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# United Natural Foods, Inc. NYSE:UNFI

# Special Call

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# Call Participants

## EXECUTIVES

**Giorgio Tarditi**
*President & CFO*

**James Alexander Miller Douglas**
*CEO & Director*

**Steven J. Bloomquist**
*Vice President Investor Relations*

## ANALYSTS

**Alexander Russell Slagle**
*Jefferies LLC, Research Division*

**Charles Edward Cerankosky**
*Northcoast Research Partners, LLC*

**John Edward Heinbockel**
*Guggenheim Securities, LLC, Research Division*

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

**Scott Andrew Mushkin**
*R5 Capital LLC*

**William Joseph Kirk**
*ROTH Capital Partners, LLC, Research Division*

**William Michael Reuter**
*BofA Securities, Research Division*

# Presentation

**Operator**

Thank you for standing by, and welcome to the UNFI business update conference call and webcast. [Operator Instructions]

I'd now like to turn the call over to Steve Bloomquist, Vice President of Investor Relations. You may begin.

**Steven J. Bloomquist**
*Vice President Investor Relations*

Good morning, everyone, and thank you for joining us for today's business update conference call. By now, you should have seen our press release from this morning. The press release and the supplemental presentation are available under the Investors section of the company's website at www.unfi.com. Speaking on today's call will be Sandy Douglas, our Chief Executive Officer; and Matteo Tarditi, our President and Chief Financial Officer. Following comments from Sandy and Matteo, 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.

I'd now ask you to turn to Slide 5 of our presentation as I turn the call over to Sandy.

**James Alexander Miller Douglas**
*CEO & Director*

Thank you, Steve. Good morning, everyone, and thanks for joining us today. As we promised in our June '26 update, we're hosting today's business update call to discuss the revised fiscal 2025 outlook we issued this morning as well as the restoration of our business momentum and the value we expect to create for our stakeholders as our operations return to normal. But before we discuss our revised outlook, I want to give an update on the actions we've taken to safely restore our core operating systems and our progress towards returning to the high service levels our customers and suppliers expect from us.

I want to start by thanking every one of our customers and their teams across the 30,000 locations we serve in North America as well as our 11,000 suppliers. Because of the unique role UNFI plays in the food supply chain, we recognize that this cyber incident impacted our customers and the industry we serve. We never want to be the reason that a local grocer is out of stock on a product that their shoppers count on. That's why our core focus from the moment we took our systems off-line was on finding ways to get our customers the products they need. Our entire UNFI team made a choice in those early hours that we were going to do everything that we could do to service our customers regardless of the challenges. But those efforts wouldn't have been possible without a collaborative and resilient customer and supplier base that was willing to problem solve and partner with us to find solutions while we work to safely bring our systems back online. As we go forward, we will continue to harness our learnings from this experience to further strengthen our culture of customer and supplier collaboration.

Now I want to share an update on where we are in our recovery process, including the critical milestones we've reached since the beginning of the incident which is detailed on Slide 6. As we shared in our disclosures in early June, we quickly made the decision to shut down our operating systems upon identifying disruption in our systems. Because of the cybersecurity protocol, our information technology team had in place, we were able to rapidly intervene, activate our network of third-party experts and contain the issue to help protect our data, our business partners' data and the restorability of our systems. While the experts work to secure our systems, we simultaneously began collaborating closely with our customers and suppliers on various temporary workarounds to get as much product into the stores as quickly as possible.

By June 16, 10 days after we took our systems off-line, we had safely restored our primary electronic ordering systems, which allowed us to begin receiving and shipping most customer orders in a more efficient and automated way. Throughout that week, we also restored capabilities for inbound product deliveries and began to bring key back-office systems online, including accounts payable and accounts receivable. By June 26, we had safely restored our core systems and broadly returned to more normal operating capacity across our distribution network. Since then, we've continued working closely with our customers and suppliers to catch up on various business processes, including purchase orders, invoicing and payments that were temporarily delayed during the disruption period.

We've also been focused on restoring our remaining value-added tools and systems, including our customized reporting and insights. We recognize this has created challenges for our customers and suppliers and we appreciate everyone's patience as we work to fully restore these capabilities.

To summarize, as of this week, our commercial operating capacity has been restored to normalized levels. Average outbound fill rates, on-time deliveries and units shipped are at or close to pre-incident levels with some variation across DCs. We expect continued improvement as we complete our recovery in the coming weeks. On behalf of UNFI's entire senior leadership team, I want to extend my deepest gratitude to all the associates who've served our partners with purpose and wholeheartedly led with our core values over the past month. I believe the solution-oriented teamwork our associates demonstrated during this disruption will serve to strengthen our culture, our customer relationships and our operational effectiveness over the long-term.

Looking ahead, we remain focused on adding value for our customers and suppliers while becoming a more efficient and effective partner. With a proven multiyear strategy and the momentum we've generated through the third quarter of our fiscal 2025, we are confident in our trajectory. We believe the instance operational impact, while meaningful, will be largely isolated to Q4 of fiscal 2025 and that our underlying momentum will continue as we enter fiscal 2026. With our updated outlook, which Matteo will detail, we remain on track to achieve our multiyear financial targets at an accelerated pace compared to the initial targets we communicated in October 2024. This includes our expectation that we'll reduce net leverage to nearly 2.5x by the end of fiscal 2026, which is a year earlier than we previously expected.

I'm now going to turn the call over to Matteo to walk through our fiscal 2025 outlook and address some key points embedded in the outlook. Matteo?

**Giorgio Tarditi**
*President & CFO*

Thanks, Sandy. And let me also thank everyone for joining us for today's out-of-cycle call. First, I want to join Sandy in thanking all of our associates, customers and suppliers for the incredible perseverance and problem-solving we've seen over the past month. We're able to share an updated outlook because of the hard work and partnership they showed in making sure we could continue to operate our business. So now let me walk you through our updated outlook and provide more information on the fourth quarter impact we expect to see. Please turn to Slide 8.

Broadly speaking, we're modestly increasing our outlook for full year net sales while modestly lowering the range and midpoint for adjusted EBITDA and adjusted EPS. Our full year capital spending outlook has decreased partially due to resource reallocation over the past month. And our outlook for free cash flow has increased from at least $150 million to approximately $200 million.

Starting with sales, our updated outlook for net sales has increased 0.6% at the midpoint to a range of $31.6 billion to $31.8 billion, which is about 4.3% higher than fiscal 2024 when adjusting for the extra week last year. This increase reflects the benefit of our underlying momentum and the execution of our strategy, which is offset by the expected negative impact of approximately $350 million to $400 million in lost sales in the fourth quarter from the cyber incident. Our updated full year adjusted EBITDA outlook range is $535 million to $565 million, with a midpoint of $550 million, which includes a $40 million to $50 million expected impact from the cyber incident. Notably, this represents over 8% growth versus fiscal 2024 when adjusting for the extra week last year. Our capital spending outlook has declined $50 million to $250 million. This is partly the result of reallocating resources to manage the business through the incident as well as our year-to-date spending level.

Our updated outlook for the full year free cash flow is around $200 million, up from at least $150 million previously. This reflects our performance through the first 3 quarters and our outlook for the balance of the year, including the reduction in capital spending and the pretax cyber-related losses of $65 million to $75 million that we will detail on the next slide.

If you turn to Slide 9, the expected impact to adjusted EBITDA includes the impact of lost revenues. It does not include approximately $5 million in estimated direct costs related to the third-party cybersecurity, legal and governance experts that were resourced upon discovering the incident, as well as the estimated $20 million of unusually higher costs we faced as we executed manual operations workarounds to service our customers in the outage-driven higher spoilage. For example, our warehouse selection and shipping procedures were temporarily less efficient compared to a normal environment because of the limitations on the systems that could be used in our DCs.

We also experienced elevated levels of overtime as we look to offer the highest possible levels of service during this disruption. Our estimate of pretax losses is $65 million to $75 million which we have reflected in our GAAP net income and EPS ranges as well as our updated free cash flow outlook. We currently expect our cyber insurance policy and reimbursement for the event will be sufficient to offset our recovery and remediation costs and it will likely be received primarily in fiscal 2026. Importantly, we don't believe that this matter will have a lasting operational impact beyond the fourth quarter. We view this as an isolated incident, and we intend to continue to execute our multiyear strategy of adding value for our customers and suppliers while improving free cash flow as we move into the new fiscal year.

With strong performance through the third quarter and the above-market growth we have driven in fiscal 2025, we believe our strategy and execution are delivering results. Our momentum and improvement opportunities remain significant, and we expect this will continue to translate into sustainable shareholder value creation. We remain on track to achieve our multiyear financial targets at an accelerated pace compared to our initial October 2024 targets. We expect to provide our updated multiyear financial targets in our fiscal 2026 outlook this fall after we complete our planning process. We anticipate our baseline expectations for fiscal 2026 will be built on fiscal 2025, excluding the impact of the cyber event.

In closing, as you'll see on Slide 10, we remain confident in our strategy, momentum and the trajectory of our business. We are grateful for the trust our customers and suppliers continue to place in us as we have worked through a challenging period, and we are committed to earning that trust every day as we work to help them execute their strategies. We're also incredibly thankful for the dedication of our UNFI associates who have been and continue to be steadfast in supporting our stakeholders every step of the way. With that, operator, please open the line for questions.

# Question and Answer

**Operator**

[Operator Instructions] Your first question comes from the line of Bill Kirk from ROTH Capital Partners.

**William Joseph Kirk**
*ROTH Capital Partners, LLC, Research Division*

Thank you for the update. I guess my question has to do with the relationship with retailers. I know a lot commonly would have contractual volume minimums. So how does the supply disruption impact or change the way the contractual minimums work with your retail partners?

**James Alexander Miller Douglas**
*CEO & Director*

Bill, it's Sandy. The answer really varies by customer, but we're working through all of our customers in a highly collaborative way to manage each situation in a way that propels their business forward. And across the board, customers have been great, and we're finding solutions fairly easily as we focus on getting back up to speed.

**William Joseph Kirk**
*ROTH Capital Partners, LLC, Research Division*

Okay. And Sandy, you made a comment that commercial operations were back to normal. The press release says returning -- operations returning to normalized levels, and maybe it's just semantics, but what's the difference between returning to normalized levels? And your comment earlier that operations were -- commercial operations were at normal levels.

**James Alexander Miller Douglas**
*CEO & Director*

Yes, sure. I think the way to describe that is that by and large, our key metrics like fill rates and on-time delivery are very close to pre-incident levels. There's some diversity across our DCs. So we're continuing to refine. And in those cases, we're surging the right support to get those DCs online, but we're very close to the key operating metrics that we had before the incident started.

**Operator**

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

**John Edward Heinbockel**
*Guggenheim Securities, LLC, Research Division*

Sandy, I want to start with, as you go into this next fiscal year, either your willingness now to bring on new customers, your confidence in doing that or any new customers having reservations, right, that they might want to wait a little bit. Do you see any impact from either of those 2 or no, we're back to a new customer acquisition back to where we were before.

**James Alexander Miller Douglas**
*CEO & Director*

John, the answer to that is we expect to be in normal operations as we turn into fiscal '26. I'm thinking specifically of 1 customer who is joining our system and we delayed there coming on board by about 60 days to make sure that we were fully up to speed before they joined, but they're on track with that delay. And I don't see any other changes. Our business development conversations continue to be productive. And I think in general, we view -- obviously, this to have been a very challenging experience with us and all of our customers but we've learned a lot and emerge from it stronger than when we went in.

**John Edward Heinbockel**
*Guggenheim Securities, LLC, Research Division*

Okay. And then, Matteo, the 2 things. The $40 million to $50 million of EBITDA, I wasn't quite clear you talked about the $5 million of legal, the $20 million of other cost -- operating cost. What is in or not in the $40 million to $50 million of impact that you called out. And then the $50 million of CapEx, is that just a timing issue? So you were going to spend it this year, but now you'll spend it next year.

**Giorgio Tarditi**
*President & CFO*

Yes. So if you look at the slide, we have an estimate for the cyber loss of $65 million to $75 million. And you can unpack that $65 million to $75 million in 3 pieces. So there is a revenue loss driven $40 million to $50 million loss from adjusted EBITDA -- in adjusted EBITDA, right, that we reflected in adjusted EBITDA. Then there is a $20 million of extra cost that is related to operating expenses, spoilage, high procurement costs that is not in adjusted EBITDA will be excluded onetime excluded. And then there are $5 million of remediation cost. This is for cybersecurity experts, legal experts, et cetera. So you can think about the EBITDA range of $535 million to $565 million at the midpoint of $550 million to embed $40 million to $50 million of EBITDA loss related to the revenue shortage.

**John Edward Heinbockel**
*Guggenheim Securities, LLC, Research Division*

Okay. But should you -- well, just to follow on that. So you're not adding back the $25 million, but it's not recurring, right? So whatever the EBITDA number is, is it really $25 million higher because we're still taking that amount out?

**Giorgio Tarditi**
*President & CFO*

Yes, it's not recurring, meaning it's incurred as a real expense. And then -- so if we made, for instance, the midpoint, $20 million lower, so $530 million and then with a onetime adjustment to bring it back to $550 million. And if you think about jumping off point then for '25, but up to [ $40 million to $50 million ] of the loss. So you get to a high $500 million number.

Relative to the CapEx question, a couple of drivers. So first of all, as we continue to manage the investments with more discipline on the returns, our run rate through the third quarter was favorable to the estimate. But we still have work to do in the fourth quarter. Obviously, the last 5 weeks have been a major focus on restoring the systems and supporting our customers and suppliers. So the reallocation of these resources also created some temporary benefit from a CapEx standpoint in the year.

**Operator**

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

**William Michael Reuter**
*BofA Securities, Research Division*

Apologies not trying to beat a dead horse here, but just to make sure I understand the $25 million, you will be adding that back to your adjusted EBITDA as you get to the guidance the $40 million to $50 million, you will not be adding back. Is that correct?

**Giorgio Tarditi**
*President & CFO*

That is correct.

**William Michael Reuter**
*BofA Securities, Research Division*

Okay. Perfect. The 2 other quick ones. I guess have you made any changes to your systems that you believe will make it less likely that future cybersecurity incidents happen in the future? And I guess was there anything unique that made it such that there were -- this incident did occur at this time?

**James Alexander Miller Douglas**
*CEO & Director*

Yes, Bill, the way I describe that is we've invested in cybersecurity as a priority in all of our technology investments and the monitoring and system capability that we had in place was a significant source of value as we identified and responded quickly. This particular threat actor had some characteristics that we learned from. And obviously, with any event, you do the forensic work to understand how it happened and then based on the expert recommendations of the resources we used, we're taking additional actions going forward to further strengthen our perimeter. But cyber defense, like for all companies, is a significant investment area and 1 where by and large, the capability that we had worked, but we've continued to take learnings from this and installed them in the future so that we'll have a much stronger or even stronger perimeter going forward.

**William Michael Reuter**
*BofA Securities, Research Division*

Got it. Yes. No, it's clearly impossible regardless of the size of the company to fully protect themselves. Just lastly, yes, you mentioned that there is 1 customer where the onboarding is delayed. The fact that you kind of said it's business as usual going forward seems to indicate that there were not meaningful customer losses. I guess, have you touched base with all of your existing customers? And have they indicated that they don't plan on reevaluating their suppliers such as yourselves?

**James Alexander Miller Douglas**
*CEO & Director*

Yes, Bill. From the beginning of the incident, a major focus for us has been on servicing our customers and being transparent in our partnership as we return to normal levels, we continue to work closely with customers to make sure that any customer-specific issues are attended to. And from my perspective anyway, and obviously, there's a very large customer base here. But the partnerships and the partnership behavior and the strength of the relationships has only strengthened as a result of our collaboration, but we have to earn our customers' business every day, and that's what we're focused on doing and expect that we'll continue having learned a lot from this together to be even stronger going forward.

**Operator**

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

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

I just wanted to ask on the $350 million to $400 million of estimated lost sales. Just seeing if you could provide more detail on the relative impact for natural versus conventional? And then maybe any color on how this incident played out and impacted larger chains differently versus your independent customers?

**James Alexander Miller Douglas**
*CEO & Director*

I guess, Leah, the impact really the growth rates that happened through the incident were relative to the incoming and outgoing. So we had strength in natural going in and natural performed better through the incident and has exited in a stronger position. So there's no real enduring mix change there. From a large chains independent standpoint, we use the same kind of workaround approach from the grassroots early. And then as ordering systems came online, the electronic ordering customers did a little bit better quicker. But as the rest of our ordering modes came up, we were able to service everyone but we were working on everyone's customer orders with whatever tools we had from the beginning.

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

Okay. And then I guess as you do a postmortem on this incident, has anything changed in your view and how you think about investing in technology throughout the business? And just what areas do you plan to invest in that over the coming years?

**James Alexander Miller Douglas**
*CEO & Director*

Yes, sure. That's an excellent question. I mean safety first is part of our lean methodology and our guiding principles for investing capital in general. So in that sense, there's no change. Cyber has always been a high priority for us because of its obvious importance and it's been our experience, Matteo's and mine that investing in cyber is a must no matter what the situation. So I wouldn't call that a change either. We continue to make prioritized investments in our technology and have a road map ahead that we have a lot of confidence in. And I would say just qualitatively, that our IT function has stood up really strongly in this and gives us even more confidence that the investments that we're going to make going forward will deliver anticipated returns.

**Operator**

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

**Scott Andrew Mushkin**
*R5 Capital LLC*

So I just want to make sure I fully understand the baseline coming out of '25 into '26, sometimes I'm a little thick on this stuff, so I apologize. But are we looking at the baseline run rate that you guys are going to give us guidance on? Are we supposed to be adding back the lost sales, and that's the starting point. And the same thing for adjusted EBITDA, we add back the $40 million to $50 million. So the baseline is starting at $595 million midpoint on EBITDA?

**Giorgio Tarditi**
*President & CFO*

Scott, yes, that is if you take the midpoint at $550 million and you add back on the adjusted EBITDA loss $40 million to $50 million, jumping a point between $590 million and $600 million. And then, again, adding back to the midpoint of sales, $31.8 billion or so, $300 million to $400 million.

**Scott Andrew Mushkin**
*R5 Capital LLC*

Okay. So that's going to be kind of how you guys look at it and give us the outlook on 2026. Okay. That's clear. All right. So then my second question is obviously -- well, I guess the question is, has there been any discussions with your retail partners to work a little bit more collaboratively. So this doesn't happen again. I mean, you have a great suite of partners that have a lot of knowledge. And I was just wondering if there's discussions to kind of just enhance your working relationship both from a technology platform and efficiency basis.

**James Alexander Miller Douglas**
*CEO & Director*

Yes, Scott, this is Sandy. It's a super good question. There's really 2 angles to that, 1 that comes out of the cyber experience that we've just gained and then more broadly around technology with our customers. And our view strategically is that our technology road map needs to be linked to the technology capability of our customers so that 1 plus 1 equals 3. And while that's a very general statement. It's a basic strategy in terms of specific customer relationships so that our entire network is as competent and effective and efficient as possible. With regard to the experience we've just had from a cyber standpoint, it will go both ways.

Customers will want to see a lot of detail on the incident, what happened, what we're doing to further strengthen our perimeter, so they can be confident in the capability of their partner which is something we welcome both in terms of giving them confidence but also hearing their feedback and suggestions because ultimately, it's a partnership where we're very interdependent. And then on the other side, we learned some things that we're going to share with all of them because they also are in the cybersecurity business. And I think it will go both ways from a value creation standpoint and fits underneath our strategy to create value for customers as a core means of earning their business every day.

**Scott Andrew Mushkin**
*R5 Capital LLC*

That's perfect. And I had just 1 last one on the CapEx kind of spend going forward. Do you guys expect that we're, again, maybe the baseline of $300 million but maybe there will have to be some more given what you've been going through -- have went through, sorry. And then yield.

**Giorgio Tarditi**
*President & CFO*

Yes. We still think that $300 million a year with a rough cap of 1/3 for safety and modernization, 1/3 for technology, 1/3 for automation is the right allocation, the right capital allocation. So we're going to continue to pay the $300 million. We're going to reflect in the 2026 free cash flow construction obviously, the no repeat of the cyber loss, some higher year-on-year CapEx spending and then the EBITDA improvement. So that's going to be the 3 fundamentals of our '26 thinking on free cash flow.

**Operator**

[Operator Instructions] Your next question comes from the line of Chuck Cerankosky from Northcoast Research.

**Charles Edward Cerankosky**
*Northcoast Research Partners, LLC*

Other people ask my questions. So thank you, and good luck in fiscal '26.

**Operator**

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

**Alexander Russell Slagle**
*Jefferies LLC, Research Division*

Just wanted to ask on the 2.5x leverage target that you assume? Is there a certain amount of cash insurance reimbursement baked into that?

**Giorgio Tarditi**
*President & CFO*

Alexander the way we're thinking about the insurance recovery is we're going to have a clearly cash outflow in 2025. And then we're going to expect some recovery in 2026. But the way we built the high confidence plan to deliver 2.5 turns of leverage is independent of the insurance cycle. So we always build this high confidence case with action plans to give us multiple ways to deliver results. And so in that 2.5 turns, you can expect some cash improvement to continue to reduce debt and then the EBITDA growth.

**Alexander Russell Slagle**
*Jefferies LLC, Research Division*

Got it. And any kind of -- just on the recent trends to date. I don't know if there's any way to give like sort of the last couple of weeks with the run rate on the top line is at this point?

**James Alexander Miller Douglas**
*CEO & Director*

Yes. Alex, it's Sandy. What we're seeing is a return to the momentum growth that we saw before the incident.

**Operator**

And we have reached the end of our question-and-answer session. I will now turn the call back over to Sandy Douglas for closing remarks.

**James Alexander Miller Douglas**
*CEO & Director*

Thank you, operator, and thanks to all of you for taking time to join us today. We understand that this is very short notice, so we encourage investors and analysts to reach out to our team with any further questions. .

In closing, we want to once again thank our customers, our suppliers and our associates for the incredible resilience that they've demonstrated over the past month. Ultimately, this short-term challenge solidified a belief that we've long held that our industry is strongest when we work closely together. The deep partnerships and collaboration that we are working to build between our customers, suppliers and associates is proof of that, and I believe our best days are ahead. We remain focused on supporting our customers and suppliers success during this important summer selling season and delivering solutions that they need to win over the short, medium and long-term. Have a good day.

**Operator**
This concludes today's conference call. Thank you for your participation. You may now disconnect.