

UNITED NATURAL FOODS INC

Form 10-Q

December 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 29, 2016

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 000-21531

UNITED NATURAL FOODS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware 05-0376157

(State or Other Jurisdiction of (I.R.S. Employer Identification No.)

Incorporation or Organization)

313 Iron Horse Way, Providence, RI 02908

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (401) 528-8634

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of December 1, 2016 there were 50,584,496 shares of the registrant's Common Stock, \$0.01 par value per share, outstanding.



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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## UNITED NATURAL FOODS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(In thousands, except for per share data)

|                                                                                                               | October 29,<br>2016 | July 30,<br>2016 |
|---------------------------------------------------------------------------------------------------------------|---------------------|------------------|
| <b>ASSETS</b>                                                                                                 |                     |                  |
| Current assets:                                                                                               |                     |                  |
| Cash and cash equivalents                                                                                     | \$13,556            | \$18,593         |
| Accounts receivable, less allowances of \$9,915 and \$9,638                                                   | 534,322             | 489,708          |
| Inventories                                                                                                   | 1,077,931           | 1,021,663        |
| Deferred income taxes                                                                                         | 35,219              | 35,228           |
| Prepaid expenses and other current assets                                                                     | 43,530              | 45,998           |
| Total current assets                                                                                          | 1,704,558           | 1,611,190        |
| Property & equipment, net                                                                                     | 608,296             | 616,605          |
| Goodwill                                                                                                      | 375,226             | 366,168          |
| Intangible assets, less accumulated amortization of \$37,801 and \$34,315                                     | 219,467             | 222,314          |
| Other assets                                                                                                  | 35,494              | 35,878           |
| Total assets                                                                                                  | \$2,943,041         | \$2,852,155      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                   |                     |                  |
| Current liabilities:                                                                                          |                     |                  |
| Accounts payable                                                                                              | \$514,362           | \$445,430        |
| Accrued expenses and other current liabilities                                                                | 156,741             | 162,438          |
| Current portion of long-term debt                                                                             | 11,919              | 11,854           |
| Total current liabilities                                                                                     | 683,022             | 619,722          |
| Notes payable                                                                                                 | 421,241             | 426,519          |
| Deferred income taxes                                                                                         | 96,227              | 95,220           |
| Other long-term liabilities                                                                                   | 28,926              | 29,451           |
| Long-term debt, excluding current portion                                                                     | 161,138             | 161,739          |
| Total liabilities                                                                                             | 1,390,554           | 1,332,651        |
| Commitments and contingencies                                                                                 |                     |                  |
| Stockholders' equity:                                                                                         |                     |                  |
| Preferred stock, par value \$0.01 per share, authorized 5,000 shares; issued none                             | —                   | —                |
| Common stock, par value \$0.01 per share, authorized 100,000 shares; issued and outstanding 50,581 and 50,383 | 506                 | 504              |
| Additional paid-in capital                                                                                    | 440,237             | 436,167          |
| Accumulated other comprehensive loss                                                                          | (22,685)            | (22,379)         |
| Retained earnings                                                                                             | 1,134,429           | 1,105,212        |
| Total stockholders' equity                                                                                    | 1,552,487           | 1,519,504        |
| Total liabilities and stockholders' equity                                                                    | \$2,943,041         | \$2,852,155      |

See Notes to Condensed Consolidated Financial Statements.



UNITED NATURAL FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(In thousands, except for per share data)

|                                                             | 13-Week Period Ending |                  |
|-------------------------------------------------------------|-----------------------|------------------|
|                                                             | October 29, 2016      | October 31, 2015 |
| Net sales                                                   | \$2,278,364           | \$2,076,649      |
| Cost of sales                                               | 1,929,348             | 1,762,712        |
| Gross profit                                                | 349,016               | 313,937          |
| Operating expenses                                          | 295,677               | 257,224          |
| Restructuring and asset impairment expenses                 | —                     | 2,809            |
| Total operating expenses                                    | 295,677               | 260,033          |
| Operating income                                            | 53,339                | 53,904           |
| Other expense (income):                                     |                       |                  |
| Interest expense                                            | 4,522                 | 3,748            |
| Interest income                                             | (99)                  | (152)            |
| Other expense (income), net                                 | 383                   | 173              |
| Total other expense, net                                    | 4,806                 | 3,769            |
| Income before income taxes                                  | 48,533                | 50,135           |
| Provision for income taxes                                  | 19,316                | 20,004           |
| Net income                                                  | \$29,217              | \$30,131         |
| Basic per share data:                                       |                       |                  |
| Net income                                                  | \$0.58                | \$0.60           |
| Weighted average basic shares of common stock outstanding   | 50,475                | 50,194           |
| Diluted per share data:                                     |                       |                  |
| Net income                                                  | \$0.58                | \$0.60           |
| Weighted average diluted shares of common stock outstanding | 50,599                | 50,313           |

See Notes to Condensed Consolidated Financial Statements.

UNITED NATURAL FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(In thousands)

|                                                     | 13-Week Period |             |
|-----------------------------------------------------|----------------|-------------|
|                                                     | Ending         |             |
|                                                     | October 29,    | October 31, |
|                                                     | 2016           | 2015        |
| Net income                                          | \$29,217       | \$ 30,131   |
| Other comprehensive income (loss):                  |                |             |
| Change in fair value of swap agreements, net of tax | 1,595          | (990 )      |
| Foreign currency translation adjustments            | (1,901 )       | 61          |
| Total other comprehensive loss                      | (306 )         | (929 )      |
| Total comprehensive income                          | \$28,911       | \$ 29,202   |

See Notes to Condensed Consolidated Financial Statements.

## UNITED NATURAL FOODS, INC.

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (unaudited)

(In thousands)

|                                                                  | Common Stock |        | Additional<br>Paid in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>(Loss) Income | Retained<br>Earnings | Total<br>Stockholders'<br>Equity |
|------------------------------------------------------------------|--------------|--------|----------------------------------|--------------------------------------------------------|----------------------|----------------------------------|
|                                                                  | Shares       | Amount |                                  |                                                        |                      |                                  |
| Balances at July 30, 2016                                        | 50,383       | \$ 504 | \$436,167                        | \$ (22,379 )                                           | \$1,105,212          | \$1,519,504                      |
| Stock option exercises and restricted stock vestings, net of tax | 198          | 2      | (1,162 )                         |                                                        |                      | (1,160 )                         |
| Share-based compensation                                         |              |        | 6,653                            |                                                        |                      | 6,653                            |
| Tax deficit associated with stock plans                          |              |        | (1,421 )                         |                                                        |                      | (1,421 )                         |
| Fair value of swap agreements, net of tax                        |              |        |                                  | 1,595                                                  |                      | 1,595                            |
| Foreign currency translation                                     |              |        |                                  | (1,901 )                                               |                      | (1,901 )                         |
| Net income                                                       |              |        |                                  |                                                        | 29,217               | 29,217                           |
| Balances at October 29, 2016                                     | 50,581       | \$ 506 | \$440,237                        | \$ (22,685 )                                           | \$1,134,429          | 1,552,487                        |

See Notes to Condensed Consolidated Financial Statements.

## UNITED NATURAL FOODS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

|                                                                                             | 13-Week Period<br>Ended |                     |
|---------------------------------------------------------------------------------------------|-------------------------|---------------------|
|                                                                                             | October 29,<br>2016     | October 31,<br>2015 |
| (In thousands)                                                                              |                         |                     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                |                         |                     |
| Net income                                                                                  | \$29,217                | \$ 30,131           |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |                         |                     |
| Depreciation and amortization                                                               | 21,215                  | 16,704              |
| Share-based compensation                                                                    | 6,653                   | 5,973               |
| Loss on disposals of property and equipment                                                 | 265                     | 194                 |
| Excess tax deficit (benefit) from share-based payment arrangements                          | 1,421                   | (414 )              |
| Provision for doubtful accounts                                                             | 626                     | 3,207               |
| Non-cash interest income                                                                    | (96 )                   | (102 )              |
| Changes in assets and liabilities, net of acquired businesses:                              |                         |                     |
| Accounts receivable                                                                         | (43,272 )               | (19,866 )           |
| Inventories                                                                                 | (55,127 )               | (100,387 )          |
| Prepaid expenses and other assets                                                           | 1,581                   | 4,455               |
| Accounts payable                                                                            | 33,913                  | 58,395              |
| Accrued expenses and other liabilities                                                      | (3,651 )                | 7,202               |
| Net cash (used in) provided by operating activities                                         | (7,255 )                | 5,492               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                |                         |                     |
| Capital expenditures                                                                        | (9,198 )                | (7,588 )            |
| Purchases of acquired businesses, net of cash acquired                                      | (10,074 )               | (17 )               |
| Net cash used in investing activities                                                       | (19,272 )               | (7,605 )            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                |                         |                     |
| Repayments of long-term debt                                                                | (367 )                  | (2,890 )            |
| Proceeds from borrowings under revolving credit line                                        | 94,356                  | 122,650             |
| Repayments of borrowings under revolving credit line                                        | (99,408 )               | (169,591 )          |
| Increase in bank overdraft                                                                  | 29,787                  | 47,084              |
| Proceeds from exercise of stock options                                                     | —                       | 921                 |
| Payment of employee restricted stock tax withholdings                                       | (1,160 )                | (1,576 )            |
| Excess tax (deficit) benefit from share-based payment arrangements                          | (1,421 )                | 414                 |
| Capitalized debt issuance costs                                                             | (180 )                  | —                   |
| Net cash provided by (used in) financing activities                                         | 21,607                  | (2,988 )            |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>                                              | (117 )                  | 14                  |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                                            | (5,037 )                | (5,087 )            |
| Cash and cash equivalents at beginning of period                                            | 18,593                  | 17,380              |
| Cash and cash equivalents at end of period                                                  | \$13,556                | \$ 12,293           |
| <b>Supplemental disclosures of cash flow information:</b>                                   |                         |                     |
| Cash paid for interest                                                                      | \$4,522                 | \$ 4,354            |
| Cash paid for federal and state income taxes, net of refunds                                | \$2,873                 | \$ 1,768            |

See Notes to Condensed Consolidated Financial Statements.

UNITED NATURAL FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

October 29, 2016 (unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Business

United Natural Foods, Inc. and its subsidiaries (the "Company") is a leading distributor and retailer of natural, organic and specialty products. The Company sells its products primarily throughout the United States and Canada.

(b) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial information, including the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and note disclosures normally required in complete financial statements prepared in conformity with accounting principles generally accepted in the United States have been condensed or omitted. In the Company's opinion, these condensed consolidated financial statements include all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for interim periods, however, may not be indicative of the results that may be expected for a full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 30, 2016.

Net sales consist primarily of sales of natural, organic and specialty products to retailers, adjusted for customer volume discounts, returns and allowances. Net sales also include amounts charged by the Company to customers for shipping and handling and fuel surcharges. The principal components of cost of sales include the amounts paid to manufacturers and growers for product sold, plus the cost of transportation necessary to bring the product to the Company's distribution facilities. Cost of sales also includes amounts incurred by the Company's manufacturing subsidiary, United Natural Trading LLC, which does business as Woodstock Farms Manufacturing, for inbound transportation costs and depreciation of manufacturing equipment offset by consideration received from suppliers in connection with the purchase or promotion of the suppliers' products. Operating expenses include salaries and wages, employee benefits, warehousing and delivery, selling, occupancy, insurance, administrative, share-based compensation and amortization expense. Operating expenses also include depreciation expense related to the wholesale and retail divisions. Other expense (income) includes interest on outstanding indebtedness, interest income and miscellaneous income and expenses.

As noted above, the Company includes shipping and handling fees billed to customers in net sales. Shipping and handling costs associated with inbound freight are generally recorded in cost of sales, whereas shipping and handling costs for selecting, quality assurance, and outbound transportation are recorded in operating expenses. Outbound shipping and handling costs, including allocated employee benefit expenses, totaled \$126.9 million and \$114.5 million for the first quarter of fiscal 2017 and 2016, respectively.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which is intended to improve the accounting for share-based payment transactions as part of the FASB’s simplification initiative. This ASU will change aspects of accounting for share-based payment award transactions including accounting for income taxes, the classification of excess tax benefits and the classification of employee taxes paid when shares are withheld for tax-withholding purposes on the statement of cash flows, forfeitures, and minimum statutory tax withholding requirements. The ASU is effective for public companies with interim periods and fiscal years beginning after December 15, 2016, which for the Company will be the first quarter of the fiscal year ending July 28, 2018. Early adoption is permitted provided that the entire ASU is adopted. The Company has not yet adopted this standard, but if the Company had adopted this standard in the first quarter of fiscal 2017, the result would have been a reclassification from additional paid-in capital to income tax expense. For the first quarter of fiscal 2017 and 2016, the result would have increased current year income tax expense by \$1.4 million and \$0.2 million, respectively.

In February 2016, the FASB issued ASU No. 2016-2, Leases (Topic 842). The objective of this ASU is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. Lessees are permitted to make an accounting policy election to not recognize the asset and liability for leases with a term of twelve months or less. In addition, this ASU expands the disclosure requirements of lease arrangements. Lessees and lessors will use a modified retrospective transition approach, which includes a number of practical expedients. The ASU is effective for public companies with interim and annual periods in fiscal years beginning after December 15, 2018, which for the Company will be the first quarter of the fiscal year ending August 1, 2020, with early adoption permitted. We are currently reviewing the provisions of the new standard and evaluating its impact on the Company’s financial statements.

In January 2016, the FASB issued ASU No. 2016-1, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, which will change the income statement impact of equity investments, and the recognition of changes in fair value of financial liabilities when the fair value option is elected. The ASU is effective for public companies with interim and annual periods in fiscal years beginning after December 15, 2017, which for the Company will be the first quarter of the fiscal year ending August 3, 2019. We do not expect the adoption of this guidance to have a significant impact on the Company’s consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The new pronouncement is effective for public companies with annual periods, and interim periods within those periods, beginning after December 15, 2016, which for the Company will be the first quarter of fiscal 2018. Early adoption at the beginning of an interim or annual period is permitted. The Company expects to adopt this new guidance in fiscal year 2018. If the Company had adopted this standard in the first quarter of fiscal 2017, the result would have been a reclassification from current deferred income tax assets to noncurrent deferred income tax liabilities of \$35.2 million as of October 29, 2016 and July 30, 2016.

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers, (Topic 606): Deferral of the Effective Date deferring the adoption of previously issued guidance published in May 2014, ASU No. 2014-09, Revenue from Contracts with Customers, (Topic 606). The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. The collective guidance is effective for public companies with annual periods, and interim periods within those periods, beginning after December 15, 2017, which for the Company will be the first quarter of the fiscal year ending August 3, 2019. The Company expects to adopt this new guidance in fiscal year 2019.

but has not yet selected a transition method. We are in the process of evaluating the impact of the pending adoption of this guidance on the Company's financial reporting.

### 3. ACQUISITIONS

#### Wholesale Segment - Wholesale Distribution Acquisitions

Nor-Cal Produce, Inc. On March 31, 2016 the Company acquired all of the outstanding equity securities of Nor-Cal Produce, Inc. ("Nor-Cal") and an affiliated entity as well as certain real estate. Founded in 1972, Nor-Cal is a distributor of conventional and organic produce and other fresh products in Northern California, with primary operations located in West Sacramento, California. Total cash consideration related to this acquisition was approximately \$68.6 million, subject to certain customary post-closing adjustments. The identifiable intangible assets recorded based on provisional valuations include customer lists of \$30.3 million, a tradename with an estimated fair value of \$1.0 million, and a non-compete with an estimated fair value of \$0.5 million, which are being amortized on a straight-line basis over estimated useful lives of approximately thirteen years, five years, and five years, respectively. The preliminary fair value of the identifiable intangible assets acquired was determined by using an income approach. Significant assumptions utilized in the income approach were based on company-specific information and projections, which are not observable in the market and are thus considered Level 3 measurements as defined by authoritative guidance. The goodwill of \$40.3 million represents the future economic benefits expected to arise that could not be individually identified and separately recognized. Nor-Cal's operations have been combined with the existing Albert's business. The Company is in the process of finalizing certain post-closing net working capital adjustments. The Company did not record adjustments to the preliminary opening balance sheet during the first quarter of fiscal 2017.

Haddon House Food Products, Inc. On May 13, 2016 the Company acquired all of the outstanding equity interests of Haddon House Food Products, Inc. ("Haddon") and certain affiliated entities and real estate. Haddon is a well-respected distributor and merchandiser of natural and organic and gourmet ethnic products throughout the Eastern United States. Haddon has a diverse, multi-channel customer base including conventional supermarkets, gourmet food stores and independently owned product retailers.

Total consideration related to this acquisition was approximately \$219.1 million, \$217.5 million of which was paid in cash and \$1.6 million of which was included in accounts payable as of October 29, 2016. The purchase price is subject to certain customary post-closing adjustments. The identifiable intangible assets recorded based on provisional valuations include customer relationships with an estimated fair value of \$62.7 million, the Haddon tradename with an estimated fair value of \$0.7 million, non-compete agreements with an estimated fair value of \$0.7 million, and a trademark asset related to Haddon owned branded product lines with an estimated fair value of \$2.0 million. The customer relationship intangible asset is currently being amortized on a straight-line basis over an estimated useful life of approximately thirteen years, the Haddon tradename is being amortized over an estimated useful life of approximately three years, the non-compete agreements that the Company received from the owners of Haddon are being amortized over the five-year term of the agreements, and the Haddon trademark asset associated with its branded product lines is estimated to have an indefinite useful life. The preliminary fair value of the identifiable intangible assets acquired was determined by using an income approach. Significant assumptions utilized in the income approach were based on company-specific information and projections, which are not observable in the market and are thus considered Level 3 measurements as defined by authoritative guidance. The goodwill of \$45.8 million represents the future economic benefits expected to arise that could not be individually identified and separately recognized.

The Company is in the process of finalizing certain post-closing net working capital adjustments, and has recorded adjustments in the current year. The following table summarizes the consideration paid for the acquisition and the amounts of assets acquired and liabilities assumed as of the acquisition date:

| (in thousands)                            | Preliminary<br>as of July<br>30, 2016 | Adjustments<br>in Current<br>Fiscal Year | Preliminary<br>as of<br>October 29,<br>2016 |
|-------------------------------------------|---------------------------------------|------------------------------------------|---------------------------------------------|
| Accounts receivable                       | \$ 40,434                             | \$ (300 )                                | \$ 40,134                                   |
| Other receivable                          | 3,621                                 | —                                        | 3,621                                       |
| Inventories                               | 46,138                                | 302                                      | 46,440                                      |
| Prepaid expenses and other current assets | 1,645                                 | —                                        | 1,645                                       |
| Property and equipment                    | 54,501                                | —                                        | 54,501                                      |
| Other assets                              | 280                                   | —                                        | 280                                         |
| Customer relationships                    | 62,700                                | —                                        | 62,700                                      |
| Tradename                                 | 700                                   | —                                        | 700                                         |
| Non-compete                               | 700                                   | —                                        | 700                                         |
| Other intangible assets                   | 2,000                                 | —                                        | 2,000                                       |
| Goodwill                                  | 45,851                                | (2 )                                     | 45,849                                      |
| Total assets                              | \$ 258,570                            | \$ —                                     | \$ 258,570                                  |
| Liabilities                               | 39,510                                | —                                        | 39,510                                      |
| Total purchase price                      | \$ 219,060                            | \$ —                                     | \$ 219,060                                  |

Gourmet Guru, Inc. On August 10, 2016, the Company acquired all of the outstanding stock of Gourmet Guru, Inc. ("Gourmet Guru"). Founded in 1996, Gourmet Guru is a distributor and merchandiser of fresh and organic food focusing on new and emerging brands. Total cash consideration related to this acquisition was approximately \$10.1 million, subject to certain customary post-closing adjustments. The fair value of identifiable intangible assets acquired was determined by using an income approach. The identifiable intangible asset recorded based on a provisional valuation consisted of customer lists of \$1.0 million, which are being amortized on a straight-line basis over an estimated useful life of approximately two years. The goodwill of \$9.6 million represents the future economic benefits expected to arise that could not be individually identified and separately recognized. Gourmet Guru's operations have been combined with the Company's existing business; therefore, the Company does not record the expenses separately from the rest of the wholesale distribution business and results are not separable.

Cash paid for Nor-Cal, Haddon and Gourmet Guru was financed through borrowings under the Company's amended and restated revolving credit facility. Acquisition costs were de minimus for the quarter ended October 29, 2016 and

have been expensed as incurred within "operating expenses" in the Condensed Consolidated Statements of Income. The results of the acquired businesses' operations have been included in the consolidated financial statements since the applicable date of acquisitions.

## 4. RESTRUCTURING ACTIVITIES AND ASSET IMPAIRMENTS

## 2016 Cost-Saving Measures

During the fourth quarter of fiscal 2015, the Company announced that its contract as a distributor to Albertsons Companies, Inc., which includes the Albertsons, Safeway and Eastern Supermarket chains, would terminate on September 20, 2015 rather than upon the original contract end date of July 31, 2016. During fiscal 2016, the Company implemented Company-wide cost-saving measures in response to this lost business which resulted in total restructuring costs of \$4.4 million, all of which was recorded during the first and second quarters of fiscal 2016. There were no additional costs recorded during the first quarter of fiscal 2017. These initiatives resulted in a reduction of employees, the majority of which were terminated during the first quarter of fiscal 2016, across the Company. The total work-force reduction charge of \$3.4 million recorded during fiscal 2016 was primarily related to severance and fringe benefits. In addition to workforce reduction charges, the Company recorded \$0.9 million during fiscal 2016 for costs due to an early lease termination and facility closure and operational transfer costs associated with these initiatives.

## Earth Origins Market

During the fourth quarter of fiscal 2016, the Company recorded restructuring and impairment charges of \$0.8 million related to the Company's Earth Origins Market ("Earth Origins") retail business. The Company made the decision during the fourth quarter of fiscal 2016 to close two of its stores, one store located in Florida and the other located in Maryland, which resulted in restructuring costs of \$0.5 million primarily related to severance and closure costs. The stores were closed during the first quarter of fiscal 2017. In addition, the restructuring charge includes an impairment charge of \$0.3 million on long-lived assets which was recorded during the fourth quarter of fiscal 2016.

## Canadian Facility Closure

During fiscal 2015, the Company ceased operations at its Canadian facility located in Scotstown, Quebec. In connection with this closure, the Company recognized restructuring and impairment charges of \$0.8 million during the first and second quarters of fiscal 2015. Additionally, during the second quarter of fiscal 2016, the Company recognized an additional impairment charge of \$0.4 million related to the long lived assets at the facility.

The following is a summary of the restructuring costs the Company recorded in fiscal 2016, as well as the remaining liability as of October 29, 2016 (in thousands):

|                                                    | Restructuring<br>Costs | Cash<br>Payments | Restructuring<br>Cost<br>Liability as<br>of October<br>29, 2016 |
|----------------------------------------------------|------------------------|------------------|-----------------------------------------------------------------|
| Severance                                          | \$ 3,443               | \$ (3,365 )      | \$ 78                                                           |
| Early lease termination and facility closing costs | 368                    | (368 )           | —                                                               |
| Operational transfer costs                         | 570                    | (570 )           | —                                                               |
| Earth Origins:                                     |                        |                  |                                                                 |
| Severance                                          | 41                     | (13 )            | 28                                                              |
| Store closing costs                                | 443                    | (271 )           | 172                                                             |
| Total                                              | \$ 4,865               | \$ (4,587 )      | \$ 278                                                          |

## 5. EARNINGS PER SHARE

The following is a reconciliation of the basic and diluted number of shares used in computing earnings per share (in thousands):

|                                                                          | 13-Week Period   |        |
|--------------------------------------------------------------------------|------------------|--------|
|                                                                          | Ended            |        |
|                                                                          | October 29, 2016 |        |
|                                                                          | October 31, 2015 |        |
| Basic weighted average shares outstanding                                | 50,475           | 50,194 |
| Net effect of dilutive stock awards based upon the treasury stock method | 124              | 119    |
| Diluted weighted average shares outstanding                              | 50,599           | 50,313 |

For the first quarters of fiscal 2017 and 2016, there were 48,808 and 50,453 anti-dilutive share-based awards outstanding, respectively. These anti-dilutive share-based awards were excluded from the calculation of diluted earnings per share.

## 6. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

### Hedging of Interest Rate Risk

The Company manages its debt portfolio with interest rate swaps from time to time to achieve an overall desired position of fixed and floating rates. Details of outstanding swap agreements as of October 29, 2016, which are all pay fixed and receive floating, are as follows:

| Maturity Date of Swap | Notional Value (in millions) | Fixed Coupon Rate on Hedged Debt | Floating Interest Rate on Swap | Floating Rate Reset Terms |
|-----------------------|------------------------------|----------------------------------|--------------------------------|---------------------------|
| August 3, 2022        | \$ 140.0                     | 1.7950 %                         | One-Month LIBOR                | Monthly                   |
| June 9, 2019          | \$ 50.0                      | 0.8725 %                         | One-Month LIBOR                | Monthly                   |
| April 29, 2021        | \$ 25.0                      | 1.0650 %                         | One-Month LIBOR                | Monthly                   |
| June 24, 2019         | \$ 50.0                      | 0.7265 %                         | One-Month LIBOR                | Monthly                   |
| April 29, 2021        | \$ 25.0                      | 0.9260 %                         | One-Month LIBOR                | Monthly                   |

Interest rate swap agreements are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The Company's interest rate swap agreements are designated as cash flow hedges at October 29, 2016 and are reflected at their fair value of \$3.3 million in the Condensed Consolidated Balance Sheet.

The Company uses the "Hypothetical Derivative Method" described in Accounting Standards Codification ("ASC") 815 for quarterly prospective and retrospective assessments of hedge effectiveness, as well as for measurements of hedge ineffectiveness. Under this method, the Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transactions. The effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings in interest income when the hedged transactions affect earnings. Ineffectiveness resulting from the hedge is recorded as a gain or loss in the condensed consolidated statement of income as part of other income. The Company did not have any hedge ineffectiveness recognized in earnings during the first quarter of fiscal 2017. The Company also monitors the risk of counterparty default on an ongoing basis and noted that the counterparties are reputable financial institutions.

### Fuel Supply Agreements

From time to time the Company is a party to fixed price fuel supply agreements. During the fiscal year ended July 30, 2016, the Company entered into several agreements to purchase a portion of its diesel fuel each month at fixed prices through December 31, 2016. These fixed price fuel agreements qualify for the "normal purchase" exception under ASC 815; therefore, the fuel purchases under these contracts are expensed as incurred and included within operating expenses.

### Financial Instruments

The following table provides the fair value hierarchy for financial assets and liabilities measured on a recurring basis as of October 29, 2016 and July 30, 2016:

|                | Fair Value at<br>October 29, 2016 |            | Fair Value at<br>July 30, 2016 |            |
|----------------|-----------------------------------|------------|--------------------------------|------------|
| (In thousands) | Level<br>1                        | Level<br>2 | Level<br>1                     | Level<br>2 |

Liabilities:

Interest Rate Swap   —\$(3,282 ) —   —\$(5,917) —

The fair value of the Company's other financial instruments including cash and cash equivalents, accounts receivable, notes receivable, accounts payable and certain accrued expenses are derived using Level 2 inputs and approximate carrying amounts due to the short-term nature of these instruments. The fair value of notes payable approximate carrying amounts as they are variable rate instruments. The carrying amount of notes payable approximates fair value as interest rates on the credit facility approximates current market rates (Level 2 criteria).

The following estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies taking into account the instruments' interest rate, terms, maturity date and collateral, if any, in comparison to the Company's incremental borrowing rate for similar financial instruments and are therefore deemed Level 2 inputs. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

|                                           | October 29, 2016      | July 30, 2016         |
|-------------------------------------------|-----------------------|-----------------------|
| (In thousands)                            | Carrying Value        | Carrying Value        |
| Liabilities:                              |                       |                       |
| Long-term debt, including current portion | \$ 173,057 \$ 181,463 | \$ 173,593 \$ 182,790 |

## 7. BUSINESS SEGMENTS

The Company has several operating divisions aggregated under the wholesale segment, which is the Company's only reportable segment. These operating divisions have similar products and services, customer channels, distribution methods and historical margins. The wholesale segment is engaged in the national distribution of natural, organic and specialty foods, produce and related products in the United States and Canada. The Company has additional operating divisions that do not meet the quantitative thresholds for reportable segments and are therefore aggregated under the caption of "Other." "Other" includes a retail division, which engages in the sale of natural foods and related products to the general public through retail storefronts on the east coast of the United States, a manufacturing division, which engages in importing, roasting, packaging, and distributing of nuts, dried fruit, seeds, trail mixes, granola, natural and organic snack items and confections, and the Company's branded product lines. "Other" also includes certain corporate operating expenses that are not allocated to operating divisions and are necessary to operate the Company's headquarters located in Providence, Rhode Island, which include depreciation, salaries, retainers, and other related expenses of officers, directors, corporate finance (including professional services), information technology, governance, legal, human resources and internal audit. As the Company continues to expand its business and serve its customers through a new national platform, these corporate expense amounts have increased, which is the primary driver behind the increasing operating losses within the "Other" category below. Non-operating expenses that are not allocated to the operating divisions are under the caption of "Unallocated Expenses." The Company does not record its revenues for financial reporting purposes by product group, and it is therefore impracticable for the Company to report them accordingly.

Beginning in the first quarter of fiscal 2017, a change in how the Company's chief operating decision maker assesses performance and allocates resources resulted in a change in how the Company allocates certain corporate operating expenses in order to better support segment operations. Certain corporate operating expenses were previously reported under the caption of "Other." The following table sets forth certain financial information for the Company's business segments. Prior year amounts have been reclassified to conform to current year presentation and include the impact of a change in the allocation of certain corporate operating expenses between the captions "Other" and "Wholesale." The amount reclassified is not considered to be material and is consistent with management's assessment of segment performance in fiscal 2017.

The following table reflects business segment information for the periods indicated (in thousands):

|                                             | Wholesale   | Other    | Eliminations | Unallocated | Consolidated |
|---------------------------------------------|-------------|----------|--------------|-------------|--------------|
| 13-Week Period Ended October 29, 2016:      |             |          |              |             |              |
| Net sales                                   | \$2,260,900 | \$57,740 | \$ (40,276 ) | \$ —        | \$2,278,364  |
| Restructuring and asset impairment expenses | —           | —        | —            | —           | —            |
| Operating income (loss)                     | 58,663      | (5,168 ) | (156 )       | —           | 53,339       |
| Interest expense                            | —           | —        | —            | 4,522       | 4,522        |
| Interest income                             | —           | —        | —            | (99 )       | (99 )        |
| Other, net                                  | —           | —        | —            | 383         | 383          |
| Income before income taxes                  |             |          |              |             | 48,533       |
| Depreciation and amortization               | 20,691      | 524      | —            | —           | 21,215       |
| Capital expenditures                        | 8,355       | 843      | —            | —           | 9,198        |
| Goodwill                                    | 357,201     | 18,025   | —            | —           | 375,226      |
| Total assets                                | 2,771,800   | 198,915  | (27,674 )    | —           | 2,943,041    |
| 13-Week Period Ended October 31, 2015:      |             |          |              |             |              |
| Net sales                                   | \$2,059,622 | \$57,807 | \$ (40,780 ) | \$ —        | \$2,076,649  |
| Restructuring and asset impairment expenses | 2,809       | —        | —            | —           | 2,809        |
| Operating income (loss)                     | 60,313      | (4,920 ) | (1,489 )     | —           | 53,904       |
| Interest expense                            | —           | —        | —            | 3,748       | 3,748        |
| Interest income                             | —           | —        | —            | (152 )      | (152 )       |
| Other, net                                  | —           | —        | —            | 173         | 173          |
| Income before income taxes                  |             |          |              |             | 50,135       |
| Depreciation and amortization               | 16,083      | 621      | —            | —           | 16,704       |
| Capital expenditures                        | 7,122       | 466      | —            | —           | 7,588        |
| Goodwill                                    | 248,929     | 17,731   | —            | —           | 266,660      |
| Total assets                                | 2,485,086   | 189,442  | (24,343 )    | —           | 2,650,185    |

#### 8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of October 29, 2016 and July 30, 2016 consisted of the following (in thousands):

|                                                      | October 29, 2016 | July 30, 2016 |
|------------------------------------------------------|------------------|---------------|
| Accrued salaries and employee benefits               | \$ 45,400        | \$58,832      |
| Workers' compensation and automobile liabilities     | 23,354           | 23,448        |
| Interest rate swap liability                         | 3,282            | 5,917         |
| Other                                                | 84,705           | 74,241        |
| Total accrued expenses and other current liabilities | \$ 156,741       | \$ 162,438    |

#### 9. NOTES PAYABLE

On April 29, 2016, the Company entered into the Third Amended and Restated Loan and Security Agreement (the "Third A&R Credit Agreement") amending and restating certain terms and provisions of its revolving credit facility which increased the maximum borrowings under the amended and restated revolving credit facility and extended the maturity date to April 29, 2021. Up to \$850.0 million is available to the Company's U.S. subsidiaries and up to \$50.0 million is available to UNFI Canada. After giving effect to the Third A&R Credit Agreement, the amended and restated revolving credit facility provides an option to increase the U.S. or Canadian revolving commitments by up to an additional \$600.0 million (but in not less than \$10.0 million increments) subject to certain customary conditions and the lenders committing to provide the increase in funding.

The borrowings of the U.S. portion of the amended and restated revolving credit facility, after giving effect to the Third A&R Credit Agreement, accrue interest, at the base rate plus an applicable margin of 0.25% or LIBOR rate plus an applicable margin of 1.25% for the twelve month period ending April 29, 2017. After this period, the interest on the U.S. borrowings is accrued at the Company's option, at either (i) a base rate (generally defined as the highest of (x) the Bank of America Business Capital prime

rate, (y) the average overnight federal funds effective rate plus one-half percent (0.50%) per annum and (z) one-month LIBOR plus one percent (1%) per annum) plus an applicable margin that varies depending on daily average aggregate availability, or (ii) the LIBOR rate plus an applicable margin that varies depending on daily average aggregate availability. The borrowings on the Canadian portion of the credit facility accrue interest at the Canadian prime rate plus an applicable margin of 0.25% or a bankers' acceptance equivalent rate plus an applicable margin of 1.25% for the twelve month period ending April 29, 2017. After this period, the borrowings on the Canadian portion of the credit facility accrue interest, at the Company's option, at either (i) a Canadian prime rate (generally defined as the highest of (x) 0.50% over 30-day Reuters Canadian Deposit Offering Rate ("CDOR") for bankers' acceptances, (y) the prime rate of Bank of America, N.A.'s Canada branch, and (z) a bankers' acceptance equivalent rate for a one month interest period plus 1.00%) plus an applicable margin that varies depending on daily average aggregate availability, or (ii) a bankers' acceptance equivalent rate of the rate of interest per annum equal to the annual rates applicable to Canadian Dollar bankers' acceptances on the "CDOR Page" of Reuter Monitor Money Rates Service, plus five basis points, and an applicable margin that varies depending on daily average aggregate availability. Unutilized commitments are subject to an annual fee in the amount of 0.30% if the total outstanding borrowings are less than 25% of the aggregate commitments, or a per annum fee of 0.25% if such total outstanding borrowings are 25% or more of the aggregate commitments. The Company is also required to pay a letter of credit fronting fee to each letter of credit issuer equal to 0.125% per annum of the stated amount of each such letter of credit (or such other amount as may be mutually agreed by the borrowers under the facility and the applicable letter of credit issuer), as well as a fee to all lenders equal to the applicable margin for LIBOR or bankers' acceptance equivalent rate loans, as applicable, times the average daily stated amount of all outstanding letters of credit.

As of October 29, 2016, the Company's borrowing base, which is calculated based on eligible accounts receivable and inventory levels, net of \$6.2 million of reserves, was \$880.6 million. As of October 29, 2016, the Company had \$421.2 million of borrowings outstanding under the Company's amended and restated revolving credit facility and \$37.4 million in letter of credit commitments which reduced the Company's available borrowing capacity under its revolving credit facility on a dollar for dollar basis. The Company's resulting remaining availability was \$421.9 million as of October 29, 2016.

The amended and restated revolving credit facility, as amended by the Third A&R Credit Agreement, subjects the Company to a springing minimum fixed charge coverage ratio (as defined in the Third A&R Credit Agreement) of 1.0 to 1.0 calculated at the end of each of our fiscal quarters on a rolling four quarter basis when the adjusted aggregate availability (as defined in the Third A&R Credit Agreement) is less than the greater of (i) \$60.0 million and (ii) 10% of the aggregate borrowing base. The Company was not subject to the fixed charge coverage ratio covenant under the amended and restated credit agreement during the first quarter of fiscal 2017.

The credit facility also allows for the lenders thereunder to syndicate the credit facility to other banks and lending institutions. The Company has pledged the majority of its and its subsidiaries' accounts receivable and inventory for its obligations under the amended and restated revolving credit facility.

## 10. LONG-TERM DEBT

On August 14, 2014, the Company and certain of its subsidiaries entered into a real estate backed term loan agreement (the "Term Loan Agreement"). The total initial borrowings under the Term Loan Agreement were \$150.0 million. The Company is required to make \$2.5 million principal payments quarterly, which began on November 1, 2014. Under the Term Loan Agreement, the Company at its option may request the establishment of one or more new term loan commitments in increments of at least \$10.0 million, but not to exceed \$50.0 million in total, subject to the approval of the lenders electing to participate in such incremental loans and the satisfaction of the conditions required by the Term Loan Agreement. The Company will be required to make quarterly principal payments on these incremental borrowings in accordance with the terms of the Term Loan Agreement. Proceeds from this Term Loan Agreement were used to pay down borrowings on the Company's amended and restated revolving credit facility.

On April 29, 2016, the Company entered into a First Amendment Agreement (the "Term Loan Amendment") to the Term Loan Agreement which amends the Term Loan Agreement. The Term Loan Amendment was entered into to reflect the changes to the amended and restated revolving credit facility reflected in the Amendment. The Term Loan Agreement will terminate on the earlier of (a) August 14, 2022 and (b) the date that is ninety days prior to the termination date of the Company's amended and restated revolving credit agreement, as amended. Under the Term Loan Agreement, the borrowers at their option may request the establishment of one or more new term loan commitments in increments of at least \$10.0 million, but not to exceed \$50.0 million in total, subject to the approval of the lenders electing to participate in such incremental loans and the satisfaction of the conditions required by the Term Loan Agreement. The borrowers will be required to make quarterly principal payments on these incremental borrowings in accordance with the terms of the Term Loan Agreement.

On September 1, 2016, the Company entered into a Second Amendment Agreement (the "Second Amendment") to the Term Loan Agreement which amends the Term Loan Agreement. The Second Amendment was entered into to adjust the applicable margin

charged to borrowings under the Term Loan Agreement. As amended by the Second Amendment, borrowings under the Term Loan Agreement bear interest at rates that, at the Company's option, can be either: (1) a base rate generally defined as the sum of (i) the highest of (x) the administrative agent's prime rate, (y) the average overnight federal funds effective rate plus 0.50% and (z) one-month LIBOR plus one percent (1%) per annum and (ii) a margin of 0.75%; or, (2) a LIBOR rate generally defined as the sum of (i) LIBOR (as published by Reuters or other commercially available sources) for one, two, three or six months or, if approved by all affected lenders, nine months (all as selected by the Company), and (ii) a margin of 1.75%. Interest accrued on borrowings under the Term Loan Agreement is payable in arrears. Interest accrued on any LIBOR loan is payable on the last day of the interest period applicable to the loan and, with respect to any LIBOR loan of more than three (3) months, on the last day of every three (3) months of such interest period. Interest accrued on base rate loans is payable on the first day of every month. The Company is also required to pay certain customary fees to the administrative agent. The borrowers' obligations under the Term Loan Agreement are secured by certain parcels of the borrowers' real property.

The Term Loan Agreement includes financial covenants that require (i) the ratio of the Company's consolidated EBITDA (as defined in the Term Loan Agreement) minus the unfinanced portion of Capital Expenditures (as defined in the Term Loan Agreement) to the Company's consolidated Fixed Charges (as defined in the Term Loan Agreement) to be at least 1.20 to 1.00 as of the end of any period of four fiscal quarters, (ii) the ratio of the Company's Consolidated Funded Debt (as defined in the Term Loan Agreement) to the Company's EBITDA for the four fiscal quarters most recently ended to be not more than 3.00 to 1.00 as of the end of any fiscal quarter and (iii) the ratio, expressed as a percentage, of the Company's outstanding principal balance under the Loans (as defined in the Term Loan Agreement), divided by the Mortgaged Property Value (as defined in the Term Loan Agreement) to be not more than 75% at any time. As of October 29, 2016, the Company was in compliance with the financial covenants of its Term Loan Agreement.

As of October 29, 2016, the Company had borrowings of \$128.3 million under the Term Loan Agreement which is included in "Long-term debt" on the Condensed Consolidated Balance Sheet.

During the fiscal year ended August 1, 2015, the Company entered into an amendment to an existing lease agreement for the office space utilized as the Company's corporate headquarters in Providence, Rhode Island. The amendment provides for additional office space to be utilized by the Company and extends the lease term for an additional 10 years. The lease qualifies for capital lease treatment pursuant to ASC 840, Leases, and the estimated fair value of the building is recorded on the balance sheet with the capital lease obligation included in long-term debt. A portion of each lease payment reduces the amount of the lease obligation, and a portion is recorded as interest expense at an effective rate of approximately 12.38%. The capital lease obligation as of October 29, 2016 was \$13.5 million. The Company recorded \$0.4 million of interest expense related to this lease during each of the first quarters of fiscal 2017 and 2016.

During the fiscal year ended July 28, 2012, the Company entered into a lease agreement for a new distribution facility in Aurora, Colorado. At the conclusion of the fiscal year ended August 3, 2013, actual construction costs exceeded the construction allowance as defined by the lease agreement, and therefore, the Company determined it met the criteria for continuing involvement pursuant to FASB ASC 840, Leases, and applied the financing method to account for this transaction during the fourth quarter of fiscal 2013. Under the financing method, the book value of the distribution facility and related accumulated depreciation remains on the Condensed Consolidated Balance Sheet. The construction allowance is recorded as a financing obligation in "Long-term debt." A portion of each lease payment reduces the amount of the financing obligation, and a portion is recorded as interest expense at an effective rate of approximately 7.32%. The financing obligation as of October 29, 2016 was \$31.2 million. The Company recorded \$0.6 million of interest expense related to this lease during each of the first quarters of fiscal 2017 and 2016.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve substantial risks and uncertainties. In some cases you can identify these statements by forward-looking words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plans,” “planned,” “seek,” “should,” “will,” and similar words. Statements that contain these words should be read carefully because they discuss future expectations, contain projections of future results of operations or of financial positions or state other “forward-looking” information.

Forward-looking statements involve inherent uncertainty and may ultimately prove to be incorrect or false. You are cautioned not to place undue reliance on forward-looking statements. Except as otherwise may be required by law, we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or actual operating results. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to:

our ability to retain customers of Haddon House Food Products, Inc. ("Haddon"), Nor-Cal Produce, Inc. ("Nor-Cal"), Global Organic/Specialty Source, Inc. ("Global Organic") and Gourmet Guru, Inc. ("Gourmet Guru") and their affiliated entities of which we purchased on terms similar to those in place prior to our acquisition of these businesses;

- our dependence on principal customers;
- our sensitivity to general economic conditions, including the current economic environment;
- changes in disposable income levels and consumer spending trends;

our ability to reduce our expenses in amounts sufficient to offset our increased focus on sales to conventional supermarkets and the shift in our product mix as a result of our acquisition of Tony's Fine Foods ("Tony's") and the resulting lower gross margins on those sales;

our reliance on the continued growth in sales of natural and organic foods and non-food products in comparison to conventional products;

increased competition in our industry as a result of increased distribution of natural, organic and specialty products by conventional grocery distributors and direct distribution of those products by large retailers;

our ability to timely and successfully deploy our warehouse management system throughout our distribution centers and our transportation management system across the Company;

- the addition or loss of significant customers;
- volatility in fuel costs;
- our sensitivity to inflationary and deflationary pressures;
- the relatively low margins and economic sensitivity of our business;
- the potential for disruptions in our supply chain by circumstances beyond our control;
- the risk of interruption of supplies due to lack of long-term contracts, severe weather, work stoppages or otherwise;
- consumer demand for natural and organic products outpacing suppliers' ability to produce those products;
- moderated supplier promotional activity, including decreased forward buying opportunities;
- union-organizing activities that could cause labor relations difficulties and increased costs;
- the ability to identify and successfully complete acquisitions of other natural, organic and specialty food and non-food products distributors;
- management's allocation of capital and the timing of capital expenditures; and
- our ability to successfully deploy our operational initiatives to achieve synergies from the acquisitions of Tony's, Global Organic, Nor-Cal, Haddon, and Gourmet Guru.

This list of risks and uncertainties, however, is only a summary of some of the most important factors and is not intended to be exhaustive. You should carefully review the risks described under "Part I. Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended July 30, 2016, and any other cautionary language in this Quarterly Report on Form 10-Q or our other reports filed with the Securities and Exchange Commission (the "SEC") from time to time, as the occurrence of any of these events could have an adverse effect, which may be material, on our business, results of operations and financial condition.

## Overview

We believe we are a leading distributor based on sales of natural, organic and specialty foods and non-food products in the United States and Canada and that our thirty-four distribution centers, representing approximately 8.8 million square feet of warehouse space, provide us with the largest capacity of any North American-based distributor in the natural, organic and specialty products industry. We offer more than 100,000 high-quality natural, organic and specialty foods and non-food products, consisting of national brands, regional brands, private label and master distribution products, in six product categories: grocery and general merchandise, produce, perishables and frozen foods, nutritional supplements and sports nutrition, bulk and food service products and personal care items. We serve more than 43,000 customer locations primarily located across the United States and Canada, the majority of which can be classified into one of the following categories: independently owned natural products retailers, which include single store and chain accounts (excluding Supernatural), which carry more than 90% natural products and buying clubs of consumer groups joined to buy products; supernatural chains, which consist of chain accounts that are

national in scope and carry greater than 90% natural products, and at this time currently consists solely of Whole Foods Market Inc. ("Whole Foods Market"); supermarkets, which include accounts that also carry conventional products, and at this time currently include chain accounts, supermarket independents, and gourmet and ethnic specialty stores; and other which includes foodservice, e-commerce and international customers outside of Canada. Our operations are comprised of three principal operating divisions. These operating divisions are:

our wholesale division, which includes:

our broadline natural, organic and specialty distribution business in the United States;  
UNFI Canada, Inc. ("UNFI Canada"), which is our natural, organic and specialty distribution business in Canada;  
Tony's, which is a leading distributor of a wide array of specialty protein, cheese, deli, food service and bakery goods, principally throughout the Western United States;  
Albert's, which is a leading distributor of organically grown produce and non-produce perishable items within the United States;  
Nor-Cal, a distributor of organic and conventional produce and non-produce perishable items in Northern California;  
Haddon, a distributor and merchandiser of natural and organic specialty and gourmet ethnic products throughout the Eastern United States; and  
Select Nutrition, which distributes vitamins, minerals and supplements.

our retail division, consisting of Earth Origins, which operates our eleven natural products retail stores within the United States; and

our manufacturing and branded products divisions, consisting of:

Woodstock Farms Manufacturing, which specializes in importing, roasting, packaging and the distribution of nuts, dried fruit, seeds, trail mixes, granola, natural and organic snack items and confections; and  
our Blue Marble Brands branded product lines.

In recent years, our sales to existing and new customers have increased through the continued growth of the natural and organic products industry in general, increased market share as a result of our high quality service and extensive product selection, including specialty products, and the acquisition of, or merger with, natural, organic, conventional produce and specialty products distributors; our efforts to increase the number of conventional supermarket customers to whom we distribute products; the expansion of our existing distribution centers; the construction of new distribution centers; the introduction of new products and the development of our own line of natural and organic branded products. Through these efforts, we believe that we have been able to broaden our geographic penetration, expand our customer base, enhance and diversify our product selections and increase our market share. Our strategic plan is focused on increasing the type of products we distribute to our customers, including perishable products and conventional produce. As part of our "one company" approach, we are in the process of rolling out a national warehouse management and procurement system to convert our existing facilities into a single warehouse management and supply chain platform ("WMS"). We have completed WMS system conversions at our Lancaster, Texas, Ridgefield, Washington, and Auburn, Washington facilities. We have also implemented the WMS platform at our Racine, Wisconsin, Prescott, Wisconsin, Montgomery, New York, Auburn, California, Iowa City, Iowa, Greenwood, Indiana, Dayville, Connecticut and Gilroy, California facilities, and we expect to complete the roll-out to all of our existing U.S. broadline facilities by the end of fiscal 2018. These steps and others are intended to promote operational efficiencies and further reduce our operating expenses as a percentage of net sales as we attempt to offset the lower gross margins we expect to generate by increased sales to the supernatural and conventional supermarket channels and as a result of additional competition in our business.

We have been the primary distributor to Whole Foods Market for more than eighteen years. We continue to serve as the primary distributor to Whole Foods Market in all of its regions in the United States pursuant to a distribution agreement that expires on September 28, 2025. Whole Foods Market accounted for approximately 33% and 34% of our net sales for the first quarters of fiscal 2017 and 2016, respectively.

In March 2016, the Company acquired certain assets of Global Organic through its wholly owned subsidiary Albert's, in a cash transaction for approximately \$20.6 million. Global Organic is a premier distributor of organic fruits, vegetables, juices, milk, eggs, nuts, and coffee located in Sarasota, Florida serving customer locations (many of which are independent retailers) across the Southeastern United States. Global Organic's operations have been combined with the existing Albert's business in the Southeast.

In March 2016, the Company acquired all of the outstanding equity securities of Nor-Cal and an affiliated entity as well as certain real estate, in a cash transaction for approximately \$68.6 million, subject to certain customary post-closing adjustments. Founded in 1972, Nor-Cal is a family owned and operated distributor of conventional and organic produce and other fresh products primarily to independent retailers in Northern California, with primary operations located in West Sacramento, California. We believe that our acquisition of Nor-Cal will aid in our efforts to expand our fresh offering, particularly with conventional produce.

In May 2016, the Company completed its acquisition of all outstanding equity interests of Haddon and certain affiliated entities and real estate in a cash transaction for approximately \$219.1 million, subject to certain customary post-closing adjustments. Haddon is a well-respected distributor and merchandiser of natural and organic and gourmet ethnic products throughout the Eastern United States. Haddon has a history of providing quality high touch merchandising services to their customers. Haddon has a

diverse, multi-channel customer base including conventional supermarkets, gourmet food stores and independently owned product retailers. Our acquisition of Haddon has expanded the product and service offering that we expect to play an important role in our ongoing strategy to build out our gourmet and ethnic product categories.

In August 2016, the Company acquired all of the outstanding stock of Gourmet Guru in a cash transaction for approximately \$10.1 million. Founded in 1996 and headquartered in Bronx, New York, Gourmet Guru is a distributor and merchandiser of fresh and organic food focusing on new and emerging brands. We believe that our acquisition of Gourmet Guru enhances our strength in finding and cultivating emerging fresh and organic brands and further expands our presence in key urban markets.

The ability to distribute specialty food items (including ethnic, kosher and gourmet products) has accelerated our expansion into a number of high-growth business markets and allowed us to establish immediate market share in the fast-growing specialty foods market. We have now integrated specialty food products and natural and organic specialty non-food products into all of our broadline distribution centers across the United States and Canada. Due to our expansion into specialty foods, over the past several fiscal years we have been awarded new business with a number of conventional supermarkets that we previously had not done business with because we did not distribute specialty products. Our acquisition of Haddon has expanded our capabilities in the specialty category and has increased our offerings of specialty products to include those products distributed by Haddon that we did not previously distribute to our customers. We believe that distribution of these products enhances our conventional supermarket business channel and that our complementary product lines continue to present opportunities for cross-selling.

To maintain our market position and improve our operating efficiencies, we seek to continually:

- expand our marketing and customer service programs across regions;
- expand our national purchasing opportunities;
- offer a broader product selection than our competitors;
- offer operational excellence with high service levels and a higher percentage of on-time deliveries than our competitors;
- centralize general and administrative functions to reduce expenses;
- consolidate systems applications among physical locations and regions;
- increase our investment in people, facilities, equipment and technology;
- integrate administrative and accounting functions; and
- reduce the geographic overlap between regions.

Our continued growth has allowed us to expand our existing facilities and open new facilities in an effort to achieve increasing operating efficiencies. We have made significant capital expenditures and incurred considerable expenses in connection with the opening and expansion of our facilities. As of October 29, 2016, our distribution capacity totaled approximately 8.8 million square feet. We are at the end of our multi-year expansion plan, which included new distribution centers in Racine, Wisconsin, Hudson Valley, New York, Prescott, Wisconsin, and Gilroy, California from which we began operations in June 2014, September 2014, April 2015 and February 2016, respectively. We believe that as a result of the opening of our Gilroy, California distribution center, and our acquisition of Haddon, which operates distribution centers in New Jersey and South Carolina, we are unlikely to open or commence construction on a new distribution center in the next twelve months.

Our net sales consist primarily of sales of natural, organic and specialty products to retailers, adjusted for customer volume discounts, returns and allowances. Net sales also consist of amounts charged by us to customers for shipping and handling and fuel surcharges. The principal components of our cost of sales include the amounts paid to manufacturers and growers for product sold, plus the cost of transportation necessary to bring the product to our distribution centers, offset by consideration received from suppliers in connection with the purchase or promotion of

the suppliers' products. Cost of sales also includes amounts incurred by us at our manufacturing subsidiary, Woodstock Farms Manufacturing, for inbound transportation costs and for depreciation for manufacturing equipment. Our gross margin may not be comparable to other similar companies within our industry that may include all costs related to their distribution network in their costs of sales rather than as operating expenses. We include purchasing, receiving, selecting and outbound transportation expenses within our operating expenses rather than in our cost of sales. Total operating expenses include salaries and wages, employee benefits, warehousing and delivery, selling, occupancy, insurance, administrative, share-based compensation, depreciation and amortization expense. Other expenses (income) include interest on our outstanding indebtedness, including the financing obligation related to our Aurora, Colorado distribution center and the lease for office space for our corporate headquarters in Providence, Rhode Island, interest income and miscellaneous income and expenses.

## Critical Accounting Policies

The preparation of our condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The SEC has defined critical accounting policies as those that are both most important to the portrayal of our financial condition and results of operations and require our most difficult, complex or subjective judgments or estimates. Based on this definition and as further described in our Annual Report on Form 10-K for the year ended July 30, 2016, we believe our critical accounting policies include the following: (i) determining our allowance for doubtful accounts, (ii) determining our reserves for the self-insured portions of our workers' compensation and automobile liabilities, (iii) valuing assets and liabilities acquired in business combinations, and (iv) valuing goodwill and intangible assets. For all financial statement periods presented, there have been no material modifications to the application of these critical accounting policies or estimates since our most recently filed Annual Report on Form 10-K.

## Results of Operations

The following table presents, for the periods indicated, certain income and expense items expressed as a percentage of net sales:

|                                             | 13-Week Period |      |             |      |
|---------------------------------------------|----------------|------|-------------|------|
|                                             | Ended          |      | October 31, |      |
|                                             | 2016           | 2015 | 2016        | 2015 |
| Net sales                                   | 100.0          | %    | 100.0       | %    |
| Cost of sales                               | 84.7           | %    | 84.9        | %    |
| Gross profit                                | 15.3           | %    | 15.1        | %    |
| Operating expenses                          | 13.0           | %    | 12.4        | %    |
| Restructuring and asset impairment expenses | —              | %    | 0.1         | %    |
| Total operating expenses                    | 13.0           | %    | 12.5        | %    |
| Operating income                            | 2.3            | %    | 2.6         | %    |
| Other expense (income):                     |                |      |             |      |
| Interest expense                            | 0.2            | %    | 0.2         | %    |
| Interest income                             | —              | %    | —           | %    |
| Other, net                                  | —              | %    | —           | %    |
| Total other expense, net                    | 0.2            | %    | 0.2         | %    |
| Income before income taxes                  | 2.1            | %    | 2.4         | %    |
| Provision for income taxes                  | 0.8            | %    | 1.0         | %    |
| Net income                                  | 1.3            | %    | 1.5         | % *  |

\* Total reflects rounding

## First Quarter of Fiscal 2017 Compared To First Quarter of Fiscal 2016

### Net Sales

Our net sales for the first quarter of fiscal 2017 increased approximately 9.7%, or \$201.7 million, to \$2.28 billion from \$2.08 billion for the first quarter of fiscal 2016. The year-over-year quarterly increase in net sales was primarily attributable to the acquisitions we consummated in the third and fourth quarters of fiscal 2016 and the first quarter of fiscal 2017 and organic growth in our wholesale division from all of our channels. Net sales for the quarter ended October 29, 2016 was negatively impacted by food price deflation of approximately 0.1% compared to price levels in

the first quarter of the prior fiscal year.

Our net sales by customer type for the first quarter of fiscal 2017 and 2016 were as follows (in millions):

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| Customer Type                                  | Net Sales for the 13-Week Period Ended |           |                |                  |           |                |
|------------------------------------------------|----------------------------------------|-----------|----------------|------------------|-----------|----------------|
|                                                | October 29, 2016                       |           |                | October 31, 2015 |           |                |
|                                                |                                        | Net Sales | % of Net Sales |                  | Net Sales | % of Net Sales |
| Supernatural chains                            | \$747                                  | 33        | %              | \$ 713           | 34        | %              |
| Independently owned natural products retailers | 622                                    | 27        | %              | 566              | 27        | %              |
| Conventional supermarkets                      | 652                                    | 29        | %              | 575              | 28        | %              |
| Other                                          | 257                                    | 11        | %              | 223              | 11        | %              |
| Total                                          | \$2,278                                | 100       | %              | \$ 2,077         | 100       | %              |

Net sales by channel for prior periods have been adjusted to reflect changes in the classification of customer types resulting from a review of our customer lists. There was no financial statement impact as a result of revising the classification of customer types. As a result of this adjustment, net sales to our conventional supermarket and other channels for the first quarter of fiscal 2016 increased approximately \$57 million and \$52 million, respectively, or 3% and 2%, respectively, in each category as a percentage of net sales compared to the previously reported amounts, while this adjustment caused net sales to the independent retailer channel to decrease approximately \$109 million, or 5% as a percentage of net sales, for the first quarter of fiscal 2016 compared to the previously reported amounts.

Whole Foods Market is our only supernatural chain customer, and net sales to Whole Foods Market for the first quarter of fiscal 2017 increased by approximately \$34 million, or 5%, as compared to the first quarter of fiscal 2016, and accounted for approximately 33% and 34% of our total net sales for the first quarter of fiscal 2017 and 2016, respectively. The increase in net sales to Whole Foods Market is primarily due to new store openings.

Net sales to our independent retailer channel increased by approximately \$56 million, or 10%, during the first quarter of fiscal 2017 compared to the first quarter of fiscal 2016, and accounted for approximately 27% of our total net sales for each of the fiscal quarters ended October 29, 2016 and October 31, 2015. The increase in net sales in this channel is primarily attributable to growth in our wholesale division, which includes our broadline distribution business, as well as net sales resulting from our acquisitions consummated in the third and fourth quarters of fiscal 2016 and first quarter of fiscal 2017.

Net sales to conventional supermarkets for first quarter of fiscal 2017 increased by approximately \$77 million, or 13%, compared to the first quarter of fiscal 2016, and represented approximately 29% and 28% of our total net sales for the first quarter of fiscal 2017 and 2016, respectively. The increase in net sales to conventional supermarkets was driven by net sales resulting from our acquisition of Haddon in the fourth quarter of fiscal 2016 as well as new conventional supermarket customers that we added since the end of the first quarter of fiscal 2016.

Other net sales, which include sales to foodservice customers and sales from the United States to other countries, as well as sales through our retail division, manufacturing division, and our branded product lines, increased by approximately \$34 million, or 15%, for the first quarter of fiscal 2017 compared to the first quarter of fiscal 2016, and accounted for approximately 11% of our total net sales for each of the fiscal quarters ended October 29, 2016 and October 31, 2015. The increase in other net sales is attributable to expanded sales to our existing foodservice partners and our growth in our e-commerce business.

As we continue to aggressively pursue new customers, expand relationships with existing customers and pursue opportunistic acquisitions, we expect net sales for the remainder of fiscal 2017 to grow over net sales for the comparable period of fiscal 2016. We believe that the integration of our specialty business into our national platform has allowed us to attract customers that we would not have been able to attract without that business and will continue to allow us to pursue a broader array of customers as many customers seek a single source for their natural, organic and specialty products. Our acquisitions of Haddon, Nor-Cal, Global Organic and Gourmet Guru have enhanced our

ability to offer our customers a more comprehensive set of products than many of our competitors. We also expect that our ability to add products that each of Tony's and Haddon has historically sold to our selection of products in our other markets will contribute to an increase in net sales. We believe that our projected net sales growth will come from both sales to new customers (including as a result of acquisitions) and an increase in the number of products that we sell to existing customers. We expect that most of this net sales growth will occur in our lower gross margin supernatural and conventional supermarket channels. Although sales to these customers typically generate lower gross margins than sales to customers within our independent retailer channel, they also typically carry a lower average cost to serve than sales to our independent customers.

## Cost of Sales and Gross Profit

Our gross profit increased approximately 11.2%, or \$35.1 million, to \$349.0 million for the first quarter of fiscal 2017, from \$313.9 million for the first quarter of fiscal 2016. Our gross profit as a percentage of net sales was 15.3% for the first quarter of fiscal 2017 compared to 15.1% for the first quarter of fiscal 2016. The increase in gross profit as a percentage of net sales in the first quarter of fiscal 2017 was primarily due to the favorable impact of the acquisitions we completed in fiscal 2016. Despite the year-over-year improvement, first quarter fiscal 2017 gross margin was negatively impacted by moderated supplier promotional activity, competitive pricing pressures and reduced fuel surcharges.

We anticipate net sales growth in the supernatural and conventional supermarket channels will outpace growth in our other channels in fiscal 2017. We expect that our distribution relationship with Whole Foods Market as well as our opportunities in the conventional supermarket channel along with increased competition from self distribution and conventional grocery retailers will generate lower gross profit percentages than our historical rates. We will seek to fully offset these reductions in gross profit percentages by seeking to reduce our operating expenses as a percentage of net sales primarily through improved efficiencies in our supply chain and improvements to our information technology infrastructure, including our ongoing WMS platform improvements. We expect that a portion of these operating expense improvements will be offset by increased levels of depreciation and amortization as a result of the significant amount of acquisitions we consummated in fiscal 2016 and the first quarter of fiscal 2017.

## Operating Expenses

Our total operating expenses increased approximately 13.7%, or \$35.6 million, to \$295.7 million for the first quarter of fiscal 2017, from \$260.0 million for the first quarter of fiscal 2016. As a percentage of net sales, total operating expenses were 13.0% for the first quarter of fiscal 2017 compared to 12.5% for the first quarter of fiscal 2016. The increase in total operating expenses is primarily driven by sales volumes from our acquisitions consummated in the last twelve months and higher depreciation and amortization expense. Total operating expenses for the first quarter of fiscal 2016 included approximately \$2.8 million of severance and other transition costs due to our restructuring plan disclosed in the fourth quarter of fiscal 2015 as a result of the termination of our distribution agreement with a customer and \$1.8 million of bad debt expense related to outstanding receivables for a customer who declared bankruptcy in the first quarter of fiscal 2016.

Total operating expenses also included share-based compensation expense of \$6.7 million and \$6.0 million for the first quarter of fiscal 2017 and 2016, respectively. This increase is primarily due to an increase in performance-based compensation expense related to our long-term incentive plan for members of our executive leadership team. We expect share-based compensation expense in fiscal 2017 will exceed share-based compensation expense in fiscal 2016.

## Operating Income

Reflecting the factors described above, operating income decreased approximately 1.0%, or \$0.6 million, to \$53.3 million for the first quarter of fiscal 2017, from \$53.9 million for the first quarter of fiscal 2016. As a percentage of net sales, operating income was 2.3% for the first quarter of fiscal 2017 compared to 2.6% for the first quarter of fiscal 2016.

## Other Expense (Income)

Other expense, net increased approximately \$1.0 million to \$4.8 million for the first quarter of fiscal 2017 compared to \$3.8 million for the first quarter of fiscal 2016. Interest expense was \$4.5 million for the first quarter of fiscal 2017

compared to \$3.7 million for the first quarter of fiscal 2016. Interest income was \$0.1 million and \$0.2 million for the first quarter of fiscal 2017 and 2016, respectively. Other expense was \$0.4 million for the first quarter of fiscal 2017, an increase of \$0.2 million compared to the first quarter of fiscal 2016.

#### Provision for Income Taxes

Our effective income tax rate was 39.8% and 39.9% for the first quarter of fiscal 2017 and 2016, respectively. The decrease in the effective income tax rate for the first quarter of fiscal 2017 was primarily due to changes in the geographical mix of pre-tax earnings.

#### Net Income

Reflecting the factors described in more detail above, net income decreased \$0.9 million to \$29.2 million, or \$0.58 per diluted share, for the first quarter of fiscal 2017, compared to \$30.1 million, or \$0.60 per diluted share, for the first quarter of fiscal 2016.

## Liquidity and Capital Resources

We finance our day to day operations and growth primarily with cash flows from operations, borrowings under our amended and restated revolving credit facility, operating leases, a capital lease, a finance lease, trade payables and bank indebtedness. In addition, from time to time, we may issue equity and debt securities to finance our operations and acquisitions. We believe that our cash on hand and available credit through our amended and restated revolving credit facility as discussed below is sufficient for our operations and planned capital expenditures over the next twelve months. We expect to generate an average of \$175 million to \$230 million in cash flow from operations for the 2017 and 2018 fiscal years. We intend to continue to utilize this cash generated from operations to fund acquisitions, fund investment in working capital and capital expenditure needs and reduce our debt levels. We intend to manage capital expenditures to approximately 0.6% to 0.8% of net sales for fiscal 2017 reflecting a slight increase over fiscal 2016 levels and a decrease over levels experienced in fiscal 2014 and fiscal 2015. We expect to finance requirements with cash generated from operations and borrowings under our amended and restated revolving credit facility. Our planned capital projects for fiscal 2017 will be focused on continuing the implementation of our information technology projects across the Company that we believe will provide us with increased efficiency and the capacity to continue to support the growth of our customer base. Future investments and acquisitions may be financed through equity, long-term debt or borrowings under our amended and restated revolving credit facility.

The Company has not recorded a tax provision for U.S. tax purposes on UNFI Canada's profits as it has no assessable profits arising in or derived from the United States and we intend to indefinitely reinvest accumulated earnings in the UNFI Canada operations.

On April 29, 2016, we entered into the Third Amended and Restated Loan and Security Agreement (the "Third A&R Credit Agreement") amending and restating certain terms and provisions of our revolving credit facility, which increased the maximum borrowings under the amended and restated revolving credit facility and extended the maturity date to April 29, 2021. Up to \$850.0 million is available to our U.S. subsidiaries and up to \$50.0 million is available to UNFI Canada. After giving effect to the Third A&R Credit Agreement, the amended and restated revolving credit facility provides an option to increase the U.S. or Canadian revolving commitments by up to an additional \$600 million (but in not less than \$10.0 million increments) subject to certain customary conditions and the lenders committing to provide the increase in funding.

The borrowings of the U.S. portion of the amended and restated revolving credit facility, after giving effect to the Third A&R Credit Agreement, accrue interest, at the base rate plus an applicable margin of 0.25% or LIBOR rate plus an applicable margin of 1.25% for the twelve month period ending April 29, 2017. After this period, the interest on the U.S. borrowings is accrued at the Company's option, at either (i) a base rate (generally defined as the highest of (x) the Bank of America Business Capital prime rate, (y) the average overnight federal funds effective rate plus one-half percent (0.50%) per annum and (z) one-month LIBOR plus one percent (1%) per annum) plus an applicable margin that varies depending on daily average aggregate availability, or (ii) the LIBOR rate plus an applicable margin that varies depending on daily average aggregate availability. The borrowings on the Canadian portion of the credit facility accrue interest at the Canadian prime rate plus an applicable margin of 0.25% or a bankers' acceptance equivalent rate plus an applicable margin of 1.25% for the twelve month period ending April 29, 2017. After this period, the borrowings on the Canadian portion of the credit facility accrue interest, at the Company's option, at either (i) a Canadian prime rate (generally defined as the highest of (x) 0.50% over 30-day Reuters Canadian Deposit Offering Rate ("CDOR") for bankers' acceptances, (y) the prime rate of Bank of America, N.A.'s Canada branch, and (z) a bankers' acceptance equivalent rate for a one month interest period plus 1.00%) plus an applicable margin that varies depending on daily average aggregate availability, or (ii) a bankers' acceptance equivalent rate of the rate of interest per annum equal to the annual rates applicable to Canadian Dollar bankers' acceptances on the "CDOR Page" of Reuter Monitor Money Rates Service, plus five basis points, and an applicable margin that varies depending on daily average aggregate availability. Unutilized commitments are subject to an annual fee in the amount of 0.30% if

the total outstanding borrowings are less than 25% of the aggregate commitments, or a per annum fee of 0.25% if such total outstanding borrowings are 25% or more of the aggregate commitments. The Company is also required to pay a letter of credit fronting fee to each letter of credit issuer equal to 0.125% per annum of the stated amount of each such letter of credit (or such other amount as may be mutually agreed by the borrowers under the facility and the applicable letter of credit issuer), as well as a fee to all lenders equal to the applicable margin for LIBOR or bankers' acceptance equivalent rate loans, as applicable, times the average daily stated amount of all outstanding letters of credit.

As of October 29, 2016, our borrowing base, which was calculated based on our eligible accounts receivable and inventory levels, net of \$6.2 million of reserves, was \$880.6 million. As of October 29, 2016, we had \$421.2 million of borrowings outstanding under our amended and restated revolving credit facility and \$37.4 million in letter of credit commitments which reduced our available borrowing capacity under our amended and restated revolving credit facility on a dollar for dollar basis. Our resulting remaining availability was \$421.9 million as of October 29, 2016.

The revolving credit facility, as amended and restated, subjects us to a springing minimum fixed charge coverage ratio (as defined in the Third A&R Credit Agreement) of 1.0 to 1.0 calculated at the end of each of our fiscal quarters on a rolling four quarter basis when the adjusted aggregate availability (as defined in the Third A&R Credit Agreement) is less than the greater of (i) \$60.0 million and (ii) 10% of the aggregate borrowing base. We were not subject to the fixed charge coverage ratio covenant under the Third A&R Credit Agreement during the first quarter of fiscal 2017.

On August 14, 2014, we and certain of our subsidiaries entered into a real estate backed term loan agreement (the "Term Loan Agreement"). The total initial borrowings under our term loan facility were \$150.0 million. We are required to make \$2.5 million principal payments quarterly. Under the Term Loan Agreement, we at our option may request the establishment of one or more new term loan commitments in increments of at least \$10.0 million, but not to exceed \$50.0 million in total, subject to the approval of the Lenders electing to participate in such incremental loans and the satisfaction of the conditions required by the Term Loan Agreement. We will be required to make quarterly principal payments on these incremental borrowings in accordance with the terms of the Term Loan Agreement. Proceeds from this Term Loan Agreement were used to pay down borrowings on our amended and restated revolving credit facility.

On April 29, 2016, the Company entered into a First Amendment Agreement (the "Term Loan Amendment") to the Term Loan Agreement. The Term Loan Amendment was entered into to reflect the changes to the amended and restated revolving credit facility reflected in the Third A&R Credit Agreement. The Term Loan Agreement will terminate on the earlier of (a) August 14, 2022 and (b) the date that is ninety days prior to the termination date of our amended and restated revolving credit facility.

On September 1, 2016, the Company entered into a Second Amendment Agreement (the "Second Amendment") to the Term Loan Agreement which amended the Term Loan Agreement to adjust the applicable margin charged to borrowings thereunder. As amended by the Second Amendment, borrowings under the Term Loan Agreement bear interest at rates that, at the Company's option, can be either: (1) a base rate generally defined as the sum of (i) the highest of (x) the Administrative Agent's prime rate, (y) the average overnight federal funds effective rate plus 0.50% and (z) one-month LIBOR plus one percent (1%) per annum and (ii) a margin of 0.75%; or, (2) a LIBOR rate generally defined as the sum of (i) LIBOR (as published by Reuters or other commercially available source) for one, two, three or six months or, if approved by all affected lenders, nine months (all as selected by the Company), and (ii) a margin of 1.75%. Interest accrued on borrowings under the Term Loan Agreement is payable in arrears. Interest accrued on any LIBOR loan is payable on the last day of the interest period applicable to the loan and, with respect to any LIBOR loan of more than three (3) months, on the last day of every three (3) months of such interest period. Interest accrued on base rate loans is payable on the first day of every month. The Company is also required to pay certain customary fees to the Administrative Agent. The borrowers' obligations under the Term Loan Agreement are secured by certain parcels of the borrowers' real property.

The Term Loan Agreement includes financial covenants that require (i) the ratio of our consolidated EBITDA (as defined in the Term Loan Agreement) minus the unfinanced portion of Capital Expenditures (as defined in the Term Loan Agreement) to our consolidated Fixed Charges (as defined in the Term Loan Agreement) to be at least 1.20 to 1.00 as of the end of any period of four fiscal quarters, (ii) the ratio of our Consolidated Funded Debt (as defined in the Term Loan Agreement) to our EBITDA for the four fiscal quarters most recently ended to be not more than 3.00 to 1.00 as of the end of any fiscal quarter and (iii) the ratio, expressed as a percentage, of our outstanding principal balance under the Loans (as defined in the Term Loan Agreement), divided by the Mortgaged Property Value (as defined in the Term Loan Agreement) to be not more than 75% at any time. As of October 29, 2016, the Company was in compliance with the financial covenants of the Term Loan Agreement.

On January 23, 2015, the Company entered into a forward starting interest rate swap agreement with an effective date of August 3, 2015, which expires in August 2022 concurrent with the scheduled maturity of our Term Loan Agreement. This interest rate swap agreement has an initial notional amount of \$140.0 million and provides for the

Company to pay interest for a seven-year period at a fixed rate of 1.795% while receiving interest for the same period at the one-month LIBOR on the same notional principal amount. The interest rate swap agreement has an amortizing notional amount which adjusts down on the dates payments are due on the underlying term loan. The interest rate swap has been entered into as a hedge against LIBOR movements on \$140.0 million of the variable rate indebtedness under the Term Loan Agreement at one-month LIBOR plus 1.00% and a margin of 1.50%, thereby fixing our effective rate on the notional amount at 4.295%. The swap agreement qualifies as an “effective” hedge under ASC 815, Derivatives and Hedging.

On June 7, 2016, the Company entered into two pay fixed and receive floating interest rate swap agreements to effectively fix the underlying variable rate debt on the Company’s amended and restated revolving credit facility. The first agreement has an effective date of June 9, 2016 and expires in June of 2019. This interest rate swap agreement has a notional principal amount of \$50.0 million and provides for the Company to pay interest for a three-year period at a fixed annual rate of 0.8725% while receiving interest for the same period at one-month LIBOR on the same notional principal amount. This swap, in conjunction with the amended and restated revolving credit facility, effectively fixes the interest rate on the \$50.0 million notional amount. The second

agreement has an effective date of June 9, 2016 and expires concurrent with the scheduled maturity of our amended and restated revolving credit facility in April of 2021. This interest rate swap agreement has a notional principal amount of \$25.0 million and provides for the Company to pay interest for a five-year period at a fixed rate of 1.065% while receiving interest for the same period at one-month LIBOR on the same notional principal amount. This swap, in conjunction with the amended and restated revolving credit facility, effectively fixes the interest rate on the \$25.0 million notional amount.

On June 24, 2016, the Company entered into two additional pay fixed and receive floating interest rate swap agreements to effectively fix the underlying variable rate debt on the Company's amended and restated revolving credit facility. The first agreement has an effective date of July 24, 2016 and expires in June of 2019. This interest rate swap agreement has a notional principal amount of \$50.0 million and provides for the Company to pay interest for a three year period at a fixed annual rate of 0.7265% while receiving interest for the same period at one-month LIBOR on the same notional principal amount. This swap, in conjunction with the amended and restated revolving credit facility, effectively fixes the interest rate on the \$50.0 million notional amount. The second agreement has an effective date of July 24, 2016 and expires concurrent with the scheduled maturity of our amended and restated revolving credit facility in April of 2021. This interest rate swap agreement has a notional principal amount of \$25.0 million and provides for the Company to pay interest for a five year period at a fixed rate of 0.9260% while receiving interest for the same period at one-month LIBOR on the same notional principal amount. This swap, in conjunction with the amended and restated revolving credit facility, effectively fixes the interest rate on the \$25.0 million notional amount.

Net cash used in operations was \$7.3 million for the first quarter of fiscal 2017, a change of \$12.7 million from the \$5.5 million provided by operations for the first quarter of fiscal 2016. The primary reasons for the net cash used in operations for the first quarter of fiscal 2017 were an increase in inventories of \$55.1 million and an increase in accounts receivable of \$43.3 million due to the timing of collections, offset by an increase in accounts payable of \$33.9 million, net income of \$29.2 million, and depreciation and amortization of \$21.2 million. The primary reasons for the net cash provided by operations for the first quarter of fiscal 2016 were net income of \$30.1 million, depreciation and amortization of \$16.7 million and an increase in accounts payable of \$58.4 million, offset by an increase in inventories of \$100.4 million and an increase in accounts receivable of \$19.9 million. Days in inventory increased slightly to 50 days at October 29, 2016, compared to 49 days at July 30, 2016 reflecting buying ahead of the holiday season. Days sales outstanding increased slightly to 21 days at October 29, 2016 compared to 20 days at July 30, 2016. Working capital increased by \$30.1 million, or 3.0%, from \$0.99 billion at July 30, 2016 to \$1.02 billion at October 29, 2016.

Net cash used in investing activities increased \$11.7 million to \$19.3 million for the first quarter of fiscal 2017, compared to \$7.6 million for the first quarter of fiscal 2016. The increase from the first quarter of fiscal 2016 was primarily due to an increase in cash paid for acquisitions compared to the first quarter of fiscal 2016 coupled with an increase in capital spending of \$1.6 million.

Net cash provided by financing activities was \$21.6 million for the first quarter of fiscal 2017. We present proceeds from borrowings and repayments of borrowings related to our amended and restated revolving credit facility and term loan facility on a gross basis. The net cash provided by financing activities was primarily due to borrowings on our amended and restated revolving credit facility of \$94.4 million and increases in bank overdrafts of \$29.8 million, offset in part by gross repayments on our amended and restated revolving credit facility and long term debt of \$99.4 million and \$0.4 million, respectively. Net cash used in financing activities was \$3.0 million for the first quarter of fiscal 2016, primarily due to repayments on our amended and restated revolving credit facility and long-term debt of \$169.6 million and \$2.9 million, respectively, offset by gross borrowings under our amended and restated revolving credit facility of \$122.7 million, and increases in bank overdrafts of \$47.1 million.

From time-to-time, we enter into fixed price fuel supply agreements. As of October 29, 2016, we had entered into agreements which require us to purchase a total of approximately 6.1 million gallons of diesel fuel at prices ranging from \$1.76 to \$3.18 per gallon through December 31, 2016. As of October 31, 2015, we had entered into agreements which required us to purchase a total of approximately 3.6 million gallons of diesel fuel at prices ranging from \$2.59 to \$3.18 per gallon through December 31, 2016. All of these fixed price fuel agreements qualify and are accounted for using the “normal purchase” exception under Accounting Standards Codification 815, Derivatives and Hedging, as physical deliveries will occur rather than net settlements, and therefore the fuel purchases under these contracts have been and will be expensed as incurred and included within operating expenses.

#### Contractual Obligations

There have been no material changes to our contractual obligations and commercial commitments during the first quarter of fiscal 2017 from those disclosed in our Annual Report on Form 10-K for the year ended July 30, 2016.

#### Seasonality

Generally, we do not experience any material seasonality. However, our sales and operating results may vary significantly from quarter to quarter due to factors such as changes in our operating expenses, management's ability to execute our operating and growth strategies, personnel changes, demand for natural products, supply shortages and general economic conditions.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk results primarily from fluctuations in interest rates on our borrowings and price increases in diesel fuel. As discussed in more detail in Note 6 of the condensed consolidated financial statements, we have entered into interest rate swap agreements to fix our effective interest rate for a portion of the borrowings under our term loan. In addition, from time to time we have used fixed price purchase contracts to lock the pricing on a portion of our expected diesel fuel usage. There have been no material changes to our exposure to market risks from those disclosed in our Annual Report on Form 10-K for the year ended July 30, 2016.

### Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. We carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report on Form 10-Q (the "Evaluation Date"). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective.

(b) Changes in internal controls. Except for the inclusion of Nor-Cal and Haddon, there has been no change in our internal control over financial reporting that occurred during the first quarter of fiscal 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we are involved in routine litigation or other legal proceedings that arise in the ordinary course of our business. There are no pending material legal proceedings to which we are a party or to which our property is subject.

### Item 1A. Risk Factors

There have been no material changes to our risk factors contained in Part I, Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the fiscal year ended July 30, 2016.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit Index

Exhibit No. Description

|       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1+ | Employment Agreement, dated as of October 28, 2016, by and among United Natural Foods, Inc., and Steven L. Spinner (incorporated by reference to the Registrant's Current Report on Form 8-K, filed on November 2, 2016 (File No. 1-15723)).                                                                                                                                                                                                                                                                                                                 |
| 10.2+ | Form of Restricted Share Unit Award Agreement pursuant to the Company's Amended and Restated 2012 Equity Incentive Plan (incorporated by reference to the Registrant's Current Report on Form 8-K, filed on November 2, 2016 (File No. 1-15723)).                                                                                                                                                                                                                                                                                                            |
| 10.3+ | Form of Restricted Share Unit Award Agreement pursuant to the Company's Amended and Restated 2012 Equity Incentive Plan (incorporated by reference to the Registrant's Current Report on Form 8-K, filed on November 2, 2016 (File No. 1-15723)).                                                                                                                                                                                                                                                                                                            |
| 10.4+ | Form of Performance-Based Vesting Restricted Share Unit Award Agreement pursuant to the Company's Amended and Restated 2012 Equity Incentive Plan (incorporated by reference to the Registrant's Current Report on Form 8-K, filed on November 2, 2016 (File No. 1-15723)).                                                                                                                                                                                                                                                                                  |
| 10.5+ | Form of Performance-Based Vesting Restricted Share Unit Award Agreement pursuant to the Company's Amended and Restated 2012 Equity Incentive Plan (incorporated by reference to the Registrant's Current Report on Form 8-K, filed on November 2, 2016 (File No. 1-15723)).                                                                                                                                                                                                                                                                                  |
| 10.6+ | Fiscal 2017 Senior Management Annual Cash Incentive Plan (incorporated by reference to the Registrant's Current Report on Form 8-K, filed on November 2, 2016 (File No. 1-15723)).                                                                                                                                                                                                                                                                                                                                                                           |
| 31.1* | Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 31.2* | Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 32.1* | Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 32.2* | Certification of CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 101*  | The following materials from the United Natural Foods, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended October 29, 2016, formatted in XBRL (eXtensible Business Reporting Language):<br>(i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statement of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements. |

\* Filed herewith.

+ Management compensatory plan or arrangement.

\* \* \*

We would be pleased to furnish a copy of this Form 10-Q to any stockholder who requests it by writing to:

United Natural Foods, Inc.  
Investor Relations  
313 Iron Horse Way  
Providence, RI 02908



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED NATURAL FOODS, INC.

/s/ Michael P. Zechmeister

Michael P. Zechmeister

Chief Financial Officer

(Principal Financial and Accounting Officer)

Dated: December 8, 2016

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