S&P Global
Market Intelligence

United Natural Foods, Inc. NYSE:UNFI

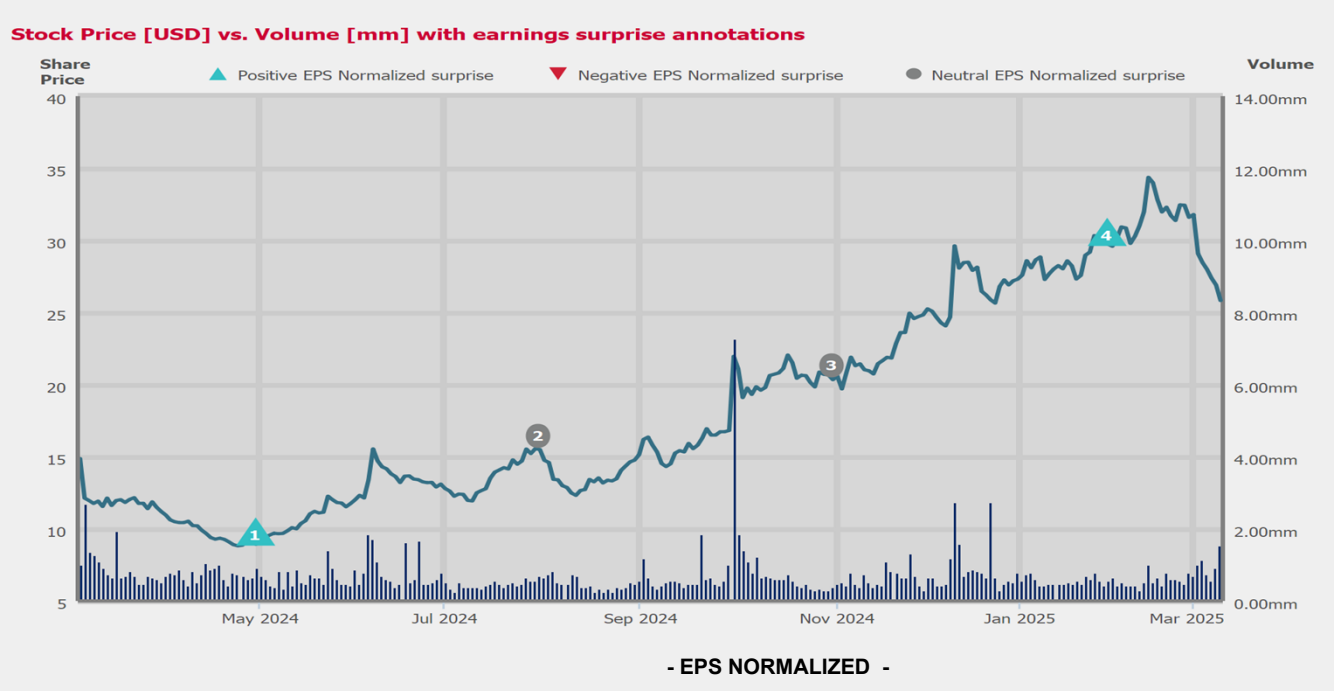
FQ2 2025 Earnings Call Transcripts

Tuesday, March 11, 2025 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2025-			-FQ3 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.16	0.22	37.50	0.24	0.80	NA
Revenue (mm)	7955.52	8158.00	2.55	7600.51	31105.60	NA

Currency: USD
Consensus as of Mar-11-2025 12:08 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2024	0.03	0.10	1 233.33 %
FQ4 2024	(0.07)	0.01	NM
FQ1 2025	(0.01)	0.16	NM
FQ2 2025	0.16	0.22	2 37.50 %

COPYRIGHT © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Table of Contents

Call Participants 3
Presentation 4
Question and Answer 8

COPYRIGHT © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Call Participants

EXECUTIVES

Giorgio Tarditi
President & CFO

James Alexander Miller Douglas
CEO & Director

Steven J. Bloomquist
Vice President Investor Relations

ANALYSTS

Andrew Paul Wolf
CL King & Associates, Inc., Research Division

John Edward Heinbockel
Guggenheim Securities, LLC, Research Division

Kelly Ann Bania
BMO Capital Markets Equity Research

Mark David Carden
UBS Investment Bank, Research Division

Scott Andrew Mushkin
R5 Capital LLC

William Joseph Kirk
MKM Partners LLC, Research Division

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Presentation

Operator

Thank you for standing by. My name is Karen, and I will be your conference operator today. At this time, I would like to welcome everyone to the UNFI Quarter 2 Fiscal 2025 Earnings Call. [Operator Instructions].

I will now turn the call over to Steve Bloomquist, VP of Investor Relations. Please go ahead.

Steven J. Bloomquist
Vice President Investor Relations

Good morning, everyone, and thank you for joining us on UNFI's Second Quarter Fiscal 2025 Earnings Conference Call. By now you should have received a copy of the earnings release issued this morning. The press release and earnings presentation, which management will speak to are available under the Investors section of the company's website on the Events tab. We've also included a supplemental disclosure file in Microsoft Excel with key financial information.

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

Before we begin, I'd like to remind everyone that day's comments made by management 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 during today's call, management will refer to certain non-GAAP financial measures. Definitions and reconciliations to the most comparable GAAP financial measures are included in our press release and the end of our presentation. And finally, as we stated on our last call, we've changed the sales reporting on the face of our press release, which now breaks down our revenues in a manner consistent with the previously announced realignment of our wholesale business. To provide historical context, last week, we posted prior quarter sales under this updated approach to our website. We believe these changes will give you additional insight and transparency into our multiyear strategy and sales performance.

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

James Alexander Miller Douglas
CEO & Director

Thanks, Steve, and thank you, everyone, for joining us this morning. As we shared in our release, we delivered another quarter of improving financial results and operational execution, while achieving key milestones of our multiyear plan. Our results also reflect solid sales growth and an EBITDA growth of over 13% and significant improvement in year-over-year free cash flow.

As a result, we've again raised our full year outlook for all financial objectives other than capital spending and remain firmly on track to deliver our longer-term fiscal 2027 targets and to continue creating sustainable shareholder value.

Today, I'm going to focus on 3 key areas. First, I'll describe how we are working to increase the value we offer to both customers and suppliers, then I'll discuss some accomplishments within our multiyear plan and highlights from our results in the quarter. We've outlined our strategy of adding value for our customers and suppliers while also improving UNFI's free cash flow and strengthening our balance sheet and we believe our recent results validate our strategy and demonstrate that we're delivering improving operational execution as we work to embed lean management practices throughout the organization. We've strived to learn and adapt as we've implemented our plans, soliciting feedback from both customers and suppliers on what we're doing well and importantly, areas in which we can improve.

We routinely evaluate our potential to improve and core value for all of our key stakeholders. And by so doing, we believe our value creation opportunity continues to grow. We expect our focus on continuous improvement to increasingly benefit the customers and suppliers we partner with, driving greater sales and profit opportunity for our mutual businesses. In turn, we anticipate we will continue to create sustainable shareholder value. We have identified new areas to add value and increase effectiveness and efficiency. This includes opportunities to improve the customer and supplier experience in our wholesale distribution business, expand services catering to key customer groups that have historically been underserved by the digital and professional services available in our industry, elevate our merchandising capabilities and make targeted investments in our private brands program to ensure that we have

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

the unique innovative items retailers need to drive relevance and value with consumers. These are all opportunities that would be incremental to our multiyear strategy.

While we've been identifying new areas of value creation, we've also had another strong quarter, achieving key milestones within our multiyear plan. Matteo's leadership has helped us become more effective and efficient across our operations, and our teams are embracing the principles and power behind lean. We've extended lean daily management into additional distribution centers and continue to see indications of success, including reducing shrink down to the second lowest level as a percentage of sales in the past 10 quarters.

Lean Daily Management is now practiced at 9 DCs and we plan to continue to methodically expand this discipline across our network. Importantly, these practices not only strengthen our operating efficiency but also deliver improvements in effectiveness and accuracy that benefit our customers and suppliers.

We also continue improving our effectiveness and efficiency through targeted optimization within our distribution network. We successfully consolidated our Fort Wayne, Indiana distribution center in mid-February and transferred its volume to other more modern and efficient facilities nearby. Our previously closed DC and billings is also now under contract, and the sale is expected to be completed in the fourth quarter of this year with proceeds to be utilized to further reduce net debt. Our Fort Wayne and Bismarck DCs are actively being marketed. And as we've mentioned, we will not trade time for value as we seek to maximize our proceeds from these sales.

As part of our network optimization, we're also working to evolve select customer relationships to drive win-win solutions that are mutually beneficial to both parties. We've already completed extensive work across our customer base to improve key agreements and in most cases, we've successfully achieved mutually beneficial outcomes for UNFI and our customers. We're now focused on doing the same for a few remaining agreements. While our goal is always to reach a win-win agreement, when a win-win agreement is not possible, we'll explore a mutually agreeable exit plan. In all cases, we are continuing to take actions that support our customers and suppliers and accelerate our multiyear financial targets to create shareholder value.

Lastly, as we announced in January, we have taken steps to realign our wholesale business into 2 product-centered divisions that we expect will enable us to offer more differentiated and tailored solutions to customers and suppliers. One division will be focused on conventional grocery products and the other will be focused on natural, organic, specialty and fresh products. The basis of our multiyear strategy was a deep understanding and unique ways that we can add value for customers that are included in the growing $90 billion-plus target market we previously described. We believe these new more focused divisions supported by centers of excellence that will scale enterprise-wide capabilities will enable our commercial teams to provide a more customized product and service centered experience. This increasingly effective and responsive operating model is intended to help our customers and suppliers differentiate, compete and grow profitably. We expect most of the organizational changes required to support this realignment will be completed by the end of this fiscal year.

The strategic actions we took during fiscal 2024 and thus far in fiscal 2025 to strengthen our foundation and exit multiyear plan are delivering results. During the first half, adjusted EBITDA grew nearly 14%. Free cash flow generation climbed nearly $250 million and net leverage has been reduced to 3.7x. This is the lowest net leverage level since fiscal 2020. As Matteo will describe in more detail, we expect to build on this performance during the second half of the year.

In closing, as we execute our strategy, we become even more confident in our multiyear objectives, long-term trajectory and in our ability to add value for retailers and suppliers across food retail industry. As I described, we're also continuing to identify further opportunities for value creation. We are focused on becoming the most efficient value-creating partner for our stakeholders which in turn creates more opportunities for the approximately 27,000 UNFI associates who serve our customers and suppliers with dedication every day. Together, we remain confident our plan will continue to drive sustainable shareholder returns.

And with that, let me turn it over to Matteo to discuss our Q2 results, lean progress and revised outlook. Matteo?

Giorgio Tarditi
President & CFO

Thank you, Sandy, and good morning, everyone, and thanks again for joining our second quarter earnings call. As Sandy stated, our operating momentum, execution and performance have continued to accelerate during the first half of fiscal 2025. We remain confident in our multiyear strategy and the corresponding longer-term financial objectives we outlined during our fiscal 2024 year-end call. Today, I will provide additional insight into our second quarter results, including our free cash flow generation and capital structure and comment on our updated outlook for fiscal 2025. With that, let's review our Q2 results.

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Turning to Slide 8. You will see the walk on this slide reflects the updated sales disaggregation Steve described earlier. Our second quarter sales grew nearly 5% to $8.2 billion. Our gains in the quarter were led by our Natural Products business, where sales increased by over 8% compared to last year's second quarter, primarily reflecting higher sales and category penetration with existing customers. Our conventional products business was up just over 2%, reflecting new business wins and new customers over the past 4 quarters. Across our wholesale business, volumes were up about 3% and which represented another quarter of sequential acceleration and a continuation of the favorable trends we cited as we exited fiscal 2024. This broadly outperformed the key industry Nielsen benchmarks and partially reflects the benefit of new customer additions, we will begin to cycle later this year. Inflation was largely unchanged sequentially at approximately 1.5% and which was close to [1%] lower than last year's second quarter.

Total sales in our Retail business were down about 3% compared to last year, primarily the result of 5 store closures over the past 12 months. On an -- ID basis or same-store basis, sales were down about 40 basis points, a sequential improvement of about 100 basis points compared to Q1. This also reflects positive ID sales at Cub the larger of our 2 banners after being roughly flat in Q1.

Moving to Slide 9. Let's review profitability drivers in the quarter. Overall, you can see that our wholesale business drove the growth in the quarter. Wholesale gross profit dollars, net of higher operating costs were up nearly $20 million. This was due to higher volumes. However, our consolidated gross margin rate, excluding LIFO declined 20 basis points compared to the prior year period to 13.2% of net sales. This was driven by a lower wholesale margin rate as well as a mix shift towards wholesale partly offset by a higher rate in retail.

In wholesale, our gross margin rate declined about 10 basis points versus last year's Q2, largely due to changes in customer and product mix and some target strategic commercial investments. These impacts were nearly offset by innovation and efficiency initiatives, including value-adding supplier programs and the lower level of shrink Sandy referenced. More than offsetting this gross margin rate decline was continued solid execution and management of our operating expenses, which compared to last year's declined by approximately 40 basis points as a percentage of sales. As we've emphasized before, we are laser-focused on improving processes and removing waste, so we are better able to bring value and improving service levels to our customers and suppliers. This improving efficiency also partially reflects some benefit from the customer mix shift impacting our gross margin rate. Growing more quickly with large existing customers has benefits to route optimizations and drop sizes to benefit our operating expenses.

As Sandy mentioned, we have now rolled Lean Daily Management out to 9 DCs, and we are pleased with the improvements we are seeing. Several of the newer implementations have already seen initial low single-digit productivity gains, which is a good progress to the higher gains we ultimately expect. This is coupled with improvements in safety and delivery quality. Equally as important are the lessons that we have learned and the skills we're applying to become more proficient. Teams are strengthening their ability to problem solve to effectively identify and document countermeasures and the culture of championing breakthrough thinking has been embedded across our organization. These actions, along with the other strategic initiatives undertaken in fiscal 2024 and to date in fiscal 2025, drove adjusted EBITDA to grow over 13% compared to the prior year quarter to $145 million. Our adjusted EBITDA rate expanded 13 basis points compared to the prior -- year to nearly 1.8%. This represents the highest adjusted EBITDA margin rate since the third quarter of fiscal 2023. Our adjusted EBITDA, combined with some benefits on below-the-line items led to strong adjusted EPS growth with adjusted EPS in the quarter of $0.22 compared to $0.07 in last year's second quarter.

Turning to Slide 10. Our improved profitability and continued focus on deploying and adhering to Lean principles helped [$193 million] in free cash flow in the quarter, which was approximately $77 million more than last year. Working capital in the quarter was an approximately $100 million cash benefit which, combined with our stronger adjusted EBITDA more than offset our capital investment and interest expense. This brings our year-to-date fresh flow to slightly more than $30 million. This represents an improvement of nearly $250 million compared to last year's free cash flow use of $212 million in the first half.

It also brings total free cash flow generated over the last 12 months to over $150 million. We continue to make earlier-than-anticipated progress on working capital management, including a net reduction in days on hand of inventory which has been achieved through further refinement of the decentralized procurement model and improved forecasting, constant -- explained last quarter. Importantly, we're doing this while also driving fee rate improvement where supply is not constrained. We deployed our free cash flow generated to reduce our net debt to close to $2 billion and lower our net leverage to 3.7x, which is about 0.5x less than last quarter in the prior year second quarter. This is also the first time we have been below 4x since fiscal 2023. This keeps us firmly on track to deliver our longer-term deleveraging goal of less than 2.5x by the end of fiscal 2020.

Looking at Slide 11. Halfway through fiscal 2025, we continue to build confidence in our momentum and execution against our broader strategy and multiyear plan. We're again raising our full year outlook for all financial metrics other than capital spending. As outlined in our press release, the updated guidance for net sales is a range of $31.3 billion to $31.7 billion, which represents a 3.6% full year increase at the midpoint compared to fiscal 2024 were adjusting for the 53rd week last year. This represents about a 2.3% increase in dollars from the midpoint of our prior outlook. This increase partially reflects higher customer retention than what was

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

previously expected as part of our network optimization. This revisited outlook also implies an expected sequential deceleration in sales growth from 4.6% in the first half of fiscal 2025 to around 3% in the second half of the year. This anticipated cadence is largely due to the impact of timing associated with when we onboarded new customers in the prior year period. It also reflects the expectation that natural products will continue to lead growth across our business. We have raised the bottom end of our expectations for adjusted EBITDA by an additional $20 million bringing the new range to $550 million to $580 million, which is more than an 11% increase over the last year at the midpoint.

The midpoint of our sales and adjusted EBITDA outlook implied that we expect adjusted EBITDA margin rate acceleration of around 10 basis points in the back half of the year compared to the 1.74% of sales in the first half. This reflects the benefit of the initiatives completed already as well as those we expect to take during the remainder of the year.

Given the seasonal nature of our business, we expect total dollar sales in Q3 to be sequentially lower than in Q2. As a result, even though we expect our adjusted EBITDA margin rate to be higher in the second half, we'll likely see adjusted EBITDA dollars in Q3 declined marginally sequentially from Q2, while still growing solidly compared to the prior year. This reflects the benefit of ongoing strategic initiatives, which continue to ramp, driving a better margin rate. Including the benefit of lower forecasted interest expense based on our year-to-date free cash flow performance, our EPS and adjusted EPS ranges have increased as well with adjusted EPS now expected to fall within the range of $0.70 to $0.90 per share compared to $0.14 last year.

Full year free cash flow is now expected to be at least $150 million, an increase compared to our prior outlook of greater than $100 million. This represents a roughly $250 million increase compared to fiscal 2024 full year free cash flow. As Sandy mentioned, in mid-February, we completed the closure of our Fort Wayne distribution center and consolidated the volume into other nearby more modern and efficient facilities. Our previously optimized billings DC is under contract for sale, and we're actively marketing the owned real estate for the other 2 DCs that have been closed in the past 6 months. But as I stated before, we will not sacrifice value for time. We will continue to evaluate other opportunities along these lines, but have not included any incremental strategic actions in our updated outlook.

Flipping to Slide 12. We're off to a solid start at the midway point of fiscal 2025, and we're encouraged by our operating momentum and the work streams in place to add value and better service our customers and suppliers while making UNFI a more efficient partner for both. Our efficiency initiatives powered in part by Lean principles are largely generating the operating benefits we expected while our volume trends reflect the successful execution of our customers as well as the trust they place in us every day. Importantly, we are finding more ways to improve to bring even greater value to both ends of the supply chain and ultimately create additional shareholder value and we're aggressively pursuing these opportunities. The strategy we have outlined of bringing value to our customers and suppliers through a differentiated go-to-market proposition and strengthening service levels while improving UNFI's free cash flow is simple and powerful. And our progress to date reinforces that we're working to accomplish. We remain confident and optimistic about our future and the value creation opportunity we have as we work to improve our capabilities and customer-facing execution. Our mantra of delivering and deleveraging remains intact and we look forward to updating you on our progress again this summer. With that, operator, please open the line for questions.

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Question and Answer

Operator

[Operator Instructions]. The first question comes from John Heinbockel from Guggenheim.

John Edward Heinbockel
Guggenheim Securities, LLC, Research Division

Sandy, on the wholesale realignment and the new sales breakdown, one, can you touch on functionally the changes that have occurred how that will change your go-to-market day-to-day, right, interacting with your customers and the biggest benefit you see? And then just want to understand, natural and conventional, is that products -- natural products that are sold to any customer or all products that are sold to largely natural customers, the same thing for conventional?

James Alexander Miller Douglas
CEO & Director

John, the second question you asked is yes, it's all customers. What we learned from feedback that we've gotten from customers and suppliers is that product expertise was a principal focus for them. And so what we've done is taking that feedback, we've aligned the wholesale business into 2 product center divisions. Each focused largely on functional dedication in sales, procurement and merchandising. We kept the scaled enterprise-level capabilities behind them in supply chain and IT and across the company. But what customers wanted from us was really focused product expertise around the key levers that drive those categories and we organized that way. But it's transversal across customers, so to the point of your second question, natural products will be represented in an expert fashion by natural people, but the customer manager, if the customer is principally conventional will come from conventional.

John Edward Heinbockel
Guggenheim Securities, LLC, Research Division

Okay. Well, then my first part of that, right? So how does this change? I guess it doesn't change that much in terms of how sales are interacting with the accounts.

James Alexander Miller Douglas
CEO & Director

Yes, it's not a big change, but I guess the best way to think about it is the customer who's principally focused on natural organic products are -- they're very interested in innovation. They're interested in things that are changing whereas the conventional products, a lot of those are big brands, and they're looking for the best promotional activity and sharpest price points. And it's a different merchandising motion. It's not completely different, but it's enough different that we felt the segment and then was the best way to serve our customers.

John Edward Heinbockel
Guggenheim Securities, LLC, Research Division

All right. And then just my last quick thing. You referenced 4 incremental areas of potential to the strategy of those 4, which 1 or 2 are furthest along and you think are the most impactful if 1 or 2 stand out?

James Alexander Miller Douglas
CEO & Director

Sure. I mean from my perspective, the services for customers who have typically not been well served by Pro services and digital services are the best. While it's in development, I think it has tremendous potential. One of the things that I like to say internally is that UNFI needs to be in the retail media networks of the future in year 1, not year 4. But we're catching up quickly, and we have a whole pipeline of products and services there that we think will serve customers very well in the future and give them the edge that they need to compete more favorably.

Operator

The next question comes from Bill Kirk from Ross Capital.

William Joseph Kirk

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

MKM Partners LLC, Research Division

I had a couple of things related to the closure of the Fort Wayne DC. I guess, first, were there duplicate costs while it was still open that are now gone, is there a step down in depreciation expense with the closure? And how large would that be? And then finally, what did you learn in the process of closing that and rerouting that will help inform future facility closures and help inform the customer and facility kind of optimizations?

Giorgio Tarditi
President & CFO

Hi, Bill, it's Matt here. So on the question on OpEx and duplicative costs. So we are ramping down very quickly the 4-point operations and with the operating expenses. So we had a little bit of kind of double dipping or double cost in the second quarter. But from now on, we should expect to basically just transfer all the activities to the receiving DCs scaling down significantly the OpEx and the fixed cost at the Fort Wayne DC and see the full benefits for the rest of the year, which is part of the reason why we built a high confidence case to increase EBITDA 10 basis points in second half versus first half. There should be some step down in depreciation and amortization as well. And then relative to the learnings, the customer experience has been the first priority over and above the cost out or the free cash flow benefit. So we spoke before about the safety, quality, delivery cost always in that order set of priorities. And so understanding, first of all, how we were increasing operations and ramping assortments, they are receiving DCs while ensuring that the customer experience was as smooth as possible while closing -- DC and ramp in others was to port. So this is what we continue to embed as we continue our journey in terms of the -- optimization. DC and Bismarck, we are smaller scale in a way, Fort Wayne was more meaningful. And as we always said, as we look at underperforming VCs, the journey continues.

Operator

The next question comes from Scott Mushkin from R5 Capital.

Scott Andrew Mushkin
R5 Capital LLC

So I just want to go back to what John was talking about as far as the realignment of the business. When the merger was done, the idea was putting the 2 entity together -- long time ago now that there was leverage in putting those SUPERVALU together with UNFI the idea of one truck, one bill, maybe even one DC. It sounds like you guys are saying, "Hey, maybe that's not ideal. And I guess the question is, do the 2 assets belong together over time? Or is that something you guys will consider as the years go on?

James Alexander Miller Douglas
CEO & Director

Yes. Thanks for the question. From my perspective, the answer is kind of both. Scale is good where scale is good and specialization is good where specialization is good. What we were hearing from customers is in my main product set is conventional I need really good pricing. I need the promotional intensity and focus of vendors. If my principal prospect is natural, organic and specialty, it's all about product innovation and speed. And generally, those motions are 2 different types of processes, and therefore, we found specializing that part of the organization to be in the interest of our customers. From a supply chain and IT and back office standpoint, there's a lot of synergy available that we've been capturing. And through those centers of excellence are places where efficiency can be captured through enterprise-wide capability. So Scott, it's really both.

Scott Andrew Mushkin
R5 Capital LLC

Okay. So my second question is actually a really short one. The conventional was up, I think, 2.1% on revenues. I know there's some wins in there. Can you talk a little bit about kind of core sales growth core volumes with continuing customers kind of ex the wins?

Giorgio Tarditi
President & CFO

Sure. Scott. So the overall volume for UNFI were up [8%] and we in that natural grew at a more accelerated fashion than conventional. With that said, what we saw is that conventional was roughly flat from a volume standpoint and slightly better than the U.S. food traditional grocery indicator. Conventional have improved in part from adding from business from existing customers. And we also believe that our volume changes have outpaced many of the conventional peers. So we are pleased with the sequential progress that we have seen there. We remain cautious with the kind of overall dynamic going on, but pleased with what we have seen

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

in the second quarter, now that again, broadly, we picked up a volume in early July of 2024. It grew to 1.8% in first quarter grew to 3% in the second quarter

Operator

The next question comes from Mark Carden from UBS.

Mark David Carden
UBS Investment Bank, Research Division

You guys put together strong results, brought up your guidance. At the same time, we've seen some pretty big shifts in consumer sentiment over the last few weeks. Are you seeing any changes in end customer behavior in the early weeks of 3Q across really any of your channels? Or has your momentum really been pretty much sustained?

James Alexander Miller Douglas
CEO & Director

We're really not seeing anything change. In fact, over the last year or so, we've continued to see generally very strong performance by our customer base. A whole lot of the causals in our growth are the success of excellent group of customers performing very well in the marketplace. Obviously, the really well-differentiated sharp strategy retailers are doing very well. But in general, we have not seen consumer behavior change significantly over the past few weeks. There may have been a little bit of upstocking in some categories, but beyond that, nothing to -- that we could call a trend.

Mark David Carden
UBS Investment Bank, Research Division

Great. That's helpful. And then related to tariffs, how much exposure do you guys have to imports overall? Would you expect to fully pass through them, pass through on a dollar or percentage basis? And then if we do see sustained tariffs, how do you think about the balance between incremental trade in from food away from home? And any potential demand disruption as consumers potentially control their own shrink, so to speak?

James Alexander Miller Douglas
CEO & Director

Yes, that's a good question. Those are the variables that we're thinking about as well. I think, obviously, the most important message here is this all continues to evolve. And so we'll be paying attention to it. Our teams are obviously very agile in thinking about diversification and resiliency of supply chains and options and levers that they can pull. Ultimately, we learned a lot from the supply chain disruptions in COVID and so we're running some of the same plays to make sure we maximize the optionality for our customers. I think you can, over time, the premise of your question is true that it could start to change the value equation between food at home versus food away from home. But it's really too early to tell. And what we're trying to do is make sure we're doing the best job we possibly can for our customers in any environment.

Operator

The next question comes from Andrew Wolf from CL King.

Andrew Paul Wolf
CL King & Associates, Inc., Research Division

I wanted to start, I guess, with Matteo on the lean principles in the 9 new DCs being, I guess, at least you gave a productivity trend in the low single digits. And I think last quarter in the 2 pilots in Texas and Colorado was mid-single digits. So is there anything other than just timing, is sort of in the new -- in the 9? Or is there anything that we should know about? Or are your expectations kind of similar that they'll trend up?

Giorgio Tarditi
President & CFO

Andrew, expectations remain at mid-single-digit plus in terms of productivity gains. And when you think about what we've been able to deliver in throughput, for instance, in the last several quarters, is close to8% to 10% improvement or lower or higher cases per power. So we see the benefits. I would say that on the fact that for the new DCs that moved to LDM, Lean Daily Management recently, it's just timing. So we see the ones where we had Lean Daily Management implementation 6 months ago, reducing or

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

improving safety, improving delivery quality and starting generating more and more productivity, and we expect the same from the 7 that moved to a Lean Daily Management and adopted Lean Daily Management in the last 3 months.

Andrew Paul Wolf
CL King & Associates, Inc., Research Division

Got it. And just back to the top line that I think some folks have been asking about. You nice acceleration in volume and sequentially and you've talked about a lot of things. So some is supplier partnerships and how you changed some of the -- well, a big change in you're addressing fees and so on and sharing data back to the suppliers to help them with their merchandising. And then I think, obviously, this realignment, I think Sandy referenced procurement, merchandising sales and so on. So how do you I could hear this in thinking in conventional, maybe that's more sophisticated suppliers using the data coming to you with programs and partnering that way. And then in the natural that's more internal, like, hey, we really got to put some resources against this. There's a lot of growth here we're leaving on the table. Is that kind of conceptually and qualitatively, is that accurate? Or is it a little more nuanced than I'm kind of portraying it, my takeaway.

James Alexander Miller Douglas
CEO & Director

Andy, I think you've got -- I think the main thrust of the conventional product that is making sure that we're priced right and making sure that the promotions are focused but like any generalization, there's significant nuances across our conventional customer base. We've got ethnically positioned customers that are doing as well as any retailers in the country. And we have other customers who are working hard on building new, differentiated programs, e-commerce, et cetera. But what they all have in common is they've got to be priced right on the key items. So we're devoted to helping them do that.

On the natural side, obviously -- value is very important, but innovation and uniqueness is really important. I mean, we've had a huge show on the West Coast called Expo West, and there were 80,000 people out there trying to get advantage over each other and we had a large team of merchants out there looking for new items and talking with customers to figure out what was going to create news and enthusiasm in their retail outlets in the second half. So there are different basis of competition at the end of the day, it's all about retail execution. And I would say the biggest driver of our growth is the success of our customers.

Andrew Paul Wolf
CL King & Associates, Inc., Research Division

Okay. And if I could just sneak one on the gross margin. The contraction rate was a little better than last quarter, and I think I asked about the last quarter as well. So is there anything in particular? Or is that just sort of that in your own metrics? Or was it more realization or pricing? Or was it or mixed out better or shrink. Is there anything significant that improved the gross margin rate sequentially?

Giorgio Tarditi
President & CFO

Yes. So Andy, we grew gross profit dollars by about $35 million, mostly through volume, but we also continue to see improvement in shrink and the progress with the suppliers' program that are a very important part of our strategy. The rate was down about 20 basis points from 13.4% last year to 13.2%. And what we see is progress with reducing shrink. Sandy mentioned that we are one of the lowest levels that we've seen in a long time. We continue to see a ramp of our suppliers' programs that you may recall aim at reducing friction and improving transparency while being accretive at the gross profit level. And we also start seeing some of the benefits of the commercial value creation and stronger underwriting activities. So it's very early innings. We know that it takes time to convert underwriting improvements into margin in backlog, but we started seeing signs of it. And we're also focusing a lot more on understanding mix with the stronger analytical tools that we have, whether it's customer or category, and we actively work on those. So more to do there, but pleased with what we see at least with the controls and shrink suppliers' programs and the overall kind of underwriting environment.

Operator

[Operator Instructions]. The next question comes from Kelly Bania from BMO Capital Markets.

Kelly Ann Bania
BMO Capital Markets Equity Research

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Wanted to just ask what you're seeing with regard to demand for natural and organic by conventional retailers. I guess the idea several years ago was that the cross-selling opportunity was quite significant to get that kind of product into conventional retailers. Just wondering if you're seeing a change in their interest in kind of stepping into that further or if there's a change in even the marketing or sales effort to kind of do that cross-selling given just kind of the realignment that you're discussing?

James Alexander Miller Douglas
CEO & Director

Hi, Kelly, good question. I think the answer to that is yes. That opportunity that the team saw a bunch of years ago is still a very large one. And there's a whole lot of category momentum for natural organic and specialty regardless channel. We're seeing that both across branded and then also across our own brand portfolio, particularly our Wild Harvest brand, which is doing extremely well in multiple channels. But we're seeing a very broad-based consumer trend towards better-for-you products, and that would show up in our natural portfolio.

Kelly Ann Bania
BMO Capital Markets Equity Research

Okay. That's helpful. And just a couple more questions. If the lean daily management and Matteo, some of the figures you gave there, sounds like it's been implemented in the 9 DCs. Are those more conventional DCs or natural DCs and is the opportunity different as you look at those 2 sides of the business with this initiative?

Giorgio Tarditi
President & CFO

Kelly, it's a very good question. It is a mix and a balance of natural and conventional DCs. So we obviously want to make sure that our teams embed Lean and Lean Daily Management principles equally, especially as we continue to evolve this kind of more decentralized model that Sandy described on natural and conventional. So it is both. We see positive results in both. We really like the fact that now every day, we have 9 teams that get together around standard KPIs on safety, quality, delivery cost and get into a problem solving with the idea of fixing and developing countermeasures very quickly.

Kelly Ann Bania
BMO Capital Markets Equity Research

Okay. And just one more, I guess, on the new customer additions that you mentioned, Matteo starting to cycle later this year, any help you can give us on the magnitude of that, the channels that, that impacts and any insights into the pipeline for additional customer additions as we move forward?

Giorgio Tarditi
President & CFO

So when we think about the second half growth of 3% versus 4.6%, I will have a couple of considerations. First, we continue to see several opportunities to find profitable growth in natural and in conventional, obviously, faster growth in natural, but several opportunities in conventional as well. then the offset to that is the fact that a few customers that we onboarded in the second half of 2024 will start cycling. So we'll have tougher comps in a way, while still delivering the same absolute dollars in the second half of 2025 and beyond. So I would really think about growth that we kind of enjoyed in the first half kind of decelerating or lapping in the second half of 2024 for the remainder of the year.

James Alexander Miller Douglas
CEO & Director

Kelly, it's Sandy here. The one thing I would tack on though, which was part of your question is what does the pipeline look like? And what I would tell you is -- it's very strong. It's strong across the $90 billion addressable market that we've identified, and we continue to see opportunity but I think the guidance we've given you is our high confidence guidance, but we're continuing to work to beat it.

Operator

And that concludes our Q&A session. I will now turn the call over to Sandy Douglas, CEO, for closing remarks.

James Alexander Miller Douglas
CEO & Director

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Thanks, operator. As you heard on today's call, we continue to make solid progress on executing our multiyear strategy and delivering our full year outlook. We have an excellent and very focused team in place with capability growing every day. We remain laser-focused on creating value for our customers and suppliers while making UNFI a more effective and efficient organization. We, again, delivered strong sales, adjusted EBITDA and free cash flow growth compared to last year's second quarter and our increased outlook reflects our year-to-date performance and growing level of confidence in our business model and customer base.

As we implement our strategy, we've continued to gain additional insight and believe that the opportunities before us are greater than the progress behind us. To capture this opportunity, we know we must stay focused and strive to get better every day, and we're committed to doing just that. By embracing Lean Management, we're becoming a more efficient and effective organization and creating sustainable shareholder value.

For our customers and suppliers, we thank you for your continued partnership and the business we do together. For the UNFI associates listening today are thanks to each of you for everything that you do for our business, our customers, our communities and each other. And for our shareholders, we thank you for the trust that you continue to place in us. Thanks again for joining us this morning. We look forward to updating you on our progress in June.

Operator

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

Copyright © 2025 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Copyright © 2025 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2025 S&P Global Market Intelligence.