

United Natural Foods, Inc. NYSE:UNFI

FQ4 2026 Earnings Call Transcripts

Tuesday, September 8, 2026 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2026-			-FQ1 2027-	-FY 2026-			-FY 2027-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.62	0.69	▲ 11.29	0.71	2.56	2.65	▲ 3.52	3.21
Revenue (mm)	7676.80	7642.00	▼ (0.45 %)	7946.54	31197.21	31152.00	▼ (0.14 %)	31873.79

Currency: USD

Consensus as of Jul-09-2026 6:57 PM GMT

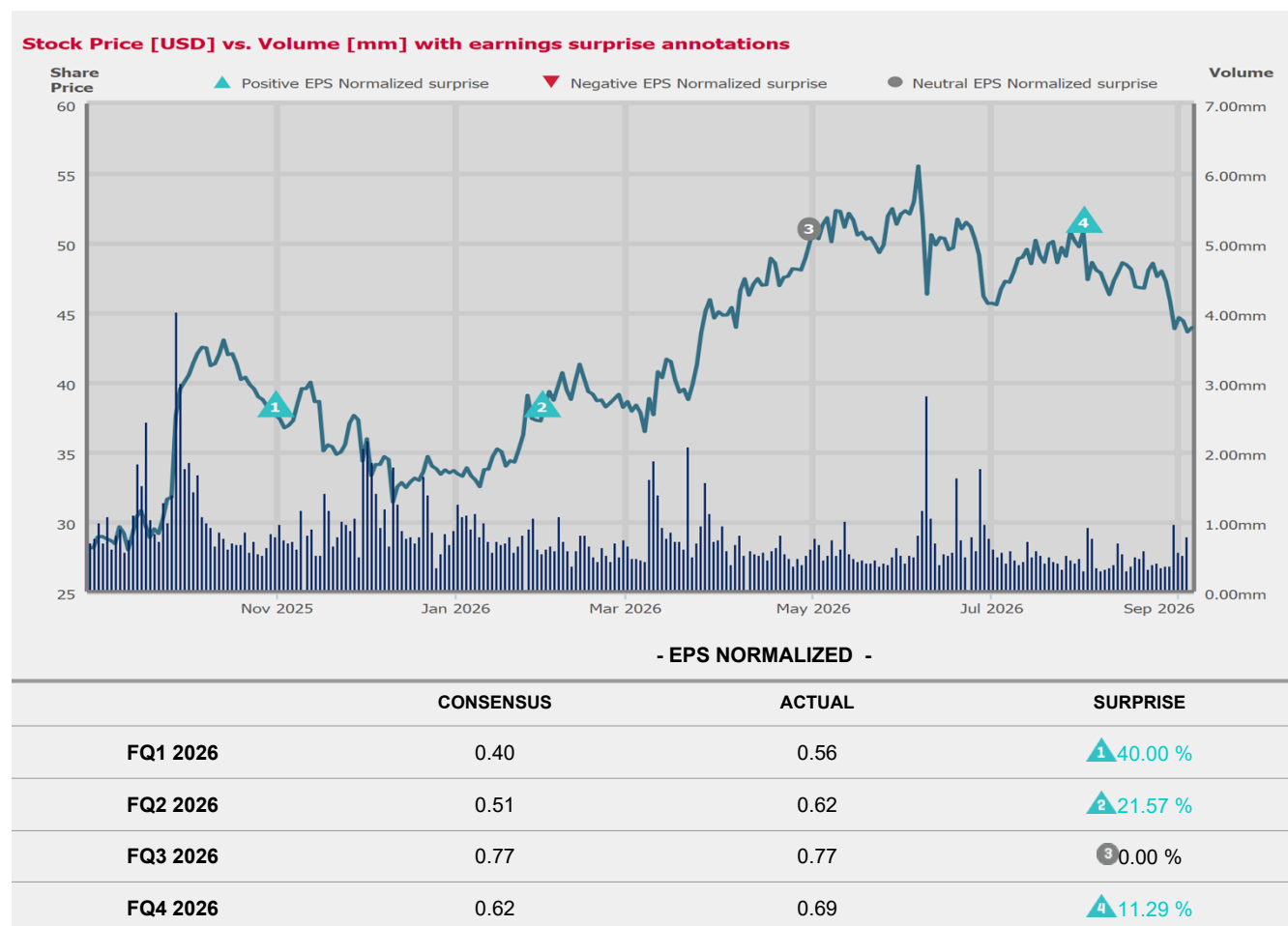


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Call Participants

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John Edward Heinbockel
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Presentation

Operator

Thank you for standing by. At this time, I would like to welcome everyone to the UNFI Fourth Quarter Fiscal 2026 Earnings Call.
[Operator Instructions]

I would now like to turn the call over to Jeremy Perron, Senior Vice President of Investor Relations and Corporate Development. You may begin.

Unknown Executive

Good morning, and welcome to UNFI's Fourth Quarter and Full Year Fiscal 2026 Earnings Conference Call. Our earnings press release and presentation, which management will speak to, are available under the Investors section of the company's website. We've also included a supplemental disclosure file with key financial information. Joining me for today's call are Sandy Douglas, our Chief Executive Officer; and Matteo Tarditi, our President and Chief Operating Officer.

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. Additionally, Sandy and Matteo 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 at the end of the earnings presentation.

Now over to Sandy.

James Alexander Miller Douglas *CEO & Director*

Thank you, Jeremy, and thank you, everyone, for joining us this morning. In the fourth quarter of fiscal 2026, UNFI delivered solid results in line with our most recent outlook and completed a strong second year of our strategy to add value for customers and suppliers while becoming a more effective and efficient company. Through consistent execution of our value creation strategy, we delivered fourth quarter adjusted EBITDA of \$172 million, which contributed to full year adjusted EBITDA growth of 27% and free cash flow of \$80 million in the fourth quarter and \$323 million for the full year. And we reduced our year-end net leverage ratio to 2.2x, more than a full turn less than last year.

At the same time, we strengthened capabilities to help our customers and suppliers grow profitably, continued improving our operating model and build momentum as we enter fiscal 2027.

Now turning to Slide 6. Let me take a few minutes to review UNFI's target addressable market, the basis for our value creation strategy. Over the past 2 decades, many of the most successful food retailers have built growth strategies centered on differentiation. While value remains critically important, many shoppers also continue to seek healthier foods, innovative products and locally relevant experiences. As a result, food retailers with differentiated value propositions have steadily gained share within the grocery industry over time. We continue to see this trend across a wide range of retailers, including natural and organic grocers as well as smaller chains and independents with unique locally relevant offerings. These retailers are the foundation of UNFI's approximately \$90 billion target addressable market, which is expected to grow in the low single digits over time.

Our focus is helping these customers execute growth strategies to differentiate their shopping experiences in the marketplace, and better compete with mass and discount retailers. Through a combination of our proprietary analysis and third-party research, we estimate retailers within our target addressable market grew in the low single digits and increased their combined share of the grocery industry by approximately 30 basis points compared to last year's fourth quarter. Within this backdrop, UNFI delivered low single-digit underlying sales growth in line with our target addressable market.

As we've discussed previously, our reported sales included the impact of accretive network optimization actions and the unwind of short-term project work in our Natural Products segment, partially offset by the cycling of last year's cyber event. Excluding those factors, our underlying sales performance remained largely in line with the most consistent and growth-oriented portions of the market. Importantly, we believe our target addressable market will continue to grow because of the quality of our customer base and their alignment with enduring consumer priorities around health innovation, quality and value.

Turning to Slide 7. Our value creation strategy is purpose-built for this part of the market and anchored on 2 priorities, adding value for customers and suppliers and becoming a more effective and efficient company. First, we're adding value for customers and suppliers by enhancing account management, merchandising and supplier support programs innovative private brands and professional services that help our partners differentiate, compete and profitably grow. Second, we're improving effectiveness and efficiency across the business through next-generation supply chain, technology and productivity initiatives that are steadily improving safety, quality and delivery accuracy for our partners while reducing our operating costs.

Together, these strategic capabilities represent our road map to building a company that can best serve the most growth-oriented parts of our industry while supporting shared profitable growth for our customers, our suppliers and for UNFI.

Turning to Slide 8. In fiscal 2026, we made solid progress on our road map to strengthen our core capabilities while continuing to improve daily execution. This year, we launched more than 130 new private brand SKUs, including a variety of innovative health forward options. In Q4, we also refreshed one of our core seafood brands that offers a unique combination of quality and value. We've seen private brands continue to grow steadily across the industry, playing an important role in many retailers' differentiation strategies. We also continue to enhance our supplier support programs with several of our investors saw in real time at our holiday and winter selling shows. Most recently, we added new AI-enabled features on the UNFI Insights platform to make it easier for our suppliers to assess store-level performance improved demand planning and achieve their goals.

Throughout fiscal '26, we also made progress towards becoming a more effective and efficient company. We continue to optimize our network to better serve our customers and suppliers over time, while investing in technology to support long-term growth. In the fourth quarter, we consolidated our Racine, Wisconsin facility and expanded our nearby Joliet, Illinois DC with full case automation, which is now in the early stages of implementation. We also completed the rollout of our AI-powered supply chain and procurement planning platform to all DCs in our network, which is helping to steadily prove fill rates and inventory management, while increasing free cash flow.

In addition to technology investments, we focus equal attention on strengthening processes across our network. By year-end, we completed the initial deployment phase of lean daily management in 44 distribution centers, which is enabling ongoing improvements in our safety quality, delivery and cost metrics. While we've made progress this year, we still see significant opportunities to continue improving our capabilities as well as our effectiveness and efficiency across the business. The leadership updates we recently announced are another step forward in aligning our operating model more closely to our value creation strategy.

Matteo's expanded role as President and Chief Operating Officer, brings together our sales, supply chain technology and lean organizations, creating stronger alignment between our customer relationships, and our operational execution. We're also sharpening our focus on commercial capability building under Louis Martin's leadership. On that note, I'm pleased to officially welcome Alfredo Luchini as our new Chief Financial Officer, who is joining us on today's call. We're excited to have him on board as we continue acting our strategic priorities with strong financial discipline.

Turning to Slide 9. We've achieved significant improvement as we cap the second year of our value creation strategy with momentum continuing into fiscal '27. Over the past 2 years, we have consistently delivered on our earnings and cash flow commitments. We've grown adjusted EBITDA to over \$700 million, generated substantial free cash flow and reduced net leverage from 4x in fiscal '24 to 2.2x in fiscal year '26. These results reflect the impact of our value creation strategy and the actions we've taken to improve execution, increase efficiency and strengthen the company's financial foundation.

In fiscal '27, we're positioned for another year of continued progress with adjusted EBITDA up high single digits, sustained free cash flow generation and lower net leverage while returning to profitable growth. As Matteo will detail shortly, the midpoint of our adjusted EBITDA outlook is \$25 million above the targets we communicated during our 2025 Investor Day, reflecting our strong performance in fiscal 2026, although it's early, we would expect this favorability to flow through to fiscal 2028. Importantly, we're confident in our ability to deliver long-term profitable growth within the most resilient segments of the grocery retail industry.

Looking ahead, our teams remain laser-focused on helping our customers execute their differentiation strategies, supporting our suppliers' growth with these retailers and continuing to improve the service that we deliver every day.

With that, I'll turn the call over to Matteo to discuss our fourth quarter results and fiscal 2027 outlook in more detail.

Unknown Executive

Thank you, Sandy, and good morning, everyone. Our fourth quarter results reflect disciplined execution of our value creation strategy. We delivered another quarter of underlying sales growth and improved operating leverage, closing out a strong fiscal 2026 in which we generated meaningful adjusted EBITDA growth and free cash flow, while improving our financial flexibility. Today, I will provide

additional insight into our fourth quarter and full year results, our year-end financial position and capital structure and our outlook for fiscal 2027.

With that, let's turn to our results. Starting with Slide 11. Fourth quarter sales were over \$7.6 billion, bringing full year sales to approximately \$31.2 billion, in line with the updated outlook we provided in June. Fourth quarter reported sales declined by less than 1% compared to last year. Excluding our planned optimization actions, short-term project work and the impact of cycling last year's cyber event our underlying wholesale sales grew in line with our \$90 billion target addressable market. We estimate the impact of optimization was approximately 500 basis points. The impact of short-term project work was approximately 150 basis points and last year's fourth quarter impacted by the temporary lost sales due to last year's cyber incident.

The majority of our customers buy both natural and conventional products to support the unique go-to-market strategies in the local markets they serve. Underlying sales in our Natural Products segment again outperformed the broader market, reflecting strong execution and continued shopper demand for natural, organic fresh and specialty products. Meanwhile, underlying sales declined mid-single digits in the Conventional Products segment. In retail, total sales were lower by 8%, largely reflecting planned strategic directions as we optimize our footprint and strengthen the foundation of the business.

In the fourth quarter, CAP same-store sales decline improved by approximately 150 basis points from the third quarter, even after adjusting for last year's cyber impact. We are encouraged by the steady progress though our cap strategy is still in its third innings.

Let's move to Slide 12 to review profitability drivers in the quarter. Our gross margin rate in the fourth quarter was 13.7%, and approximately 30 basis points higher compared to last year, reflecting the benefits of our optimization work and favorable customer mix. In the fourth quarter, we made some incremental investments in technology supply chain and commercial capabilities to accelerate the expected benefits from these actions. Operating expenses came in at about 12.9% of net sales, which was in line with our expectations. While we still have significant opportunities to improve, we continue to demonstrate progress on fee rate, on-time deliveries and throughput.

These gains reflect the benefits of our effectiveness and efficiency initiatives, including network optimization, investments in our next-generation supply chain and expanding lean practices across our distribution center network. Our disciplined execution and solid expense management resulting in adjusted EBITDA of \$172 million, bringing full year adjusted EBITDA to \$701 million, near the top of our guidance range. Our adjusted EBITDA margin rate in the quarter was approximately 2.3% of net sales, reflecting another quarter of solid margin improvement. The strong operating performance, along with lower net interest expense from reduced net debt and refinancing activities as well as lower depreciation expense resulted in fourth quarter adjusted EPS of \$0.69 and full year adjusted EPS of \$2.65 above the high end of our guidance range.

Looking to Slide 13. During the fourth quarter, we continued to improve our effectiveness and efficiency by deploying new technology solutions and by further embedding leading practices across our network. As Sandy mentioned, one of the key actions we made in the quarter was relocating operations from an older distribution center in Wisconsin to an upgraded facility in Illinois, equipped with automated case pick and [itch pick] technologies. While it is early and we have more work to do, we expect that this move will help us more effectively serve customers and suppliers in the Midwest over time while generating operating efficiencies for UNIFI.

This is the latest example of our network optimization planning. We've also completed the initial deployment phase of Lean daily management to 44 distribution centers where Lean daily management scaling across our DC network we delivered our fourth consecutive quarter of year-over-year improvements in fee rates, on-time deliveries and throughput. We have made steady progress but still believe we have significant runway to continue improving upon these metrics. To do that, we plan to deploy Lean 2.0, which advances systems and processes beyond our initial implementation so we can solve more problems closer to the point of impact. Lean will continue to be an important part of mineral.

Turning to Slide 14. Our strategic and operational discipline, combined with our planned CapEx spend supported free cash flow of \$80 million in the quarter, bringing our full year to \$323 million, in line with our expectations and \$84 million higher than fiscal 2025. This also represents the highest full year of free cash flow we have delivered to date. This free cash flow helped lower our net leverage ratio to 2.2x, a 1.1 turn improvement from the end of fiscal 2025. Net debt at the end of fiscal 2026 was less than \$1.6 billion for the first time since fiscal 2018.

In the fourth quarter, we repurchased about 420,000 shares of our stock for approximately \$21 million, bringing our total for the fiscal year to about 1.25 million shares for approximately \$50 million, equating to an average price per share of \$40.15. Our 8-K this morning also stated that our Board of Directors has authorized a new \$200 million share repurchase program that replaces the one that was set to expire this month. This new program and the repurchases we have made to date, reflect our conviction in our long-term

value creation strategy. We also took action to reduce the cost of our capital structure in the fourth quarter, reprime our term loan from SOFR plus 475 basis points to suffer plus 400 basis points, which is expected to reduce annual interest expense by another \$3 million on top of the savings generated by the refinancing of the ABL earlier in the year.

Looking at Slide 15. We finished fiscal 2026 with operating momentum. And as we look to fiscal year 2027, our guidance reflects our confidence in the continued execution of our value creation strategy. Sales are expected to be in the range of \$31.2 billion to \$31.8 billion, up 1% at the midpoint. This outlook reflects the remaining impact from the optimization actions we yet have to cycle. As a result, year-over-year sales are expected to decline in the first quarter before returning to profitable growth in the second half. Adjusted EBITDA is expected to be in the range of \$730 million to \$780 million representing a high single-digit growth rate at the midpoint. And as Sandy mentioned \$25 million above target we communicated at Investor Day.

The midpoint of our sales and adjusted EBITDA guidance implies year-over-year margin expansion of 10 basis points, positioning us to achieve the fiscal '28 margin rate target that we set at our Investor Day, 1 year earlier than planned. This expected margin expansion is largely driven by the continued execution of initiatives already underway and the timing of their anticipated benefits. Because these benefits are affected to build throughout the year, we expect revenue and earnings growth to be slightly weighted towards the second half with the first quarter expected to follow historical trends for adjusted EBITDA as the lowest quarter of the year. And we expect an adjusted EPS range of \$3 to \$3.50 per share representing an increase of about \$0.60 per share or 23% growth at the midpoint.

These ranges represent a high confidence case supported by multiple initiatives across the business to achieve these targets. Also to reiterate what Sandy stated, we presently expect adjusted EBITDA in full 2028 to grow approximately 10% versus our 2027 guidance midpoint, in line with the long-term growth rate we provided at our Investor Day implying incremental margin expansion above our long-term targets.

Turning to CapEx. We expect to deploy approximately \$300 million in fiscal 2027, reflecting a higher level of organic investments to advance our capabilities as well as our effectiveness and efficiency agenda. This includes targeted automation, ERP deployment and broader technology initiatives designed to simplify processes and provide better and faster insights to operate the business. We will take a methodical paced approach to technology investments, focusing on targeted implementations first than a broader deployment. Our outlook for fiscal 2027 free cash flow is between \$275 million and \$325 million, which reflects a year-over-year step-up in capital spending, offsetting the EBITDA growth.

The midpoint of \$300 million is also in line with our long-term target. We also expect to reduce net debt and improve our leverage ratio to under 2x by end of fiscal 2027. From a capital allocation perspective, we will continue to prioritize organic investments and deleveraging and we'll also evaluate opportunistic share repurchases. Overall, we remain confident in our long-term value creation strategy.

Closing on Slide 16. As we begin the new fiscal year, we remain focused on continuing to support our customers and suppliers as they execute their unique growth strategies in a dynamic operating backdrop, while simultaneously delivering our financial commitments. We continue to see significant opportunities ahead to strengthen our capabilities, improve execution and create long-term value for all our stakeholders.

With that, operator, please open the line for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Edward Kelly with Wells Fargo.

Edward Joseph Kelly

Wells Fargo Securities, LLC, Research Division

I wanted to start on the top line. Obviously, you're still seeing some optimization headwinds. Can you provide a little bit more color on the 150 basis points of short-term project work? And then as we think about the upcoming year, can you help us a little bit in terms of the top line outlook by division and a little bit more on the cadence? And I'm just curious if there's any other optimization stuff that you are maybe contemplating that's not in the guide.

James Alexander Miller Douglas

CEO & Director

First, I would say the simplest way to understand the project work is that a large natural retailer asked us to help them make a strategic transition. And we did some significant fresh business for them as a bridge from where they were to where they were going. This is a very appropriate use of our resources. It was profitable, and we are in the process of cycling it now having made the transition and it's approximately 150 basis point drag on our reported sales results.

From an outlook standpoint, as Matteo said in his comments, we see 2027 as a year that will return to growth. We still continue to lap some of the optimization results that we achieved last year. And so we can quantify the headwind there along with the tailwind that we estimate from the success of our customer base and our target addressable market as well as our pipeline, which are part of the mix that lead to low single-digit guide for the year with an emphasis that growth is restored in the second half as we have pretty much fully lapped the optimization initiatives that are part of the base.

Doug Thomas

And just on where you are in terms of optimization overall potential for further activity in the future?

James Alexander Miller Douglas

CEO & Director

Sure. DC optimization is really a initiative that we undertook to make sure that our DC fleet is designed for the future opportunity that we see in the business. And we've taken a number of actions so far we continue to look at it to make sure that on an ongoing basis, our DCs are in the right spot with the right technology. It involves both increases in DC space, technology, new DCs as well as transitioning some DCs, sometimes merging them to make them more efficient. So the mainstream of the initiative is something that we're in the process of cycling, but we'll continue to look at.

Operator

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

Aaron Akiva Eisenberg

Jefferies LLC, Research Division

Congrats on the progress. I just wanted to follow-up on Ed's question a little bit more. If there's any other color sort of on the segment level. Just trying to think if like conventional and retail, I mean, can the top line start to flatten out at some point in the back half and on the bottom line, whether you expect sort of what the contribution could look like for those 2 segments natural versus conventional?

Suzanne St. George

So first of all, we are pleased with the performance that the 2 segments deliver in 2026. So think about natural growing top line 7% and growing EBITDA, 19%, so showing strong operating leverage. And then conventional while going through an important year of accretive network optimization growing EBITDA by more than 50%. So solid, solid foundation to start with. When you think about 2027, we don't necessarily guide by segment, but let me give you a little bit of color. So the low single-digit growth for the top line is rooted into the customer trends as Sandy stated, the \$90 billion market that continues to grow at low single digit and the commercial

capabilities we're building. And inside the low single-digit guidance, we continue to see natural organic specialty products to grow faster than the average market and the portfolio.

So we expect to continue to see strength from the natural products. We continue to have our initiatives on productivity largely underway and then the return to profitable growth to compound on getting the EBITDA up 8% at the midpoint.

James Alexander Miller Douglas
CEO & Director

One final point I'd make is that ultimately, our product set is designed to serve the assortments of our customers. And so the natural evolution would be that customers are beginning to focus more on healthier, more differentiated product sets, which drives growth in natural. But our conventional products are particularly important products, many assortments and while their year-over-year growth may be negative, the total combination adds value to customers and drives our growth proposition.

Alexander Russell Slagle
Jefferies LLC, Research Division

Got it. And then just on the '27, '28 target, I mean, how does the higher fuel costs impact this outlook? And just the magnitude of the incremental headwind? I know it's something we initially weren't looking at a couple of years ago when we set the plan.

Unknown Executive

Yes, Alex, we are talking kind of the 3Q for 2 calls about a \$5 million kind of net fuel impact in each quarter. And that's kind of in the high confidence mode that we always apply for our outlook what we model for 2027. And equally importantly, if not more is the countermeasures that we continue to deploy against fuel prices. So the first one is we have some fewer hedges in place to mitigate some of the inbound cost.

Second, we have customer and supplier contractual escalations that again go through lignin phase-in, but they are in place to protect. And then the third one, which is the most important is the continuous focus on route optimization. So how do we continue to reduce miles per delivery and optimize routes. So the whole system benefits from lower fuel consumption besides contractual escalations and hedges.

Operator

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

Kelly Ann Bania
BMO Capital Markets Equity Research

Congrats on the leadership announcement. I wanted to go back and get into the top line, I guess, that kind of underlying low single-digit sales growth that you noted for the quarter. Should we assume that you kind of got back 100% of the cyber incident impact in the quarter? Just trying to tighten that math up a little bit. And then as well, you mentioned in the press release onboarding of digital business from both new and existing customers. Can you share any color on the timing and magnitude and drivers for that new business?

Unknown Executive

Kelly, so the way I would describe the flow of the business is that I'll start with the pipeline. We continue to earn bigger shares of our customers' business is the best kind of growth because it signals a healthy relationship, and it often includes economies of scale. And so it's a real focus for us to continue to earn our customers' business, and that's a component of the outlook in terms of sales. We also have new banners, which are new relationships. And obviously, we've netted out the other changes in our customer base to be able to come to the guide. What we've communicated today, and I think it's the best way to think about it is that the first quarter will continue to have a heavy amount of cycling from the optimization. And the second half of the year, we think will be fully back to growth. That gives you an idea of the staging, both of the pipeline and of the cycling of optimization.

Finally, relative to the cyber event of last year. In general, we believe we completely cycled it as we enter the first quarter. I mean there's little impact here or there. But we worked very hard last year to manage through that in a way that was focused 100% on our customers' impact. And we did so in a way that was expedited although it was, as everyone remembers, very challenging. And as we sit here today, we're a stronger company from a technology and security standpoint and our customers have the benefit of that capability build. And this is solidly in the rearview mirror for them and for us.

Operator

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

Leah Dianne Jordan

Goldman Sachs Group, Inc., Research Division

I wanted to ask about food inflation. What are you seeing today? What is embedded within your outlook for FY '27. And then how are you thinking about forward buying opportunities in the year ahead? Because I think you have a small tailwind that you have to lap in the front half of this coming year that you gained last year?

Unknown Executive

First of all, our strategy with suppliers and through our supply chain is always to keep our prices low, stable and predictable. That is the best answer and the best response to the industry and for our customers. When you think about our fiscal 2027 outlook, we've embedded low single-digit assumption for inflation, recognizing though the environment is dynamic and it includes areas like energy, logistics, we talked about fuel well.

So it is consistent with the signals that we receive. And again, our focus is to continue to work with our suppliers and our operational capabilities to keep prices low. Relative to procurement gains, what -- again, very similarly, our strategy is always to work with our suppliers to avoid inflation and toward price increases. And we always view procurement gains as temporary and secondary. If you think about the \$150 million of EBITDA growth very largely driven by the productivity efforts, the accretive network optimization, a very residual part was driven by procurement gains. So we may be lapping some in the first and second quarter when we had them a little bit higher. But what we embedded in our '27 outlook is low single-digit inflation and basically no reliance on procurement gains on out of pattern, let's say, procurement gains.

Leah Dianne Jordan

Goldman Sachs Group, Inc., Research Division

Okay. That's helpful. And then maybe could you provide more detail on the trends in your retail business. What are you seeing across the competitive environment in your regions? What are you seeing in the consumer just continues to be kind of a top line and margin for you? So how are you thinking about that?

James Alexander Miller Douglas

CEO & Director

Yes. Leah, it's Sandy. The way I'd describe our retail initiatives is early days. David Best, our retail CEO has his management team in place. They've developed a strategy, and they're in the early stages of implementing it. And as Matteo said in his remarks, we're seeing sequential improvement in the top line and bottom line performance. We'll have more to say about that as we get more experience. But as you know, in particular, Cub is a great learning lab for us. And the management team that's been put in place is very high quality. We work closely with our franchise partners in the Twin Cities area, and we're excited about the potential, but early days as of now.

Let me answer your second question. I forgot to, about competitive environment. Broadly speaking, retail is and has always been in my entire professional life, a very competitive business, and it still is. Ultimately, if you look at the way we've segmented the business and there's one slide that's in our provided materials. We continue to see natural organic and specialty players grow gain share. We continue to see differentiated grocery companies grow and gain share. And we continue to see discounters grow and gain share, and they each do it in their own unique way and UNFI, our focus is trying to help retailers wherever they're segmented, particularly those that may not have been differentiated in the past, like Cub, for example, to really take the actions necessary to create a winning strategy for their business on value, on assortment and on unique experiences.

And I think we can follow a Cub as an example, and that effort goes for all our customers, and we're seeing some early results from providing that support on top of a bed of continuously improving execution.

Operator

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

John Edward Heinbockel

Guggenheim Securities, LLC, Research Division

Sandy, I wanted to start with fill rate, up 2%. How is metro fill rate progressing? Because I know that's obviously lower than conventional. Is that growing faster? Where do you see the opportunity there? And I guess it's very hard to tell how much sales you're leaving on the table because the fill rate is not higher. But maybe you can talk to that.

James Alexander Miller Douglas
CEO & Director

Sure, John. Insightful question. Broadly, we're seeing fill rates improve in conventional and natural at about the same rate. However, you're right, conventional fill rates are higher, and it makes sense that they are. They're fast-moving consumer goods, lot fewer SKUs. And generally, volume is more stable, and there's plenty of supply. On the natural side, with all the innovation and the slow-moving SKUs, it's a whole different ball game. But we have created an enterprise-level project on fill rate. We consider improving it to be at the top of the most important things we can do for our customers and that includes owning them.

The ultimate position that we want to put our customers in as being in stock at really very, very high levels. And then underneath that, understanding demand, understanding ordering patterns, understanding promotions and working with suppliers to get a differentiated amount of inventory and then using technology which we've implemented, as you know, RELEX across our system to leverage AI to make sure that we're continuing to order and fulfill in the most technology supported way. And we're making some progress, but we continue to see it as the biggest improvement opportunity we're working on, and we expect to continue to improve.

John Edward Heinbockel
Guggenheim Securities, LLC, Research Division

Maybe a second question. If you think about -- you break out natural and conventional, but then you have, right, the customer types that are differentiated. So when I think about conventional product sales through less or undifferentiated channels, how do you think about that? And I would guess over time, right, as conventional gets smaller. And as these customer types get smaller, right, you would think that your enterprise top line would gradually strengthen. Is that fair?

James Alexander Miller Douglas
CEO & Director

Yes, I think so. The way I look at it is that customers have their own assortment strategies and what our job is, is to support that. Now the advice we're offering is a couple fold as it relates to assortment. First, on items that are comparable with discounters, we need to work together to get costs down so our customers can be competitive. Beyond that, though, there's tremendous opportunities to de-comparablize and move assortments towards private labels, which is a major focus of ours, as well as natural, organic and specialty a, because they're not comparable and b, because they're on trend. And so to some degree, we're going to force that transition in mix simply by strategy and by consumer demand.

But what I'll also tell you is that approximately 90% of our customers buy at least some of both. And so I returned back to how I started, which was we're in the business of selling the products our customers want to sell. But at the end of the day, the math of it is going to be what you suggested, I expect and I believe the elephant wellness trends in food are enduring and will go for a long time.

Operator

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

Mark David Carden
UBS Investment Bank, Research Division

So to start, you walked through the competitive backdrop on the retail side of the business a bit earlier. Are you guys seeing any shift in competitive intensity on the distribution side of the business, just given the duration of some of the recent pressures that we've seen in grocery? You guys obviously have a bit more favorable exposure with your target market. But has there been any shift on either upfront money or on price in general?

James Alexander Miller Douglas
CEO & Director

Mark, I would say broadly that the wholesale industry continues to be very competitive. I think what may be taking place is some incremental segmentation about where different players are focused but you have to talk to the other companies to understand their strategy. I wouldn't be the right spokesperson for it. But ultimately, we operate a very efficient business with low margins and our productivity and operational improvement drives our margin expansion, not our price increases.

We remain competitive, but we're focused, as we said many times, on a subsegment of the market and particular needs and capabilities that support the strategy of customers in those segments, and that puts us to a degree in our own spot in the industry although it's a very competitive industry, and we continue to sharpen our execution to make sure that our customers believe they're getting the best value for what they're trying to accomplish.

Mark David Carden

UBS Investment Bank, Research Division

Great. That's helpful color. And then as a follow-up, you guys called out the focus on Lean 2.0. Can you walk through just how this differs from your initial deployment, where you see the most opportunity for incremental improvement and how you're planning on phasing in these changes to your DC base? Is it voluntary like the first phase, does it be implemented more quickly? Just color there. .

Unknown Executive

So pleased with the progress with the first phase. We deploy the basics of lean daily management at 44 DCs and really -- what we saw in the last 4 quarters is green shoots of improvement in fee rates, on-time delivery throughput but feel a very large opportunity in front of us. So we call them green shoe to the start, but there is a lot to do. When you think about 2.0, the plan here is to start going much deeper into 2 specific areas. The first one is management routines and specifically, how do we strengthen the problem-solving and daily management programs. So we spoke about the team's handling at 7 a.m. at 44 DCs to look at the key performance indicators.

We're going to start going much deeper into the countermeasures and how do we deploy technology, how do we deploy stronger quality, et cetera, et cetera, 2 problems solved. The second year then is going to be continuous improvement, right, the Japanese word will be kaizen, is how do you then take your foundation and you keep thinking about eliminating waste, improving effectiveness, improving efficiency. So the plan here is to go a little bit on the volunteering basis as we did with 44 DCs but we also start having a better understanding of what are the larger opportunities based on customer feedback, customer impact, suppliers, out of stock, et cetera. And so that's how we're going to prioritize. So it's going to be a little bit less of just raising your hand, is a smarter way to cross check where is the biggest impact, what is the opportunity.

James Alexander Miller Douglas

CEO & Director

Mark, the one build I put on that is Matteo's answer to that question, gives you a pretty good example of why we're optimistic about the impact he's going to make as Chief Operating Officer, with sales, customer and supply chain and lean and IT reporting to him, we're able to push that together and begin to take things to the next level.

Operator

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

Scott Andrew Mushkin

R5 Capital LLC

I have 2 questions. But before that, I just wanted to say what an incredible job you guys have done with this company over the last 2 years and it was much appreciated. So first question is more short term. is industry-related. I mean, obviously, you guys outlined the way you can grow. But in the broad industry, it looks like we're going to have some volume pressures as GLP-1s continue to erode demand and then also building price pressures throughout the whole industry. So I was just wondering if you could kind of put UNFI in that, if that's correct? And how your business performs in that environment, if that's the short-term environment?

Unknown Executive

So clearly, there are some macros that are impacting everyone. I think the largest right now is fuel prices and the reduction of food assistance or SNAP programs and that's impacting retail GLP-1s are also impacting volume, but there's a positive and the negative. The negative is volume goes down, the positive is that healthier food goes up. So those are the 3 macros. Ultimately, retailers respond to it differently. And our exposure is attached to how our \$90 billion target addressable market retailers action against the environment they're in. And as I mentioned earlier, broadly speaking, there making sure that their value is right. They're making sure that their assortment is right, and then they're continuing to work on their in-store experience, depending on what their strategy is. ultimately, the environment is dynamic.

And if you look at the chart we have that goes back 20, 25 years, and that certainly includes all the time that I've been in the industry. I've never seen the industry not be dynamic. There have been periods of time when the macro is particularly challenging. But if you look at it over time, the winners win regardless of the environment and to some degree, there's a fair amount of opportunities

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that companies see when things are challenging to double down on their proposition. Now I don't want to be [Pollyanna]. We have to work on it. We have to be efficient. We have to improve our execution. We, at UNFI take the opportunities to improve our service to our customers are significant and enduring and we're relentlessly focused on them, and that's particularly important in this environment.

Scott Andrew Mushkin
R5 Capital LLC

That's great. So my second question is more of a long-term question. And obviously, you've gotten back -- you're going to be -- so if you had to prioritize capital, organic growth versus M&A, buyback versus dividend, over like a 3- to 5-year period, not like this year, because you're going to have free cash flow looks like at least a \$300 million going forward. How would you structure that and think about that?

James Alexander Miller Douglas
CEO & Director

Yes. Great question, Scott. And I'm going to let Matteo carry most of this. But what I -- the first comment I'd make is we really haven't said anything about the long-term capital allocation strategy other than we're going to continue focusing on deleveraging, investing in the business to drive organic performance in a highly disciplined way and then opportunistically buying back our shares. I think the broad opportunity over time is to continue to invest capital to drive the highest possible level of customer benefit and shareholder returns. And we continue to work as a matter of strategy in a very diligent way to look at that short, medium and long term.

If we had a bias right now, I would say that it's around organic improvement simply because we see so much opportunity to do that. But that -- I wouldn't want to foreshadow the ultimate strategy other than to say that's where we are currently focused. Matteo, how would you build on that?

Giorgio Matteo Tarditi
President & COO

No, you said it perfectly, Sandy. I mean the only add I would say is that we are taking the CapEx spending for '27 to about \$300 million, which, as you average the last 3 years, it's kind of in line with that 1% of top line that we discussed at the Investor Day, and we keep the same high hurdle rates for returns, strong focus on safety, strong focus on technology and then as Sandy's point, developing the supply chain capabilities that are critical to become more effective and efficient and insight that our commitment to continue to reduce leverage and return on to shareholders.

Operator

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

Charles Edward Cerankosky
Northcoast Research Partners, LLC

When you're talking about acquiring new business and expanding business with existing customers. What sort of the lead time? How much spade work goes on that we don't see? And is the company's improving balance sheet helping United Natural achieve that goal?

Unknown Executive

Chuck, let me answer the second half of your question first. Our balance sheet strength and financial foundation improvement is significantly freeing up our ability to invest in a high-quality way around capability. Having said that, there's a bigger enabler beyond the dollars, which is the talent of the management team and the discipline and the focus around project management. And I actually view the second one is more important than the first, but it's nice to have them go together. That differentiation around execution and then the focus on providing the value that our customers are seeking to drive with their strategy is ultimately why we're winning business when we do. The sales cycle is as long as it takes.

Now that's -- I'm not trying to cop out. It's a long sales cycle. But I have seen customers make decisions to give us a category to work on for whatever reason, sometimes because their existing supply caved in, and they need us to pick it up right away. Other times, where they're continuing to evaluate categories and it takes months of dialogue. And in a banner conversion, it could take as much as 6 to 9 months and then you have to avoid high-volume times. It's not the best time to make a distribution change in the holidays, for example. So it's a deliberate process. It's at the speed of the customer and the basis of competition is our fit to their strategy and our execution capability.

Operator

Your next question comes from the line of Peter Saleh with BTIG.

Peter Mokhlis Saleh

BTIG, LLC, Research Division

Great. I wanted to ask on the automation that you discussed earlier in the Illinois facility. I think you shifted from Wisconsin to Illinois. Can you just talk about what prompted this change and kind of what benefits you're starting to see with some of this automation?

Unknown Executive

Peter, I think let me start it out with you because you may recall that automation is inside a suite of kind of capabilities and analysis that we have to become more effective and efficient alongside with lean the technology investments we're making the engineering standard and the work that we're doing there, and then there is automation. So it's part of a strategy that is all, again, creating multiple ways to become more effective and efficient. Specifically on the Racine to Joliet move. This is similar to what we did a couple of years ago with the [indiscernible] to Manchester transfer, where we basically look for ways to modernize, get into larger facilities, study the market potential and then at the point, deploy dollars to support our customer growth.

And you remember the example, [indiscernible] Manchester was 50% larger, highly automated, very low any defect rate. And that's the same playbook that we are playing with the Racine to Joliet transfer. So automated, reskilling larger support in the market. Of course, we are into the very early innings as with every transfer. There are a little bit of growing pains. We're very aware of that, and we're working very hard to fix them, but excited that we had another opportunity to execute network optimization in a way, expanding into modernized facility.

Peter Mokhlis Saleh

BTIG, LLC, Research Division

Understood. Okay. Just as a follow-up. Are there more of these facilities planned in '27 or '28, anything else on that front?

James Alexander Miller Douglas

CEO & Director

Peter, Sandy. What I would say is we have an exciting technology and improvement road map that goes out multiple years. for obvious reasons, we're not going public with it at this stage. But with each passing implementation, whether it's technology like RELEX or Samsara going system-wide last year, we're growing in our confidence relative to the ability to put technology and lean and process improvement together to drive capability. And the discipline that Matteo and the finance team put into evaluating each investment and to track its return gives us even more confidence to continue to press the agenda to build capability for our customers, and we have a plan to do that over the next years.

Operator

Your next question comes from the line of William Reuter with Bank of America.

William Michael Reuter

BofA Securities, Research Division

So in a previous question around your capital priorities, M&A buybacks. You said we haven't really said anything at this point. We're focusing on deleveraging. I believe your target for leverage has been 2.0x, which you're going to achieve by the end of this year. At that point, you'll still be doing pretty solid cash flow would you consider revising your leverage target? Or should I assume that everything will just accrue towards either CapEx or alternatively share repurchases?

Unknown Executive

So we continue to generate strong cash flow. We saw the \$560 million in the last couple of years outlook for 2027 at the midpoint, \$300 million. Well, again, reinvesting the same amount into CapEx. And for now, our focus is really to delevered go below 2x as we mentioned, and then continuing to find opportunities for organic investments with high returns and discipline. And this morning, we announced a new \$200 million share buyback program. The Board approved that. So it's a combination of strong operations, strong free flow, continue to deleverage reinvest into strong organic investments and then look for opportunistic ways to return money to the shareholders. And while doing that, we will continue to optimize our capital structure.

We took the unsecured bonds down \$150 million that generates interest savings we refinanced the ABL with some savings. We repriced the term loan and generated savings. So it's a very comprehensive set of mechanisms to deleverage and continue to optimize the structure.

William Michael Reuter
BofA Securities, Research Division

Got it. And then just my follow-up, you mentioned headwinds in terms of optimization in the first quarter and then, I guess, a little bit maybe still this onetime program that resulted in some revenue. Is the underlying growth rate of the first quarter any different than your expectations for the rest of the year? Or is the difference in commentary about revenue growth based upon just those items?

Unknown Executive

I think you've got it exactly. We see the underlying growth rate based on the performance of our target addressable market to be in the low single-digit area. And what makes it a little noisy is the cycling of the optimization and the project work with an individual customer.

Operator

Your last question comes from the line of Carla Casella with JPMorgan.

Carla Marie Casella Hodulik
JPMorgan Chase & Co, Research Division

I'm just following up on Bill's -- on leverage question, just digging in. With the bonds currently callable at par, and you paid down \$150 million as you noted, are there any thoughts of do you need to keep a foothold in the bond market? Or could you go more towards loans? Or on the flip side, would you go more towards bonds, which currently, you're paying less cost -- your bond is less costly than your term loans?

Unknown Executive

We continue to look at those opportunities. So the bonds will come up for a full maturity at the end of calendar 2028. So it gives us couple of years to continue to study the market. We got now the ABL and the term loan maturing in 2031. So again, it gives us a 5-year tranquility in a way to continue to study the market. So well under Alfredo's leadership and Sandy and all the kind of the governance that we have, we'll continue to look for opportunities to optimize our cost of interest and our capital structure. But fairly, again, early thoughts. And again, pleased with what we've been able to do in the last 6 months with the bonds, term loan and ABL.

Carla Marie Casella Hodulik
JPMorgan Chase & Co, Research Division

Okay. Great. And then just on the subject of M&A, what is the -- are there a lot -- are you seeing more or fewer or more M&A opportunities? And then on the grocery side, specifically, you talked about Cub -- is -- would you look towards more conventional grocery just to have more, I guess, test use cases to work with in your own portfolio? Or is that something where you could move away from retail over time? Any thoughts there?

James Alexander Miller Douglas
CEO & Director

Carla, this is Sandy. I would say, broadly speaking, that our outlook contemplates a significant priority around the internal capability development. We see so much opportunity to improve the effectiveness and efficiency of the \$4 billion a year that we have in operating expenses that we will continue on that path and maximize the value of our capital in terms of delivering customer benefit and shareholder returns. As it relates to M&A, obviously, we're open to it. We continue to scan and evaluate the market. But at this stage, while we have not updated our capital allocation strategy beyond the focus on deleveraging and investing in the business and opportunistic return of dollars to shareholders through buybacks, we will continue to refresh that with the Street when we're ready.

But I think if there's a bias, the bias is on improving execution for our customers and delivering value to our shareholders through internal investment rather than M&A.

Operator

I will now turn the call back over to Sandy Douglas for closing remarks.

James Alexander Miller Douglas
CEO & Director

Thank you. And in closing, thank you to all of our UNFI associates for delivering a strong fiscal year '26 and many thanks to our customers and suppliers for their continued trust and partnership. We are heading into fiscal '27 with solid momentum, a stronger financial foundation and a continued focus on executing our value creation strategy. While there is still much more work to do and much improvement to capture, we remain committed, and we believe we are best positioned to help our customers and suppliers differentiate and grow profitably, while continuing to improve the effectiveness and efficiency of our business. I'm confident we have the right team to advance our long-term strategy and create long-term value for our stakeholders. We look forward to updating you on our progress in that quarter.

Operator

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

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