

United Natural Foods, Inc. NYSE:UNFI

FQ3 2026 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

	-FQ3 2026-			-FQ4 2026-	-FY 2026-	-FY 2027-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.77	0.77	●0.00	0.62	2.58	NA
Revenue (mm)	7803.29	7723.00	▼(1.03%)	7717.03	31311.76	NA

Currency: USD

Consensus as of Mar-26-2026 9:07 AM GMT

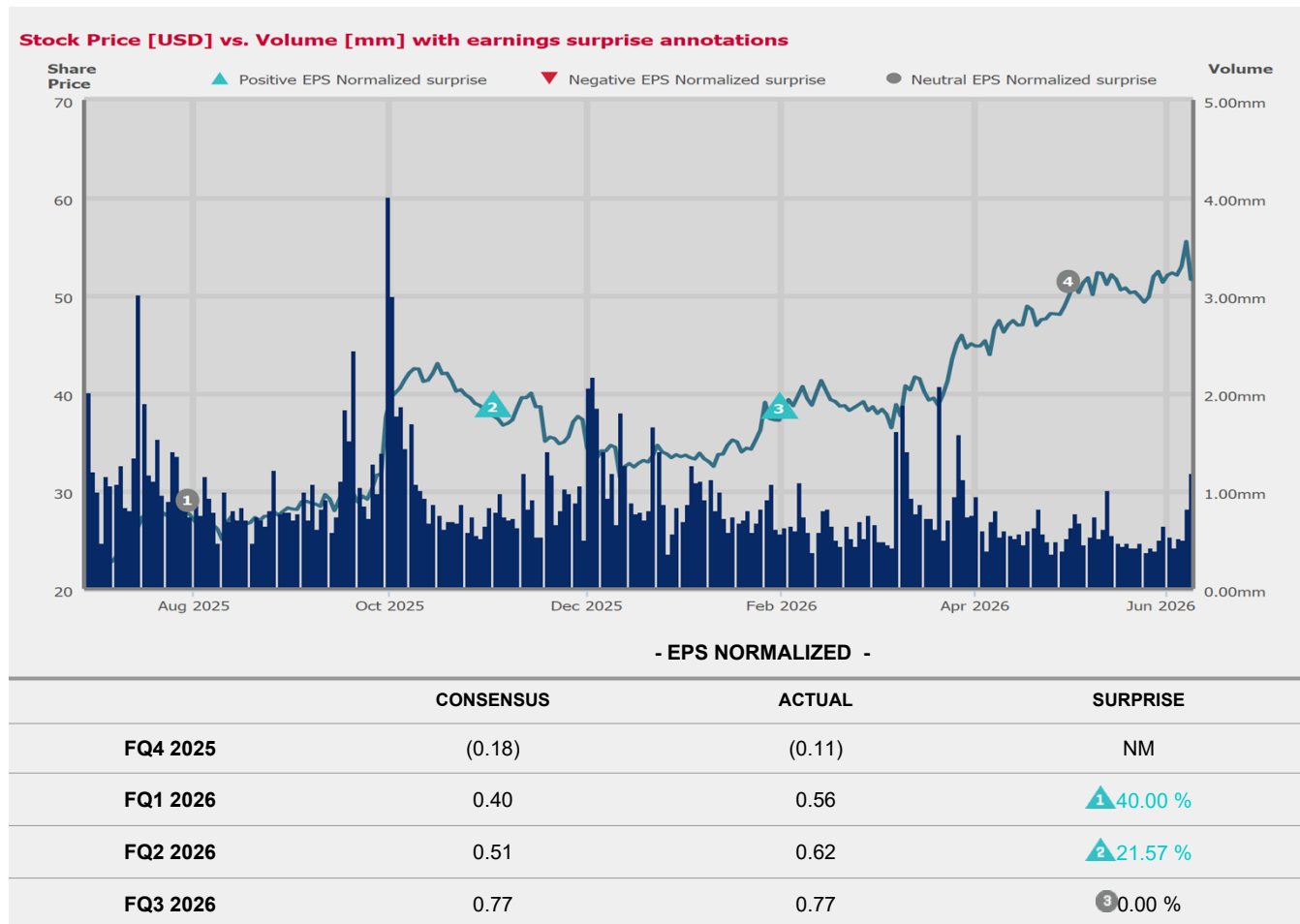


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Call Participants

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Presentation

Operator

Ladies and gentlemen, thank you for standing by. My name is Krista, and I will be your conference operator today. At this time, I would like to welcome everyone to the UNFI Third Quarter Fiscal 2026 Earnings Conference Call. [Operator Instructions]

I would now like to turn the conference over to Kristyn Farahmand, Chief Strategy Officer. Please go ahead.

Kristyn Farahmand

Good morning, everyone. Thank you for joining us on UNFI's Third Quarter Fiscal 2026 Earnings Conference Call. As many of you may have heard, Steve Bloomquist, our Vice President of Investor Relations, and long-time leader within UNFI's finance team has moved to a part-time consulting role. Given this, I'll be leading our earnings calls going forward. We invite you to continue to reach out to Steve or any other member of our Investor Relations team as needed going forward.

By now, you should have received a copy of the earnings release from this morning. The press release and earnings presentation, which management will speak to, are available under the Investors section of the company's website at www.unfi.com on the Events tab. We've also included a supplemental disclosure file in Microsoft Excel with key financial information and our quarterly investor letter with more detail on our third quarter progress. Our letter this quarter includes a video link detailing some of our recent supply chain improvements driving increasing effectiveness and efficiency.

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

Before we begin, I'd like to remind everyone that comments made by management during today's call may contain forward-looking statements. These forward-looking statements include plans, expectations, estimates and projections that might involve significant risks and uncertainties. These risks are discussed in the company's earnings release and SEC filings. Actual results may differ materially from these results discussed in these forward-looking statements.

I'd like to point out that during today's call, management will refer to certain non-GAAP financial measures. Definitions and reconciliations to the most comparable GAAP financial measures are included in our press release and at the end of our earnings presentation.

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

James Alexander Miller Douglas CEO & Director

Thanks, Kristyn, and thank you, everyone, for joining us this morning. In the third quarter of fiscal 2026, UNFI continued to make steady progress on our value creation strategy that's focused on adding value for our customers and suppliers and becoming a more effective and efficient company. Through disciplined execution of our strategy, we generated strong profitability and free cash flow while continuing to strengthen our balance sheet and increase our financial flexibility.

Throughout the quarter, we remain focused on helping our customers and suppliers execute their strategies in a dynamic operating environment. Our underlying top line performance reflects the continued strength and resilience of our customers, building on a long track record of consistent growth across our industry.

As you'll see on Slide 6, over the past 2 decades, differentiated regional and independent grocers have steadily gained share, roughly doubling their position in the approximately \$1 trillion U.S. grocery retail market, where each incremental share point is equal to \$10 billion of retail sales. Natural and organic retailers have tripled their share over the same period. And beyond these groups, many multicultural and neighborhood grocers are also well positioned to deliver enduring growth by offering a unique value proposition to the communities they serve.

Retailers pursuing differentiation are the basis for our value creation strategy and defined UNFI's growing \$90 billion target addressable market. What's notable is the consistency in growth across these food retailers. Differentiated formats have generally outperformed the broader market over time, reflecting a growing segment of consumers they prioritize high-quality, healthy assortments and differentiated experiences. That trend continued in the third quarter with estimated growth for these segments in aggregate, tracking in the low single-digit range despite a highly dynamic operating environment.

As we communicated at our Investor Day, our focus is on strengthening the capabilities that are supporting differentiation and growth in our industry. In the quarter, UNFI's underlying net sales performance, excluding the impact of accretive optimization was in line with the estimated low single-digit growth of our target addressable market.

Since our founding 50 years ago, we have listened closely to our customers and develop solutions to help them respond to emerging trends and business needs from high-quality natural and organic products to unique private brands and scalable services. The breadth of our product assortment, services offering and the scale of our distribution network, position us to play a meaningful role in supporting the long-term differentiation and growth within the food retail industry.

Turning to Slide 7. We're building on this foundation by strengthening our capabilities in 7 key areas: customer stewardship, merchandising and supplier support, professional and digital services, private brands, technology, next-generation supply chain and productivity. During the third quarter, we continued building and executing our plans for these capabilities, informed by our customer and supplier feedback and through cross-functional collaboration across our teams.

We also continue to invest in talent to accelerate our capabilities, including adding a new leader for our digital services business, which includes offerings designed to help our customers and suppliers operate more effectively and to strengthen shopper engagement.

In merchandising and supplier support, we rolled out a new digital marketplace called Endless Aisle, that gives retailers an easier way to access innovative emerging brands while also helping suppliers expand their reach with less friction. While it's still early, we're hearing positive feedback from partners who value the ability to test new products with greater flexibility, and we expect to continue to develop and test new solutions like this to help further support our stakeholders.

We also continue to innovate within our private brands portfolio, introducing more than 30 new SKUs. These innovations aim to help our retailers differentiate their assortments and meet growing shopper demand for nutritious choices, which consumers are increasingly gravitating towards. As we continue taking steps to improve effectiveness and efficiency, we're beginning to see early benefits from the next-generation supply chain capabilities that we're building across our network.

For example, we expanded our AI-powered supply chain and procurement planning platform to all DCs in our network and are focused on completing the supplier-facing portion of this deployment. This platform is already helping to steadily improve fill rates and inventory management while also enhancing free cash flow conversion.

We also expanded the use of our AI-powered fleet management platform, Samsara. We recently began using the platform's features including driver coaching to help strengthen drivers' safety processes, optimize routes and improve delivery execution. Year-to-date, through the end of the third quarter, our on-time deliveries increased by over 4% compared to the prior year period, while average miles per delivery has declined by nearly 5%. Additionally, we've expanded our cloud-based warehouse management system to 5 additional distribution centers, further strengthening reliability and consistency across our network.

Collectively, these investments aim to enhance service levels for our customers and suppliers over time, while strengthening effectiveness and efficiency across the UNFI network. We remain confident that our value creation strategy and disciplined execution position us well for long-term sustainable growth and shareholder returns. In addition, we are strengthening our financial flexibility as we look to reinvest in the capabilities to better serve our partners and achieve shared profitable growth with our stakeholders. And we see continued opportunities to invest in commercial and supply chain technologies that benefit our customers, our suppliers and UNFI.

As UNFI marks our 50th anniversary, our team is working to build on and accelerate the company's legacy of helping retailers differentiate and grow in a dynamic marketplace. Together, we remain committed to delivering better every day as we work to become our industry's most valued partner.

With that, let me turn it over to Matteo to share more detail on our third quarter performance.

Giorgio Tarditi
President & CFO

Thank you, Sandy, and good morning, everyone. Our third quarter results reflect disciplined execution of our strategy to create value for customers and suppliers which enabled us to deliver strong profitability and free cash flow generation while further reducing net leverage. Today, I will provide additional insight into our third quarter operating results, our financial position and capital structure in our fiscal 2026 outlook.

With that, let's start with our Q3 results. Starting with Slide 9. Our third quarter sales came in at approximately \$7.7 billion, a decline of 4.2% to last year, which includes an impact of approximately 450 basis points from our accretive optimization actions. This is similar to the optimization impact we reported in our second quarter results and in line with our expectations.

Our sales results also reflect an impact from the initial unwind of the short-term project work for a single customer that we have referenced before. Excluding the impact of optimization in the short-term project work, our underlying business performed in line with our estimate for our target addressable market and outperformed the overall industry.

Natural Product sales grew by over 4% which also reflected the impact from the unwind of the project-based work. We expect to fully cycle this project work in the third quarter of fiscal 2027. Underlying natural growth again outperformed the market, reflecting strong execution from our customers and continued shopper demand for natural, organic, fresh and specialty products.

Conventional product sales declined nearly 14%, primarily driven by our strategic network optimization actions. Importantly, while we report our segments according to product types, approximately 90% of our customers spending our smallest and largest customers by both conventional and natural products to support their unique go-to-market strategies in the local markets they serve. The unique value and capabilities we're building to support differentiation and key growth segments of the retail industry are helping to support our growing diversified wholesale pipeline.

As a result, as we cycle our larger optimization actions in Q1 2027 we expect that our broader wholesale business will return to sales growth next fiscal year. In retail, total sales declined by around 10%, largely due to the planned top line impact of strategic store closures as we optimize our footprint and strengthen the foundation of the business. Same-store sales declined by around 4%, reflecting a dynamic environment and a change in pharmacy backdrop. Underlying this performance, we did see some sequential improvement in Cub Foods-driven same-store sales. Our team remains focused on continuing to enhance Cub's value proposition, product assortment and shopping experience in the Minnesota market.

Moving to Slide 10. Let's review profitability drivers in the quarter. Our gross margin rate in the third quarter was 13.6%, up approximately 20 basis points year-over-year. This improvement includes the benefit from our network optimization work. We reduced operating expenses by nearly 7% compared to the prior year and operating expense rate by nearly 40 basis points to 12.4% of net sales. Importantly, we increased DC productivity by over 7%. These results reflect the benefits of our effectiveness and efficiency initiatives, including network optimization, investments in our next-generation supply chain and incremental productivity gains from the expansion of lean practices across our network.

Our disciplined execution, combined with a higher gross margin rate and reduced operating expenses resulted in adjusted EBITDA growth of nearly 17% to \$183 million. Our adjusted EBITDA margin was approximately 2.4% of net sales, up around 40 basis points year-over-year. The strong growth in profitability along with lower net interest from reduced debt levels and lower depreciation expense resulted in adjusted EPS of \$0.77, a meaningful increase compared to last year's \$0.44.

Flipping to Slide 11. During the third quarter, we continued improving our effectiveness and efficiency through consistent progress deploying new technology solutions and further embedding lean practices. As Sandy highlighted earlier, we continue to methodically deploy new technology solutions to enhance our network and supply chain. Additionally, we have now implemented lean daily management in 40 DCs as of the end of the third quarter, an increase of 4 facilities from the prior quarter.

We believe that by coupling these deployments, we will be able to sustainably improve processes and deliver rising service levels and productivity over time. We continue to make progress on this front with fee rates, on-time deliveries and throughput increasing compared to the prior year quarter.

Turning to Slide 12. Our strategic and operational discipline delivered solid free cash flow of \$54 million for the quarter, which brings our year-to-date total to \$243 million, an increase of \$90 million from the prior year. This free cash flow, coupled with higher adjusted EBITDA, enabled us to lower our net leverage ratio to 2.5 turns, a 0.8 turn improvement year-on-year with net debt of \$1.63 billion, the lowest since fiscal 2018. This progress reinforces our confidence in achieving our longer-term deleveraging targets.

Year-to-date, through the end of May, we've also repurchased nearly 1 million shares of stock for approximately \$38 million at an average price of \$37.88, reflecting our conviction in the long-term value creation potential of our business and the strategy we are executing. We will continue to evaluate further opportunistic repurchases as we reinvest in our business and reduced leverage as part of our capital allocation process.

We also improved our capital structure in the third quarter. As previously noted, we utilize free cash flow and made a voluntary \$150 million prepayment on our senior notes at par, which reduced the outstanding amount of this 2028 maturity to \$385 million.

Additionally, we refinanced our \$2.53 billion asset-based lending facility, which extended its maturity to April 2031 and reduce our overall annual borrowing cost by approximately \$2 million.

Looking at Slide 13. Based on our year-to-date performance and forecast for the balance of the year, we are reiterating outlook midpoints across all outlook metrics and narrowing expected ranges for net sales, net income, EPS, adjusted EBITDA and adjusted EPS. This reflects our high confidence forecasting methodology, disciplined execution of our value creation strategy as well as an evolving operating backdrop. It also includes some acceleration of profitability benefits to the third quarter. Additionally, we continue to expect investment spend to ramp as we close out fiscal 2026 to support our ongoing investments to enhance our supply chain and deliver better servicing and value for our customers and suppliers.

As highlighted on Slide 14, we have delivered another quarter of strong profitability, free cash flow generation and continued deleveraging. We continue to develop strategic capabilities to support shared long-term profitable growth for our customers, suppliers and UNFI. And we continue to advance our technology journey that is designed to simplify processes, provide better near real-time insights into the business and make us a more effective and efficient organization.

As we move into the last quarter of our fiscal year, we are focused on delivering a strong finish to fiscal 2026, continuing to support our customers and suppliers as they execute their unique growth strategies in a dynamic operating backdrop. We believe that there is a significant opportunity ahead of us as we expect to return to growth in fiscal 2027, while continuing to strengthen our capabilities and becoming even more effective and efficient partner.

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

Question and Answer

Operator

[Operator Instructions] And your first question comes from Ed Kelly with Wells Fargo.

Unknown Analyst

This is John Parke on for Ed. I know you're starting to lap some of the project work you were doing. I guess, can we take a step back and talk about how the underlying natural organic segment is doing excluding that? And any additional color in terms of customer wins and confidence in that mid-single-digit category growth trajectory?

James Alexander Miller Douglas

CEO & Director

John, it's Sandy. Thanks for the question. The way I'd impact our sales is starting with negative 4.2% report, we have about 450 basis points of optimization actions that we took over the past year to align our portfolio of customers with the addressable market and with win-win agreements. That was planned and understood. We also have begun to fully cycle a piece of project work we did with a large customer that began, as Matteo said in his comments in the third quarter and will fully cycle that by the next year, third quarter. All that adds up to an underlying sales growth that's in line with our addressable market in the low single digits.

From a pipeline standpoint, while we're not generally specific about that, our pipeline is very strong, and it's part of the sets of puts and takes that Matteo considered when he described next year as a return to growth in fiscal '27.

Giorgio Tarditi

President & CFO

And John, on natural, the sequential step down from 6 and change percent to 4% and change, again, in the mid-single digit, is really driven by 200 basis points of unwind of the project-based work. More interesting, though, if you look at the 2-year stack, you see a consistent growth in the mid-teens over the last 5 quarters. So while, again, the project-based work could create a bit of ups and downs over the last 5 quarters, 2 years stack, the growth in natural has been really strong.

Unknown Analyst

Got it. That makes sense. And then I guess, what are you guys seeing from conventional customers trying to lean more into natural organic products as well as private label? I guess anything you could share on the trajectory of those trends as they lean in more.

James Alexander Miller Douglas

CEO & Director

Sure. I think the -- obviously, the strategies of retailers and the innovation across our customer base is significant, and there are many permutations. But if you were going to pull a general theme one of the main ways to differentiate is through product and assortment. And part of the work that we're doing with customers is to optimize the portfolio -- that full portfolio customers use to access their strategy and create value for their shoppers. A major lean endpoint is health and wellness and organic, which is on trend, and we expect will continue to be for a long time. And so much of the conversation that we're having with our customers as they pursue differentiation strategies is around assortment and leveraging our extensive natural, organic and specialty assortment.

Operator

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

John Edward Heinbockel

Guggenheim Securities, LLC, Research Division

Sandy, I want to start with that chart you showed on the industry breakdown, right? And obviously, differentiated regionals are, what, 3x, 4x the size of the natural and organic. How do you look at those 2 cohorts, right, that are growing your exposure to the 2 of those? And obviously, the one is much bigger than the other. Where do you think the greater growth opportunity is between those buckets?

James Alexander Miller Douglas

CEO & Director

John, thanks for the question. Elevating a little bit. I think part of the reason for the slide is to break apart the industry, noting that 3 of the 4 segments are growing. And the \$90 billion addressable market that we talk about that we have targeted is in the light green, light blue segments and that part of the blue -- the dark blue that's pursuing a differentiation strategy. And we see consistent growth in the light green as the pure play natural. You see that in some of the public names. And of course, we serve a significant percentage of that, and we see strong growth there.

The differentiated regionals continue to perform well at or above the industry. And we model this into some internal analysis that allows us to evaluate how the \$90 billion addressable market is performing and how it has for many years and it's a very durable growth segment at or above industry growth rates. It was for the past 20 years. It was last year in the first 3 quarters and continues to be strong.

And so UNFI's focus is on serving the differentiated strategies. We'll participate heavily in the light green segment, the light blue and then a lot of our work is helping dark blue retailers who have strategies to push towards differentiation. And that's what makes up the growing target addressable market of \$90 billion.

John Edward Heinbockel
Guggenheim Securities, LLC, Research Division

And then maybe the follow-up would be, you should grow faster than your TAM. I assume you agree with that. I don't know how much fast do you think you can grow than the TAM. But your thoughts on that? And then calling conventional, is that just going to be -- I know 14% is a big number this year, is that just always there's a couple of hundred basis points for the duration, whether it's warehouses being consolidated or accounts being eliminated?

James Alexander Miller Douglas
CEO & Director

So John, multiple pieces of that. The first component is we expect to perform in line with our targeted addressable market. Now there are things that could drive above performance and things that could be a slight headwind. The above performance is if we do a great job supporting that strategy, we could potentially earn more market share of customers. On the other side, if we're working, and we are, with customers that have historically not grown with that TAM, and they're pursuing a new differentiation strategy that could pull us slightly backwards. But net-net, we believe we should perform in line with the addressable market as we've discussed it.

From a managing change perspective, ultimately, we sell the products that our customers want to buy. It happens that we have historically looked at them as natural organic on one side and conventional on the other. But ultimately, our product assortment will evolve with customer and consumer needs and the technology road map that we've articulated will allow us to do that more and more efficiently as we look to drive productivity in our \$4 billion of spend. So think of it as an asset that will change, but one that we can manage given the breadth of our scale and the capabilities that we're building to serve customers in a changing product environment.

Operator

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

Mark David Carden
UBS Investment Bank, Research Division

So to start, I just wanted to touch on the health of the consumer. Have you guys seen any changes since the start of 3Q just given higher energy costs? Has demand for trade down in general picked up much? And have you seen differences in behavior there between both natural organic and [indiscernible] customers?

James Alexander Miller Douglas
CEO & Director

I think what I would say is that we generally are finding incremental pressure across the consumer base. I would say, heavily impacting the lower end of the socioeconomic level, the reduction in SNAP funding is beginning to make an impact or continuing to make an impact. Consumers continue to seek value, whether it's value from a cost and price standpoint or value in terms of quality and experience. And that's the result -- and the result of that -- if you go back to the slide that John and I were just talking about is you see growth above the industry in the discounters, and you see growth above the industry in the value-added players.

But generally, the consumer continues to look for value, and there's certainly a lot of headwinds on them as they manage the different things that they have to deal with from higher energy prices to lower snap. I would also say that from a macro standpoint, challenging times often help food away from home because there's better value and the price splits between -- or as I should say, food at home,

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food away from home prices are still higher than food at home. And so our customers are continuing to seize opportunities there to create unique value for consumers.

Giorgio Tarditi
President & CFO

Yes, Mark, it's Matteo. Maybe a couple of additional thoughts. So the first one just to reinforce the -- on the health of the customers. When you look at the natural customers, so deeply into the [indiscernible] \$90 billion market. The 2-year stack points to a mid-teens growth for 5 consecutive quarters. So when you combine that trend, the resilience of the \$90 billion market, that's where we have the confidence in the return to low single-digit sales growth in 2027.

Mark David Carden
UBS Investment Bank, Research Division

Got it. Appreciate all the color there guys. And then as a quick follow-up, you got some moving pieces in play, obviously, but as you think about 4Q and your guidance, are you assuming any underlying shifts in fuel prices? Or any benefit from tariff refunds?

James Alexander Miller Douglas
CEO & Director

Mark, so the disciplined execution of our strategy to date helped us grow EBITDA 20%, more than \$90 million year-over-year and 40 basis points on average of expansion. So pleased with the performance they are rooted into the natural growth, the network optimization benefits and then the productivity journey. When we thought about the fourth quarter, in high confidence mode. We embedded the tailwinds from the natural growth, the benefits of the optimization and the continuous journey on productivity but we also embedded a couple of elements.

First is the expected pressure from fuel and transportation in this dynamic operating backdrop and then also some incremental investments in technology, supply chain and commercial capabilities in light of the accelerated benefits that we generated in Q3 versus the second half as initially expected. So we are in high-confidence mode, multiple ways to get to the outcome, balancing the strength that we've seen year-to-date and also fuel pressure and incremental investment that we want to make to get into 2027 of stronger footing.

Operator

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

Scott Andrew Mushkin
R5 Capital LLC

Short-term question. You guys -- you were touching on Matteo, obviously, diesel prices have gone way up. Are you already putting surcharges in on -- to your customers? And then are -- the impact seems to me could be pretty large on your margins and I'm thinking about 20 basis points this quarter and next. So I guess that's my first question.

Giorgio Tarditi
President & CFO

So we're monitoring this very dynamic situation, as you can imagine, but continue to manage fuel prices through 3 important tools. The first one is that we hedge part of the fuel. The second one is that we have contractual protection to share some of the fuel pressures with our customers. Equally, if not even more importantly, we continue to optimize our transportation routes to reduce mileage so that we create the full wing-to-wing benefits in the industry.

What we modeled in the fourth quarter, given the dynamic situation, is some incremental fuel costs and kind of broader kind of transportation impacts. But also, as I mentioned, some incremental investments that keep us into the control of what we can control. So we're balancing the tailwind from the year-to-date, the incremental fuel cost the desire to make some incremental investments, but of course, we control. And so that's really our focus while working the 3 levers that I mentioned at the opening.

Scott Andrew Mushkin
R5 Capital LLC

Is it safe to say that your adjusted EBITDA would have been at the high end of the range without fall -- without fuel or even over?

Giorgio Tarditi

President & CFO

I think that the learnings in the last 3 months continues to keep us in high confidence mode, and it was the right thing to do to invest some higher fuel and transportation costs in light of the environment.

Scott Andrew Mushkin
R5 Capital LLC

Okay. And then my second question is more longer term. I mean, obviously, you guys are growing your EBITDA very quickly. So -- and I know you have your long-term outlook out there. But as you think about some of these levers, are you able to kind of think that you're EBITDA margin and growth rate on EBITDA, adjusted EBITDA, can continue to kind of exceed your thought process? And then from a CapEx spending, I know this comes up a lot, how should we be thinking about CapEx as we go forward as maybe a percentage of sales or something like that?

James Alexander Miller Douglas
CEO & Director

Scott, thanks for the question. I think broadly speaking, and I'll let Matteo provide the detail here. But I think broadly speaking, we see the business as a growth business in line with the addressable market, focusing on helping customers differentiate. As the slide -- we talked about on Slide 6 describes earlier, there are multiple growth segments of the market. And the company is focused on serving the successful high-growth areas as well as those who are trying to get there. And we believe that market will grow in the low single digits consistently over time as it has all year this year and for the years prior. That's embedded on top of a \$4 billion cost base that we believe can be optimized through lean, through technology and very disciplined investments to drive a virtuous cycle between driving customer value and customer service metrics and at the same time, driving efficiency through process and technology.

That algorithm ultimately creates the low single-digit sales growth and high single-digit EBITDA growth with reliable free cash flow generation and improved returns over time. And we are driving that and have lots of confidence in our ability to do that.

Matteo, do you want to give some more detail?

Giorgio Tarditi
President & CFO

Yes, I'll add on CapEx. So if you -- Scott, if you look at the last 4 years, including the '26 guidance, we would have spent about [\$1 billion in a quarter], which is roughly 1% of sales. And the number goes up and down depending on the timing of the automation investments and we also embedded in our operating mechanisms, usage-based maintenance versus calendar-based maintenance that obviously created a benefit as we look at the CapEx spending in '25, '26 versus '23 and '24.

But broadly, when we think about the capital allocation and how we think about organic investments, we want to continue to invest in safety, maintenance, technology and then growth and supply chain modernization, which in a given year-over-quarter may imply some automation investments in other quarters could be more focused on technology or general modernization.

If you think about the CapEx in the first 9 months of '26 versus '25, basically, when you normalize for automation payments that we were making in '25 towards implementation in '25 and '26, we're actually spending more. So we're behind the kind of 1% of sales to kind of plan for the future.

Operator

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

Kelly Ann Bania
BMO Capital Markets Equity Research

Just wanted to clarify a little bit the expectations around Q3 and Q4 EBITDA, I think you had expected a roughly equal contribution in each quarter for EBITDA. And I think Matteo, you mentioned an acceleration of profitability drivers or benefits in the third quarter. And so I just wanted to understand what those were, and it sounds like some more investments in Q4, can you just help quantify exactly what those are and what the benefits will be?

Giorgio Tarditi
President & CFO

So 3 months ago, we shared that we were expecting about \$350 million for the remainder of the year with equal contributions to your point in Q3 and Q4. What we saw is that through the productivity actions, the value delivery of lean, we were able to accelerate some of the productivity benefits into the third quarter. So in a way, we deliver a little bit over our equal contributions as initially expected.

With that in mind, as we thought about the fourth quarter, we wanted to [indiscernible] 2 kind of balancing elements. The first one is the continued strength coming from natural product growth, network optimization and then the productivity journey. But then on the other side, the fuel dynamics as well as an opportunity to accelerate certain investments in technology, supply chain and commercial capabilities to continue to support our strategy while still remaining at the midpoint of our guidance at \$695 million of EBITDA.

Kelly Ann Bania

BMO Capital Markets Equity Research

Okay. So does that pull forward impact at all the way that you think about fiscal '27 EBITDA?

Giorgio Tarditi

President & CFO

No, because when we think about -- first of all, we're in middle of building our high-confidence operating case that we're going to discuss in September. But in general, what we would expect to see into 2027 is the resilience of the \$90 billion market growing at low single digit to get us back into low single-digit sales growth in fiscal 2027 and then the expansion of the 7 capabilities that we discussed at the Investor Day to continue to help and the continuous value delivery office lean productivity journey to contribute to the growth in 2027. So the framework is consistent with return to growth capabilities and productivity journey.

Kelly Ann Bania

BMO Capital Markets Equity Research

Okay. And Matteo, can you help me understand, I think you're characterizing it as that top line was kind of in line with that low single-digit growth rate that you're looking at for your core customers ex the optimization. But I guess, looking at it, it seems closer to flat. I was just wondering if you could help walk us through that math, maybe we're missing a piece. And just also on top of that, how the network optimization impact, how that played out relative to your expectations?

Giorgio Tarditi

President & CFO

Yes. So Kelly, if you start with the negative 4% and you add back first, the 450 basis points of network optimization, you get to slightly positive. And then there is an incremental headwind coming from the unwind of the project-based work in natural that we sort of quantify the 200 basis points sequential headwinds for natural. So you basically get another tens of points getting to a low single-digit normalized growth, which is in line with the market and actually with the addressable market and actually faster than the overall grocery market. I think the piece that you may be missing was the unwind of the project-based work.

Operator

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

Leah Dianne Jordan

Goldman Sachs Group, Inc., Research Division

I am going to build off of one of Kelly's questions around FY '27. I know it's a little early for formal guidance, but you've talked about the return of wholesale to low single-digit but maybe some more detail around the high-level puts and takes we should keep in mind around gross margin and SG&A heading into next year as we lap a lot of the optimization work and cost savings you've already done.

Giorgio Tarditi

President & CFO

It's probably a bit too early relative to the specific elements, but let me offer you a framework that I think will help. So first of all, with the \$695 million as a jumping off point, we got a good solid foundation into 2027. And we really look at 3 elements of the growth into the EBITDA growth into 2027. So first is the resilient \$90 billion market will help us drive overall wholesale growth of low single-digit wholesale portfolio growth of low single digit restarting in 2027.

The second area is that the 4 commercial capabilities of customers stewardship, merchandising, supplier management, professional services and brands at all growing inside our portfolio.

And then the third element is the process to become more effective and efficient. So think about technology, supply chain of the future and productivity, which as Sandy said, is rooted into the projects around the \$2 billion indirect cost but overall into the \$4 billion of total cost, where we continue to see large opportunities with throughput, better cost optimization, et cetera.

So these are kind of the 3 big pieces into 2027.

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

Okay. That's helpful. And then maybe just switching gears over to inflation. Could you talk about what you're seeing in terms of food inflation today and how you think that evolves in 4Q and into FY '27?

Giorgio Tarditi
President & CFO

Yes. So we have seen a low single-digit inflation year-to-date. And our forecast through the end of our fiscal year ending in early August is as well low single digit. The backdrop, as you can imagine, Leah, is very, very dynamic. And our response is really to continue to work with our suppliers and our supply chain at large to keep prices low, stable and predictable to continue to help our customers succeed in the food marketplace.

I would say that going back to the '27 question, we continue to see the combination of return to growth, the capabilities and then the control of what we can control. So productivity and lean is our kind of response to what is happening in the industry and continue to remain very committed to help our customers stay competitive in the industry.

Operator

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

Charles Edward Cerankosky
Northcoast Research Partners, LLC

When you're looking at working capital, the last -- or actually the last 3 fiscal years, it was a source of cash and a significant source of 2 of the last 3, what are sort of the dynamics in fiscal '26 as you're lapping these big numbers and what should we expect from working capital as either a source of cash or a use of cash going forward, especially with stabilization of sales and steady increases in efficiency?

Giorgio Tarditi
President & CFO

Chuck, as you can see in one of the appendix pages in the earnings materials, working capital has been a positive source of free cash flow year-to-date, and is really center on its sequence of activities. First of all, our focus has been on reducing this on hand of inventory. And it started in 2025 with the decentralization of the procurement organization. And then it expanded with the rollout of the relax planning tool, which is AI and cloud based and again, created decentralized AI-based kind of process to plan around our customers and suppliers.

The second area of focus has been to optimize our payment terms. And this is still very much ongoing and an opportunity for '27 and beyond, together with improving our billing processes continuing to try and reduce the days of collection. So a lot of levers and a lot of different ways to continue to support working capital benefits. Again, we wouldn't expect the same magnitude of benefits year-over-year as we harvested quite some good dollars in '25 and 2026. But the focus is always there to reduce the levels and continue to be very, very disciplined in the way we manage it.

Charles Edward Cerankosky
Northcoast Research Partners, LLC

Matteo, how do you feel, given economic conditions about receivables, any problem accounts out there?

Giorgio Tarditi
President & CFO

We monitor them very, very closely, and we haven't seen any kind of out-of-pattern behavior. But [indiscernible] monitor.

Operator

We have time for one more question, and that question comes from Bill Reuter with Bank of America.

William Michael Reuter
BofA Securities, Research Division

I just have one. On the topic of inflation, Matteo, you mentioned still expecting low single digit for the remainder of the year. I can't imagine that's not going to accelerate next year given what we've heard from food companies. If it does, do you expect that there will be benefits from forward buys? And I guess, are you beginning to participate in some of those activities, which could, I guess, increase working capital in the short term?

Giorgio Tarditi
President & CFO

Yes. Should inflation sustain at or above low single digit -- first of all, we have a 60- to 90-day advanced price notice. So we have time to work with our suppliers and customers on alternatives. As we said before, we may be seeing some secondary and temporary gains in the short term, but our focus is really going to be to work with suppliers in our broad supply chain to get prices low, stable and predictable to continue to help the industry. So we're going to closely monitor it. We are learning how to model it, and we'll see what happens in a couple of months.

Operator

I would now like to turn the conference over to Sandy Douglas, CEO, for closing comments.

James Alexander Miller Douglas
CEO & Director

Thank you, operator. As we close out fiscal 2026, we're continuing to focus on the disciplined execution of our value creation strategy focused on adding value for our customers and suppliers and becoming a more effective and efficient company. As we shared today, UNFI is uniquely positioned to support a growing \$90 billion target addressable market that continues to demonstrate enduring growth in the food retail industry.

Our team remains focused on strengthening capabilities to help food retailers differentiate, compete and profitably grow while helping suppliers build their brands within a diverse retail network. Importantly, it's early in the strategy, and we believe there's a long runway for continued improvement and value creation ahead of us.

To our customers and suppliers, we thank you for your continued partnership and collaboration, to the UNFI associates listening today our thanks for continuing to deliver better for our partners, our communities and each other. And to our shareholders, we thank you for the trust you continue to place in us.

Thanks again to all of you for joining us this morning. We look forward to updating everyone on our progress and our full year results in September.

Operator

Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation, and you may now disconnect.

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