. Very helpful. And then as a follow-up, to what extent are potential headwinds from snap factored into your lower guidance?

Giorgio Tarditi
President & CFO

Probably speaking, when there are changes to the government assistance programs like snap, consumers tend to adjust their overall budget to preserve spending on food and kind of grocery staples. And our experience has been that footed home demand remains resilient as households tend to prioritize essential items. So as we thought about the guidance for the remainder of the year and then the algorithm through 2028, we're monitoring snap. We think that the impact is manageable and again, it's been fully embedded into our rest of the year outlook and '27, '28 algorithm.

Operator

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

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

So you continue to make nice progress on free cash flow, which is great to see. But given this is a multiyear process, just seeing if you could get us cut up on where we are in the journey. What's been done and as we look to kind of the back half and into '27, what are the next biggest drivers we should be looking for, especially within working capital?

Giorgio Tarditi
President & CFO

So we are pleased with the first half performance. We generated almost \$190 million of free cash flow in the first 6 months, which is up \$150 million year-over-year and when you think about the drivers, obviously, we increased EBITDA by 24% in the first 6 months. We continue to work on reducing the days of sales outstanding our receivables while capitalizing on the work that we've done on inventory with the decentralized procurement organization, the printer benefits in 2025 and is now complemented by the [Realex] rollout. So we have now an AI cloud-based inventory system that with the demand signals much, much faster and more effectively has been implemented in our Natural DCs, and we are on the way to implement it in the Conventional Product this is being done with the process by the end of the year.

So the combination of more EBITDA, more disciplined working capital management and then deleveraging the reduced the interest expense have all been favorable in our journey to deleverage to 2.2 turns, I would say, by the end of 2027.

Looking ahead. So first of all, relative to the second half of the year, we would expect a similar level of EBITDA when you think about the flows implied in the [\$695 million], there are about [\$315] million but we're going to step up the CapEx spending significantly. We had sales growth in the first half once you normalize for the automation investments that we had in first half of '25 and we have a number of safety, maintenance, technology and supply chain priorities for the second half. So we would expect the EBITDA similar to the second level -- to the first level, sorry, to be offset by the higher CapEx spending.

And then relative to the look forward in '27 and '28 when our guidance is about \$300 million of free cash flow we should expect to continue to see EBITDA growth. The current guidance is 730 of EBITDA for '27, 800 for '28. Continue to do work on the leverage reduction, which is going to give us tailwinds from an interest expense. And then we're keeping optionalities relative to working capital support and CapEx. And that's all territory of high confidence because we want to have multiple ways to get there and have flexibility relative to working capital investment and CapEx.

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

That was really helpful detail. Maybe just one quick follow-up related to a comment you guys made in an earlier question. So a low single-digit volume decline you called out for the conventional and your underlying core business there. Just any major call outs on a product category or retailer drive type that's kind of driving that. And I guess a bigger question also is we continue to hear about retailers getting more efficient with their own inventory management due to AI and automation. So how do you think that could be impacting your volume trends over time as well?

James Alexander Miller Douglas
CEO & Director

Leah, good question. I think I would try to separate the landscape into a couple of buckets. The first and most obvious point is that our customers virtually all of them are buying Natural and Conventional Products from us. And where we see customers performing well is when they're fairly deeply into a differentiation strategy that combines competitive costs with unique products and unique experiences. And you can think of retailers around the country that play that strategy very well. And broadly speaking, you've obviously got the pure natural players but within the all other, there are a number of retailers, including [club], for example, that are working on a differentiation strategy that includes products and experiences while still staying competitive on price. And those retailers tend to perform better and their sequential performance is better. And our entire strategy is set up to help them.

And so there's a lot of things going on in the marketplace that make it dynamic. What we are working on feverishly with our customers is helping them drive the kinds of strategic transformation that works for them and makes them part of the durable and long-term growing part of the industry, which is substantial.

As it relates to inventory, other than some early discussions that we're having with customers about how technology can work across our supply chain with them with [Relaxed] products in retail and [Relaxed] products in wholesale, we're not seeing a meaningful change in their inventory, at least broadly speaking.

Operator

Your next question comes from the line of Bill Kirk with ROTH Capital Partners.

William Joseph Kirk
ROTH Capital Partners, LLC, Research Division

Since your Investor Day, the amount of vendor-funded promotion seems to have increased. I guess, first, are you seeing more of this activity from the manufacturers? And has the increased activity skewed toward any particular category?

And then second, where your expectation maybe for inflation or possible deflation, where it may have changed. How much would you call your change in outlook for inflation commodities driven versus manufacturer-driven?

Giorgio Tarditi
President & CFO

So what we saw relative to a vendor promotions is that brands are being way more selective with their dollars shifting toward peak holiday moments and proven channels. What we see that they're pulling back where the ROI is uncertain, which is why promotional activity feels somewhat inconsistent across customers.

As we consider our outlook for fiscal 2026 and our revised guidance, we have not assumed a material step change in promotional levels. And what we saw is that promotions increased in November and December to kind of post pandemic highs as manufacturer leans into holidays but kind of tending up elsewhere. So we've seen a step down in January, which is in line with historic patterns. So that's on the vendor promotion.

Relative to inflation, right now, we have modeled low single digits for the remainder of the year, which is again, in line with our prior guidance. Our goal is always to work with suppliers to keep prices low, stable and predictable, which is the best cure for the industry. And while we may have seen some very transient and secondary procurement gains coming from inflation, again, our goal is to always keep it low and predictable, taking advantage of the pre-notice that we get from our suppliers and then working with them and the customers to make it as stable as we can.

Sandy, anything you would add?

James Alexander Miller Douglas
CEO & Director

Yes. I think, Bill, strategically, again, elevating a bit here. I think our focus with suppliers going forward is to continue to look for ways to make promotional spending more effective and more enduring around key price points. I would call it priority 1a for our particularly our conventional product merchandising is to help our retailers be more and more competitive, particularly on key items, and we'll be watching our progress there. That could take the form of a very long-term promotion as opposed to a price reduction. But net-net, it ends up creating more value at the shelf, which a lot of our customers are focused on.

William Joseph Kirk
ROTH Capital Partners, LLC, Research Division

Understood. And if I could sneak one more in, Matteo, you talked about the share repurchases made in the quarter. You've had that program, I think, since 2022, but it was the first time that you've used it since fiscal '23, I believe., So how would you expect to use this program going forward? And what does it say about your outlook and visibility and you used the word predictability that you're here using the repurchase program again?

Giorgio Tarditi
President & CFO

Yes, Bill, our main priority continues to be debt reduction and deleveraging. So we have again lowered our year-end expectation now for net leverage up to 2.3x from 2.5x before, and we continue to remain confident in reducing our net leverage to below 2x by year-end of fiscal '27.

Now we also continue to have high confidence in our value creation strategy. And so as we saw overperformance relative to cash, driven by EBITDA and better working capital management we thought that there was an opportunity to utilize part of the -- what was by the end about \$140 million share buyback basket, which is now about \$110 million and lock in some buybacks at \$33.66 on average. And as you think about how we thought about the second half with an implied free cash flow of \$140 million. First, we want to hit our target of 2.3x of leverage or less. Second, remain in high continent territory while we do that, but also maintain flexibility for either faster deleverage, more organic investments or possibly some opportunistic share buybacks.

Operator

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

Scott Andrew Mushkin
R5 Capital LLC

So I just wanted to kind of talk a little bit more philosophically on a long-term basis, thinking about how -- kind of where the company was before the acquisition on EBITDA margins? Those were over 3. And obviously, [SUPERVALU] brought those down and the traditional channel seems to have a lower margin historically. But I was just wondering philosophically, is there a cap on EBITDA margins at some point below 3? Or is that -- or do you guys think with all the efficiencies you can drive out of this business, thinking of EBITDA margins being able to continue to go up after your -- the '28 area is something we should consider?

James Alexander Miller Douglas
CEO & Director

Scott, a good question. I think of it in the following way. The lean methodology has us think about metrics together, starting with safety, quality, service and then cost. And we invest over \$4 billion a year of cost in serving our customers. We see significant opportunities to improve all of those metrics. And with each additional improvement we see more opportunities. And so no, we do not see a cap on the ability to improve quality or service or safety. And in the process of doing that, we're able to improve efficiency because process -- robust processes and the successful use of technology to improve them opens up road maps of opportunity ahead.

What we won't do is seek to expand margins at our customers' expense. In fact, we view this as an accretive model with lots of opportunity for growth in the future. So I'll boil it down in this way. We've communicated an outlook for 3 years that includes margin expansion that includes growth includes improving returns on invested capital and free cash flow. As we look past that time frame, and Matteo and I talk about this all the time, we still think we'll be using words like early innings when we leave '28, that the opportunity feeds the opportunity and because of the marketing focus on the more durable, differentiated target market, we think there's going to be opportunity in large amounts in the marketplace for us to continue to help customers and then the rest of it flows from there.

Giorgio Tarditi
President & CFO

And Sandy, what I would add is that in the outlook algorithm, we talked about 65 basis points of EBITDA expansion from '25 to 2028, we're pleased with what we've seen in the first half, where we had almost 50 basis points of expansion through natural growth, gross margin actions and any large productivity play.

James Alexander Miller Douglas
CEO & Director

And the biggest -- one of the biggest drivers to gross margin was continued reduction of shrink, which is once again a process improvement that absolutely helps. So the shrink is not a value to anyone. It's pure waste.

Scott Andrew Mushkin
R5 Capital LLC

All right. That's great insight. I appreciate the thorough answer. My second question revolves around the Conventional business. And again, it's more philosophical than it is here and now. Do you envision the Conventional business being able to be flat volumes eventually? And I'm talking about volumes not with the inflation, but just volumes being flat without making M&A, just like the business would end up being flat volumes. And how do you get there?

James Alexander Miller Douglas
CEO & Director

Scott, I think let's separate our business, which is a B2B business from the industries business, which is a B2C business. I believe that the trends towards healthier eating are enduring and will sustain. It's the right science, there's emerging consensus and it's increasingly being democratized by good value in the marketplace.

From a, you on a buy perspective, I think we're in a really good position to help retailers maximize that trend from wherever they sit today in the spectrum. So the kind of right answer I'd give you is, I'm not sure, but we'll be growing our volume with the products that we offer, and we'll have the products that are viable for growing volume because that's where the demand is, and that's what our job is.

Beyond that, I'm not sure. Each customer interestingly enough, has a unique set of product requirements that are serving different opportunities. And while we don't discuss individual customers here, some really interesting things are happening with conventional products in places that you wouldn't have necessarily expected as players who are looking to build their basket or build their customer base for their various platforms. So I don't know the headline answer to your question, but I don't think it matters particularly to UNFI. We're going to make sure we have the right products, and they'll continue to mix out based on the strategies of our customers and consumer demand.

Scott Andrew Mushkin
R5 Capital LLC

So my interpretation of that, Sandy, and I'll yield is that in aggregate, and you've told us this before, I think, not to just kind of look at your business necessarily in one segment or the other. But in aggregate, we should think about volumes growing once we're through this period.

James Alexander Miller Douglas

CEO & Director

I believe the public comments we've made, and Matteo said this earlier, is that we expect the company sales to return to growth next year. And we expect to achieve our 3-year sales guide at midpoint, which is about \$33 billion and that we have confidence in doing that. What I would say beyond that is we're always looking for ways to help our customers more and to grow our customer base. And that will continue. But the guidance is as it is, and we remain confident in it.

Operator

Your next question comes from the line of Krisztina Katai with Deutsche Bank.

Unknown Analyst

This is [Jessica Taylor] on for Krisztina. I just wanted to ask specifically about your value-add services and how you're thinking about how those contribute to your margin expansion, specifically as you line it up with the different business channels.

James Alexander Miller Douglas

CEO & Director

Yes, Jessica. The professional and digital services group continues to grow faster than the company. And we are always looking at services that will either help our customers save money work with the industry more efficiently and hopefully grow faster. A lot of our focus of late has been on digital services to help customers use technology. And obviously, the services that our customers use depend on where they are in the marketplace. But we continue to view this as an important part of our offering. It tends to be more profitable for us because the value added is defined. And so therefore, we're helping customers get value that they wouldn't be able to get otherwise. And we continue to invest time and energy on talent and new platforms to find new ways to continue to make our customers more competitive.

Unknown Analyst

And then just as a quick follow-up. Can you talk a little bit about how much less you think you have in terms of shrink improvement?

Giorgio Tarditi

President & CFO

We made a significant improvement on shrink. If you think about '23, '24, '25 and even in the first half of '26 and it's really been type methodology with the supply chain and the procurement teams mapping wing to wing, how we were buying, how we were managing inventory, improving the demand signal and that has created a very significant profit improvement for us in gross profit in the last 3 years, including a support to the gross profit expansion in the first half of 2026.

For us, the journey on productivity shrink, waste elimination is never ending. So we are never satisfied. We recognize that right now we have significantly reduced the shrink levels and there is probably level of structural shrink when you're managing \$30 billion of wholesale revenues. But with that in mind, we continue to do process mapping and managing inventory levels better that, in turn, help us reduce shrink. So we are not giving up on the shrink improvement from now on. It'll still be a contributor to a lesser extent, but a contributor to our margin expansion. Again, our goal right now is 2.4% through 2028 and we're roughly at [\$2.25] as we close the first half of the year.

Operator

Your next question comes from the line of Alex Slagle with Jefferies.

Alexander Russell Slagle

Jefferies LLC, Research Division

I wanted to ask on the rising diesel cost and if you could offer any historical perspective on how much you hedge or forward buy kind of how that passes through fuel surcharges and what we should think about...

Giorgio Tarditi

President & CFO

Alex, as you can imagine, this is quite a dynamic situation, but we have assessed and we believe it is manageable. So relative to the impact of the change in fuel prices to the business. We have a number of tools to manage fuel cost. Firstly, with fuel hedges as well as then share in our fuel price changes with our customers per our contract. It is very, very early on, as you can imagine. But again,

the early assessment when we look at the combination of hedges and contractual protection, we feel that is very manageable and embedded in our second half outlook and guidance for '27, '28.

Alexander Russell Slagle
Jefferies LLC, Research Division

Great. And private brand execution, you kind of noted a ramp-up with some incremental new products. What kind of progress should we expect over the next a year or 2? Or what milestones should we look for next just to see the progress in getting the private brand growth accelerating?

James Alexander Miller Douglas
CEO & Director

Yes. I think broadly speaking, we view the private brand portfolio as an important part of the differentiation strategies that we provide to customers. As I mentioned in the script, we had some significant new item activity so far this year, including some pretty hot new products, and we're excited about that. We have a new leader in running our brand portfolio and I think, broadly speaking, you should expect to see our brands portfolio grow faster than our total business. That's been our strategy and it continues to be. But we're also focusing incrementally on innovation to help drive the good, better, best positioning of our brands in the marketplace and further capturing the opportunity in the natural segment to improve our brand performance and continue to serve customers where they are with the products that will help them decompartmentalize their assortment versus some of the mass discounters, et cetera.

Operator

This concludes today's question-and-answer session. I will now turn the call back to Sandy Douglas for closing remarks.

James Alexander Miller Douglas
CEO & Director

Thank you, operator. As you heard today, we remain focused on executing our value creation strategy to add value for our customers and suppliers and become a more effective and efficient company. As we marked 50 years in business, and look ahead to realize our purpose of better food and helping to create a better future for our stakeholders. We're committed to building the capabilities that will help our partners differentiate, compete and achieve shared profitable growth. With a long runway of improvement opportunities still ahead of us, we are well positioned to create long-term sustainable value for all of our key stakeholders, including our shareholders.

To our customers and suppliers, we thank you for your continued partnership and collaboration. To the UNFI associates listening today, our thanks for continuing to deliver better for our partners, our communities and each other. And to our shareholders, we thank you for the trust you continue to place in us. Thanks again for joining us this morning, and we look forward to updating everyone on our progress this summer.

Operator

Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.

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