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<<Andrew Wolf, Analyst, C.L. King & Associates, Inc.>>

Good morning, everyone in the room here at the ICR Conference those listening on the webcast. My name is Andrew Wolf. I'm the food distribution, food manufacturing and restaurant analyst at CL King. With me from United Natural Foods is the Chief Executive Officer, Sandy Douglas; and the Chief Financial Officer, John Howard.

The format for today's discussion is fireside chats, Q&A that I'll lead with the questions. With that Sandy and John, welcome.

<<John W. Howard, Chief Financial Officer>>

Thank you.

<<Sandy Douglas, Chief Executive Officer>>

Thanks, Andy.

<<Andrew Wolf, Analyst, C.L. King & Associates, Inc.>>

And like to start the conversation with one or two basically strategic questions. So Sandy, you joined the business about a year and a half ago. When you came on, you acknowledged you liked the strategy, you felt it was a good strategy and the management team as well, which is pretty positive. Not a lot of work, not a lot of complete overhaul type of work.

Yet, when I've seen your management style and what you've been doing, you've been certainly have strategic priorities of your own that you've come up with analytically and otherwise talking to customers, manufacturers. And you've hired a lot of people, some for new roles, some for maybe existing roles and as well as you've kind of shuffled the deck a little on internal management.

It's kind of an open-ended way of just tell us a little about your strategic priorities, your strategic views. You did create a new kind of manage – team structured management approach that people should hear about. And just how you view the business strategically, why you made those changes?

<<Sandy Douglas, Chief Executive Officer>>

Sure. And good morning, everybody. Thanks, Andy for the question. It's good to be here at ICR with all of you. I guess the quick overview would be that the fuel of future strategy points

towards $140 billion addressable opportunity. That's new customers, expanding with new customers, pro services brands. And the totality is the universe of opportunity is very high.

And in the year and a half that I've been with the company, not only do have I gotten comfortable that that's in fact right, but we've begun to capture some of it. And the strategy that was built by the team before I joined really talked about that opportunity and set out a series of high priority pillars, if you will, are actions that would capture it.

And from my perspective, that work was terrific and it was lucky for me because I did not as Andy mentioned, have to redo it. Where my focus has been has really been on how are we going to actually go do that? What is the core capability of the sales organization, the merchandising organization, the supply chain, the finance organization and our technology, to be able to capture the opportunity profitably and to be able to create superior value for our customers, our suppliers, and our associates. And because that's where the money is.

The food wholesale business is a tough and very competitive business. UNFI is the largest player in it. We not only carry natural products, but we carry conventional products and our scale is a significant strength of ours. However, as we get ready to I hope emerge from what has been three years of survival in the supply chain business with fill rates improving and the – and we're sort of moving to a more normal rhythm, it gives us the opportunity to dial-in not only the initiatives we're playing, but work on capability to sell better.

For example, we just finished training our sales force on best-in-class training programs that help them work with customers, working to overhaul our merchandising. So we buy better, we negotiate better, we interact with suppliers better and help them connect to the 32,000 customers that we serve every day.

And then probably the biggest capability, effort of all is our supply chain. The UNFI supply chain is an amalgamation of a lot of supply chains and the opportunity to return it to discipline, to standard operating procedure, to use technology and automation, to significantly ramp up the quality and the cost and the speed not only to create more value for customers, but importantly to generate significantly higher levels of returns on capital for our investors.

And it's that how work to the same end, that's been my focus. And the people that I've attracted from outside the company are talented leaders who are particularly capable at installing new capability. One of my philosophies, and this is every single CEO that runs any company will tell you is that super talented people do better than not super talented people. And there are a lot of great people in UNFI, but if you merge them with some top talent from other companies, the combination obviously works.

And so as we drive the current business through capturing the opportunity that the team identified in the strategy and begin the work of systematically and proactively building capability to drive the business to the highest levels of the opportunity and to do it profitably and efficiently that's what the team's focused on. So it's not a left right turn on strategy, it's simply a doubling down on execution.

<<Andrew Wolf, Analyst, C.L. King & Associates, Inc.>>

Yeah. That's what I heard there quite clearly. I think you also announced in the sort of process driven approach you're taking, if I can say that some like four teams that are in it, I wouldn't say a restructuring, but just kind of how you're organizing this approach. Can you elaborate on those teams a little bit?

<<Sandy Douglas, Chief Executive Officer>>

Sure. Well, I think everyone knows that the core operation of UNFI is wholesale food. And that's a business in and of to itself. It's a very competitive business. It's a business which all of the players compete. It's – in a way it's somewhat boundary because while it's very competitive, what – part of what we do is keep our customers competitive versus some of the biggest and most competitive retailers in the world.

So our ability to be efficient to keep costs low and to execute well for them is the main responsibility we have. What UNFI has on the side though, which is the second team is a services platform that's a completely blue ocean opportunity. I think we reported John that it's 20% or so of our EBITDA and it's growing significantly faster. That's a place where we create value for our customers.

An example would be payments aggregation, credit card fees and the like. We are currently saving over $40 million for our retail customers in that part of their business. And we're making outsize margins doing it. So services platform is the blue ocean part of UNFI and the better we do in wholesale, the more customers, the more categories we have, the more powerfully we can activate our pro services business, our brands plus business, which is what we call the services platform. The other two team are retail and then our headquarters team, which is designed to govern the company and otherwise drive capability and be as efficient as possible.

<<Andrew Wolf, Analyst, C.L. King & Associates, Inc.>>

Terrific. So the other question and strategy is, now that the environment is normalizing and the business is kind of set to your strategy, inorganic growth, which is acquisitions. You've talked a lot about penetration of existing customers. I would say the way you've – my analytic takeaway is that's sort of priority number one than new customers. Given that approach, you would think you might want to acquire more services and products to increase that penetration with existing customers.

And I – the follow-up is completely different. It's about the Albertsons, Kroger pending acquisition and they're going to be major divestitures if they can get that deal approved where they have almost absolute market share in places like Seattle and other markets LA. That those could be very bargain priced assets that the FTC kind of mandates has to go to strong player such as yourself.

And I know you may not be able to comment on that directly, but just a sense of how you feel about retail maybe as a place to acquire as well. And we don't necessarily have to connect the dots, but just what you're feeling about retail as well as your core wholesale business in terms of the acquisition arena.

<<Sandy Douglas, Chief Executive Officer>>

Sure. I guess the number one growth priority we have would be to expand our business with an existing client. I mentioned at the Q2 conference call that some of the pipeline that we've been talking excitedly and vaguely about over the last year or so is beginning to pay off. And in particular through the second half of our fiscal or the first half of the calendar year 2023, it is in fact doing that.

And while we have a policy of to not discuss individual customers, all of that significant set of wins is from expanding with existing customers either a new banner from a multi-banner operator that had given us previously several of their banners and they gave us another one or more categories within existing customer. And we're seeing significant opportunity and payoff from the original thesis of the Supervalu acquisition that if you had a natural customer, they would want to buy their conventional from us and so on and so forth.

We're also seeing significant expansion in our fresh business, which is a capability we're building broadly. From an M&A perspective, and John can comment on broader capital utilization, but we're going to look at M&A against two very important criteria. First, that it helps us build capability to run our core strategy. And second, that it provides excellent financial returns.

If it does not do both of those things, we're going to be very – it's unlikely that we would proceed. Now finally, as it relates to the acquisition that's in the public domain now, clearly we can't comment at all about it. What I would say about anything like that is to reinforce to you that we serve 15,000 different retailing companies and 32,000 rooftops and growing.

And to the extent that there were divestitures happening in the market, you can bet a number of them would be all over that. And we would be right by their side. Our strategy in the retail business is to optimize it, to learn from it, and that's the way we operate it. But we more than likely would be seen by the side of an acquirer in a situation like that as opposed to being the acquirer ourselves.

<<Andrew Wolf, Analyst, C.L. King & Associates, Inc.>>

Great. Well, thank you. Switching gears to sales, so before you joined the sales structure was, what to say, was somewhat centralized because it was, there were a lot of different companies that were going to market and calling on two or three different sales people the same independent and stuff like that.

So clearly that was rationalized. But that can go too far because then you lose some of the specialization. And the reason I bring that up is you recently introduced a regionalization

component to the sales team, which I don't know if it's sort of bringing some of that back, or maybe you can just talk a little about the centralized, it's not really centralized, but the team approach and why regionalization matters.

<<Sandy Douglas, Chief Executive Officer>>

Sure. First of all, regionalization pre-existed me and I haven't changed it. What we did do is we elevated a President of Fresh and promoted a very high potential woman to run our dairy bakery business, which is a huge growth part of our business is helping customers in that area.

Where we're focused is really two-fold. First is strengthening and supporting our national accounts and building national account capability. I have been in the CPG business as you know for almost 40 years and calling on food retailers for most of it. And one of the sort of key insights is that they're in business to drive their strategy, not somebody else's. And so you have to have talented people calling on them who are capable of understanding that and then working with support to configure your company's offerings completely around what they're trying to get done.

And the bigger companies expect confidentiality. They expect a series of very important guardrails to be in place, et cetera. And as we compete more effectively with big retailers, we're in the process of building out that capability. So I think increasing resources in national accounts, increasing resources in fresh and in specifically bakery deli, those are the tweaks you just saw. The overarching piece though and the net-net of this is not a more expensive sales force. It's a sales force that costs the same, it's just moving things around to make sure we're optimized against where the growth is.

But the big thing, and I mentioned it earlier, is sales training. It's – it sounds like a really tactical thing to do, but in our business, when our entire thesis is our ability to help our customers be successful. Our sales people need to be very, very good at understanding what's going on with their customers, so that we can be agile and move whether it's product, supply chain or technology or something even more innovative and strategic to help our customers be successful. The United States is full of independent retailers. It's incredibly vibrant, comparatively to the rest of the world, it's a really, really healthy environment for independence. The partner that will help them be successful more than anyone else stands to win in their core business and in their services and brands business for years to come. And so that's where our sales investment is right now.

<<Andrew Wolf, Analyst, C.L. King & Associates, Inc.>>

Got it. All right. Staying on sales and really also your relationship with manufacturers, both national and also regional, because there's a lot of regional reality in manufacture too. So you got 32,000 rooftops and I think you said – just said 15,000 individual customers. And you've talked a lot in the past, Sandy, about taking the information you get demographic, buying hat patterns and all that. Two of your manufacturers, the partners and bringing value to them, giving them I think an opportunity to expand their markets and their market share and maybe address new markets. Can you just tell us how that is resonating?

<<Sandy Douglas, Chief Executive Officer>>

Sure. So stepping back for a second, I mentioned a really healthy environment for suppliers to build brands in the United States, given the diversity of the customer base. That's true. Compared to some major European or even Canada countries, where you have four or five retailers in your entire negotiation in the channel is done. In the United States, you have this wonderful diversity of ethnically positioned, geographically positioned, rural, urban, upmarket, down market, 1Z, 2Zs, I mean, the independent markets extraordinary. The challenge for a CPG that's not set up with a go-to-market system wholly-owned in their operating network is they can't see it and they have trouble acting upon it. And so they see us as a key account. I've said this wants to as much as 20 times over the last year and a half. We're really not your customer. We're in the business of serving your customer.

Let's figure out how to do it better. And we talk, negotiate hard about cost, but what we're building now, and most of this is proprietary right now, but we're building the capability for suppliers to be able to see and to be able to throw darts of an incremental investment, which they're doing with the big ones, but now they can do them across our network and it's very accretive for them. In many of the very big retailers, when you see an end cap, the price will be very low and that price imprint to that item may not be the best equity that that brand can build. But if you can do it in 32,000 outlets or you can do it in the Hispanic outlets in Southern California or others that don't even report to Nielsen and MRI, but that are customers of ours, then you're in the real segmented brand building business.

And to the extent that we can accomplish that together, it's going to be successful, early feedback, very positive. But the – obviously, it's in the details and it's early. But the actual opportunity exists. It's a question of working together on capturing it. Our customer base is very interested in us helping. Suppliers are very interested in us helping. And so I don't think it's going to be that far before it's an actual thing and probably I want to talk about it less then.

<<Andrew Wolf, Analyst, C.L. King & Associates, Inc.>>

Do you need better analytic capability or just you don't need transactional data? Like, what is – what's missing from sort of getting this movement on the shelves?

<<Sandy Douglas, Chief Executive Officer>>

Well, there's not a lot missing that prevents version 1.0. The opportunity as we release incremental releases is both digital capability and analytical capability. There's some data cleanup and other things along the way, but there's nothing from start, nothing stopping us from starting. And then what you do see, as you look at some of the folks that we brought into the company are skillsets in this area. And so as that starts to happen, I mean, we're not a software company, but we'll release different versions of this on a regular basis as we get better at it. And like any other retailing company that uses its data properly, the learning curve starts and accelerates and that we have begun that process.

<<Andrew Wolf, Analyst, C.L. King & Associates, Inc.>>

Okay, thanks. That's clarifying for me. I want to change to the economy and your customer's reaction and let's start with the customers. So I think you've talked about recently, there's – as I've meant everyone else. More value seeking among customers in terms of the behavior and that UNFI wants to be able to provide its customers, its retail customers with that capability. You obviously called out private label where you're doing a lot of work has sort of the number one item. And I think you've alluded to other parts of your scale, including I think if you buy better, you can pass along the price. Can you just tell us where – what are the retailers really asking for and what are you telling, bringing to the table right now with a customer who's more value focused?

<<Sandy Douglas, Chief Executive Officer>>

Sure. Couple of questions embedded in that one. First is, what's the agenda that our customers are prioritizing right now? And then how are we dealing with value? Customer's number one priority today is still visibility in the supply chain and collaboration. Fill rates are improving, but there's still below pre-pandemic levels and running supply – running a retail store with uncertain assortment is hard. And so that's their number one agenda item, that's still what value means to them.

Secondly, however, we're expected to and we vigorously do negotiate with suppliers on price, price to ensure that it's accessible for shoppers and price to ensure that our customers are competitive with their particularly larger competitors. Having said that, if those two are table stakes, then the elaborated capability is a private brands. Our private brands are growing significantly faster than the rest of our business and they're growing faster than private label in the market.

We recently attracted a super talent to overhaul and continue to build there. We think giving our customers outstanding private brands to sell and to be able to choose from in order to aid their strategy is one of our top responsibilities. And it's an area where we can make some money too. So we're very, very focused on that. Beyond that, value against the diversity of customer base we have is a little bit of a hard thing to generalize about. I mean, on the low end, customers that are positioned at the shopper who's trying to stretch every single dollar, it's all about certain kinds of assortment and it's all about merchandising times of the month. It's all about package size and it's all about private brands.

On the higher end value, there is a share opportunity where they can provide ready to eat, ready to heat, and ready to cook meals to compete with restaurants and provide what would be for them a premium offering. But compared to the restaurant competitor, a opportunity for them to save some money. So it really depends on how each customer's positioned and how they use the toolbox we have to maximize their performance in what is a value centric market today.

<<Andrew Wolf, Analyst, C.L. King & Associates, Inc.>>

Got it. Okay. We've got a couple minutes left. I want to shift gears to technology. And you've announced, I think it's a company called Symbotic partnership to put in I think four or five highly robotic automated distribution centers or add to what you already have. And I know there's a competitive component to that, but on the other hand, Supervalu, which you bought already has a fully robotic warehouse. And the reason I bring that up is you've said, we can't tell you much, but we're pretty sure it's going to work and so on. So I'm trying to connect the dots and we're talking about here is a new, like an advanced version of maybe what Supervalu already had with its robotic warehouse. It's already working in Europe or something or we're talking about something, that's kind of brand new and you actually got to make sure it specs out physically in the real world.

<<Sandy Douglas, Chief Executive Officer>>

Yeah. So Andy, the way you frame the question is exactly right. We have a range of different automation products in our distribution system, both case pick and goods to person individual pick. Our experience with it is positive in general, because it helps us be more efficient, drive higher levels of quality on our loads, and generate better returns to our shareholders from the capital that are involved. This latest initiative allows us to expand what is a proven technology. It's already in the United States, it's being used by a num – at least two retailers, one of whom very large, who has a major position in their roadmap.

What's exciting to us about it is, a, it delivers great financial returns, b, if our customers would all love to have their key buildings automated with this, it drives all kinds of benefits including pallet quality, so that it can – the pallets can be stacked in order that they can be unloaded based on the configuration of the SKUs on the customer's shelf. There's a lot of smart technology. So there's really no regret to it other than staging it for execution and doing it at first class job executing it. And in parallel, continuing with our other capital strategies of reducing debt and investing in capabilities that I described earlier. But it's a exciting part of our roadmap and something that I hope will continue to make our customers happier and our shareholders happier at the same time.

<<Andrew Wolf, Analyst, C.L. King & Associates, Inc.>>

I think you said the ROI was at least 2x cost of capital. Okay. We have run out of time. Thank you everyone for attending and on the conference call. Thank you, Sandy and John.

<<Sandy Douglas, Chief Executive Officer>>

Thank you.