United Natural Foods Announces 9% Increase in First Quarter Net Income Excluding Special Items

December 4, 2002

Earns $0.28 excluding special items Reports 10.9% sales gain to record $311 million in First Quarter Of Fiscal 2003

DAYVILLE, Conn., Dec. 4 /PRNewswire-FirstCall/ -- United Natural Foods, Inc. (Nasdaq: UNFI) today reported net income of $5.4 million for the first quarter of fiscal 2003, or $0.28 per share on a diluted basis, excluding special items, at the upper end of guidance previously provided by the Company.

Net sales for the first quarter of fiscal 2003 were $311.0 million, an increase of 10.9% from the $280.3 million recorded in the first quarter of fiscal 2002. The increase was primarily due to growth in the independent and mass market distribution channels of approximately 11.8% and 21.4%, respectively. The supernatural distribution channel increased approximately 5.5%. These increases all include sales from the Blooming Prairie division, acquired on October 11, 2002, and Boulder Fruit Express, acquired on November 7, 2001. Sales growth for the quarter, excluding the effect of acquisitions, was 6.5%. Sales growth was also impacted by the transition of the Company's second-largest customer to a new primary distributor. Sales growth excluding acquisitions and the impact of this transition was 16.5%.

Net income for the first quarter of fiscal 2003, excluding the effect of special items, increased 9.0% to $5.4 million, or $0.28 per diluted share, compared to $4.9 million, or $0.26 per diluted share, excluding special items, for the quarter ended October 31, 2001. The special items for the quarter ended October 31, 2002, consisted of a non-cash charge related to the change in fair value of interest rate swaps and related option agreements and certain costs relating to the transition of the Company's second largest customer to a new primary distributor. A special non-cash charge was recorded in the first quarter of fiscal 2002 related to the change in fair value of interest rate swaps and related option agreements. Net income including special items increased 53.1 % to $4.0 million, or $0.21 per diluted share, for the first quarter of 2003 compared to $2.6 million, or $0.14 per diluted share, in the prior year period.

The following table details the amounts and effects of these items:

Quarter Ended October 31, 2002 (in thousands, except per share data)	Pretax Income	Net of Tax	Per diluted share
Income, excluding special items:	$8,920	$5,352	$0.28
Less: special items			
Interest rate swap agreements (change in value of financial instruments)	1,706	1,023	0.05
Costs related to loss of major customer (included in operating expenses)	574	345	0.02
Income, including special items:	$6,640	$3,984	$0.21

Quarter Ended October 31, 2001 (in thousands, except per share data)	Pretax Income	Net of Tax	Per diluted share
Income, excluding special items:	$8,180	$4,908	$0.26
Less: special items			
Interest rate swap agreement (change in value of financial instruments)	3,787	2,272	0.12
Costs related to relocating distribution center (included in operating expenses)	57	34	-

Income, including special items:	$4,336	$2,602	$0.14

The non-cash charge from the change in fair value on interest rate swap agreements was caused by unfavorable changes in yield curves during the quarters ended October 31, 2002 and 2001, respectively. The costs related to the transition of the Company's second largest customer to a new primary distributor consisted primarily of severance and expenses related to the transfer of private label inventory.

Comments from Management

Commenting on the first quarter results, Michael Funk, Chief Executive Officer, said, "This is an excellent start to our new fiscal year, continuing on track with executing our business plan and growth objectives. During the quarter we achieved year-over-year double-digit sales growth and a 9% increase in net income. This growth was driven by a strong performance in sales to independent and mass market customers, which increased 11.8% and 21.4%, respectively. Regarding supernatural customers, sales increased 5.5% when compared to the same period last year. Growth in the supernatural channel was 33.8% excluding acquisitions and the effects of the transition of our second largest customer to a new primary distributor. The continued strong demand for our products and programs demonstrates that we are meeting the needs of our customers and we intend to be their leading natural products resource for the long-term."

Mr. Funk added, "Operationally, we continue to pursue internal and external growth strategies focused on expanding our customer base, increasing market share and extending our presence in both existing operating areas and new, under-penetrated markets. Consistent with this strategy we completed the acquisition of Blooming Prairie Cooperative, the largest volume distributor of natural foods in the Midwest and also entered into an agreement to merge with Northeast Cooperatives, a natural foods distributor in the Northeast and Midwest."

The Company believes sales growth for the quarter ending January 31, 2003, will be in the 9 - 12% range, including growth in the mid-teens for the business excluding acquisitions and the effects of the transition of its second largest customer to a new primary distributor. The earnings per diluted share outlook for the quarter ending January 31, 2003 and the fiscal year ending July 31, 2003 is $0.26 - $0.28 and $1.18 - $1.20, respectively, consistent with prior guidance.

Conference Call

Management will conduct a conference call and audio webcast at 11:00 a.m. ET on December 4, 2002 to review the Company's quarterly results, market trends and future outlook. The conference call dial-in number is 703-871-3599. The audio webcast will be available, on a listen only basis, via the Internet at www.viavid.com or at the Investor Relations section of the Company's website, www.unfi.com . Please allow extra time for the webcast to visit the site and download any software required to listen to the Internet broadcast. The online archive of the webcast will be available for 30 days.

About United Natural Foods

United Natural Foods, Inc. carries and distributes over 30,000 products to more than 10,000 customers nationwide. The Company serves a wide variety of retail formats including conventional supermarket chains, natural product superstores and independent retail operators.

For more information on United Natural Foods, Inc., visit the Company's web-site at www.unfi.com .

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this press release regarding United Natural's business which are not historical facts are "forward-looking statements" that involve risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, including but not limited to general business conditions, the impact of competition and our dependence on principal customers, see "Risk Factors" in the Company's annual report on Form 10-K filed with the Commission on October 28, 2002, and its other filings under the Securities Exchange Act of 1934, as amended. Any forward-looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made. United Natural is not undertaking to update any information in the foregoing reports until the effective date of its future reports required by applicable laws.

UNITED NATURAL FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	QUARTER ENDED OCTOBER 31,	
(In thousands, except per share data)	2002	2001
Net sales	$310,993	$280,315
Cost of sales	250,157	225,314
Gross profit	60,836	55,001
Operating expenses	50,843	45,024
Amortization of intangibles	38	64
Total operating expenses	50,881	45,088
Operating income	9,955	9,913

Other expense (income):		
Interest expense	1,847	1,746
Change in fair value of financial instruments	1,706	3,787
Other, net	(238)	44
Total other expense	3,315	5,577
Income before income taxes	6,640	4,336
Income taxes	2,656	1,734
Net income	$3,984	$2,602
Per share data (basic):		
Net income	$0.21	$0.14
Weighted average basic shares of common stock	19,106	18,665
Per share data (diluted):		
Net income	$0.20	$0.14
Weighted average diluted shares of common stock	19,434	19,060

UNITED NATURAL FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands)	OCTOBER 31, 2002 (UNAUDITED)	JULY 31, 2002 (AUDITED)
ASSETS		
Current assets:		
Cash	$4,399	$11,184
Accounts receivable, net	86,418	84,303
Notes receivable, trade	474	513
Inventories	150,386	131,932
Prepaid expenses	6,144	4,493
Deferred income taxes	4,612	4,612
Refundable income taxes	-	58
Total current assets	252,433	237,095
Property & equipment, net	92,415	82,702
Other assets:		
Notes receivable, trade, net	1,365	956
Goodwill, net	45,049	31,399
Covenants not to compete, net	221	248
Deferred taxes	800	800
Other, net	1,453	1,257
Total assets	$393,736	$354,457
LIABILITIES AND STOCKHOLDERS' EQUITY		

Current liabilities:		
Notes payable - line of credit	$118,186	$106,109
Current installments of long-term debt	1,593	1,658
Current installment of obligations under capital leases	783	1,037
Accounts payable	67,566	52,789
Accrued expenses	20,105	18,185
Financial instruments	7,326	5,620
Income taxes payable	1,838	-
Total current liabilities	217,397	185,398
Long-term debt, excluding current installments	10,867	7,677
Obligations under capital leases, excluding current installments	936	995
Deferred revenue	120	-
Total liabilities	229,320	194,070
Stockholders' equity:		
Preferred stock, $.01 par value, authorized 5,000 shares; none issued and outstanding		
Common stock, $.01 par value, authorized 50,000 shares; issued and outstanding 19,110 at October 31, 2002; issued and outstanding 19,106 at July 31, 2002	191	191
Additional paid-in capital	79,716	79,711
Unallocated shares of ESOP	(2,054)	(2,094)
Retained earnings	86,563	82,579
Total stockholders' equity	164,416	160,387
Total liabilities and stockholders' equity	$393,736	$354,457

UNITED NATURAL FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In thousands)	QUARTER ENDED OCTOBER 31, 2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$3,984	$2,602
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,370	1,814
Change in fair value of financial instruments	1,706	3,787
Gain (loss) on disposals of property & equipment	9	(3)
Deferred income tax benefit	-	(287)
Provision for doubtful accounts	1,060	513
Changes in assets and liabilities, net of acquired companies:		
Accounts receivable	(227)	(9,487)
Inventory	(4,111)	(14,208)
Prepaid expenses	(1,404)	(643)
Refundable income taxes	57	366
Other assets	758	(727)
Notes receivable, trade	95	141
Accounts payable	9,304	19,532
Accrued expenses	750	6,038
Income taxes payable	1,805	2,006
Net cash provided by operating activities	16,156	11,444
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of acquired businesses, net of cash acquired	(29,960)	-

Proceeds from disposals of property and equipment	33	16
Capital expenditures	(4,313)	(4,360)
Net cash used in investing activities	(34,240)	(4,344)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings under note payable	12,077	12,184
Repayments on long-term debt	(470)	(20,188)
Principal payments of capital lease obligations	(312)	(299)
Proceeds from exercise of stock options	4	119
Net cash provided by (used in) financing activities	11,299	(8,184)
NET DECREASE IN CASH	(6,785)	(1,084)
Cash at beginning of period	11,184	6,393
Cash at end of period	$4,399	$5,309
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$1,823	$1,629
Income taxes, net of refunds	$819	$196

In 2002 and 2001 the Company incurred $0 and $628, respectively, of capital lease obligations.

SOURCE United Natural Foods, Inc.

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