



**PRENTISS
SMITH & CO**

Socially Responsible Investment Report for:

United Natural Foods, Inc.

Providence, RI

Ticker: UNFI US Equity

Website: www.unfi.com

Last Updated: 12-28-2020

I. Exclusionary Screening

Does United Natural Foods, Inc. appear on any of the following lists? In our exclusionary screening, a single appearance disqualifies an investment.

Fossil Fuels & Precious Metals Mining

- Carbon Underground 200
- CDP/CAI Carbon Major
- BICS - Oil, Gas & Coal
- BICS - Precious Metals Mining

Agrochemicals & Animal Cruelty

- BICS - Crop Chemicals & Fertilizers
- Cruelty Free Investing 10 Worst

Pornography, Gambling & Tobacco

- BICS - Casinos
- BICS - Gaming Equipment
- BICS - Adult/nightclubs
- BICS - Tobacco

Defense & Retail Gun Sales

- SIPRI Top 100
- BICS - Defense Primes
- NRA Top Industry Allies

Private Prisons

- BICS - Security Services

CDP = Carbon Disclosure Project
CAI = Climate Accountability Institute
BICS = Bloomberg Industry Classification Systems

SIPRI = Stockholm International Peace Research Institute
NRA = National Rifle Association

I. Environmental, Social & Governance Data

What quantifiable environmental, social and governance data, policies or recognition does United Natural Foods, Inc. exhibit? Positive factors may help support a decision to invest.

General

GRI Criteria Compliance

No

United Nations Global Compact Signatory

No

Climate Change & Fossil Fuels

CDP Climate Change Score

A-

Plans for Climate Risks

Yes

2023 Renewable Energy Target

20%

Distribution Center Energy Intensity Reduction
(2020 Baseline)

30%

Initiatives and Policies in Place:

- **Climate Change Policy**

Environmental Stewardship

2020 YoY Food Waste Reduction

7%

Green Buildings

Yes

Sustainable Packaging

No

2025 Food Waste Reduction Goal

50%

Publicly Disclosed Sustainable Supply Guidelines
Encompassing ESG Area

No

Initiatives and Policies in Place:

- **Water Policy**
- **Waste Reduction**
- **Emission Reduction**

Human Rights & Well-Being

2020 Food Donated (pounds)

23 million

Initiatives and Policies in Place:

- **Equal Opportunity Policy**

CEO Action for Diversity & Inclusion

Yes

Diversity, Equity, Inclusion and Justice

2020 Spending with Diverse Suppliers

\$264M

CEO Action for Diversity & Inclusion

Yes

Women on the Board

30%

Number of Women on the Board

3

Women in Workforce

22%

Persons of Color in Workforce

50%

Women Executives

22%

Number of Women Executives

2

Women at Manager Level

37.5%

HRC Equality Index (100 points)

20

Corporate Responsibility

Size of the Board

10

Independent Directors

80%

Shareholder vote on management remuneration

72.7%

Number of Employee Representatives on the Board

0

Initiatives and Policies in Place:

- **Whistle Blower Employee Protection Policy**
- **Ethics Policy**

Data sources may include:

- Sustainability and other report(s) published by the company.
- Banktrack Human Rights Benchmark
- Barron's 100 Most Sustainable US Companies
- Bloomberg LP ESG Data (via Data License).
- CDP

- CEO Action for Diversity & Inclusion Pledge
- Climate Accountability Institute (CAI)
- Corporate Human Rights Benchmark
- Digital Rights Corporate Accountability Index
- Dow Jones Sustainability Indices (DJSI)
- EPA's Green Power Partnership
- Equileap's Top 100 Companies for Gender Equality
- Forbes World's Best Employers
- Fortune's 50 Best Workplaces for Charity and Volunteering
- Fossil Free Funds
- Global Reporting Initiative (GRI)
- Great Places to Work
- HRC's 2020 Corporate Equality Index
- Institute for Clinical and Economic Review (ICER)
- Just Capital Rankings
- KnowTheChain Benchmark
- MSCI ESG Ratings
- National Rifle Association (NRA)
- Newsweek Green Rankings
- PEOPLE's 50 Companies That Care
- Points of Light Civic 50 Honorees
- RobecoSAM Corporate Sustainability Assessment
- Roundtable on Sustainable Palm Oil (RSPO)
- Science-Based Targets initiative (SBTi)
- State Street Global Advisors' Gender Diversity Index
- Stockholm International Peace Research Institute (SIPRI)
- Task Force on Climate-related Financial Disclosures (TCFD)
- The 2019 Top 50 DiversityInc
- The Climate Group's RE100, EV100 and EP100

II. Research Narrative

What else has our research process told us about how United Natural Foods, Inc. conducts business, in terms of its products and services, its environmental impact, and its approach to governance?

Summary

United Natural Foods is a distributor of natural and organic groceries. The company has a longstanding CSR program and has been publishing annual CSR reports since 2010. The company has committed to pursuing Science Based Targets, which it plans to announce in 2021, making it the first North American wholesale grocery distributor to make such a commitment. The company is researching innovative ways to reduce the carbon footprint of its truck fleet, including testing solar-powered refrigerated trailers. The company is also actively pursuing ways to eliminate food waste and expand accessibility to wholesome natural foods. In 2019, the company donated food equivalent to 28 million meals. United Natural Foods aims to increase the diversity of its supply chain and is looking for ways to expand spending with women and minority-owned businesses; such spending currently totals nearly \$1 billion annually.

Products & Services

United Natural Foods (UNFI) is the largest publicly traded wholesale distributor of natural and organic produce, conventional grocery, and non-food products in the United States and Canada.¹ UNFI's business model involves sourcing products from suppliers and selling them to grocery chains, independent retailers, super-natural retailers (Whole Foods), food service, and e-commerce customers. The company has a "Certified Organic Distributor" certification that covers all of its natural distribution centers in the United States, except for facilities purchased in the Tony's, Haddon, and Nor-Cal acquisitions. UNFI claims that it is one of the largest purchasers of organically grown bulk products in the natural and organic products industry.² In addition to

¹ <https://www.unfi.com/sites/default/files/sustainability-reports/unfi-csr-report-2019.pdf>

² <https://www.sec.gov/ix?doc=/Archives/edgar/data/1020859/000102085920000064/f2010-k.htm#sCE3BE6B36CD85BF098D0318D8CD39495>

distribution, UNFI also makes private-label products under brands such as Culinary Circle, Wild Harvest, and Field Day, which includes “organic, non-GMO, and items free from over 140 undesirable ingredients.”³

The company was founded by Michael Funk in 1976 under the name “Mountain People’s Warehouse” in Auburn, California. While the founder initially began selling organic produce out of the back of his van, the company eventually grew to become the largest full-line natural foods distributor in the Western United States.⁴ In 1996, Mountain People’s Warehouse merged with the Rhode Island-based distributor, Cornucopia Natural Foods, and formed a new company called UNFI to serve customers on the East and West coasts. Over the years, UNFI built its business internally and through the acquisition of numerous national and regional distributors. In 1998, the company acquired Albert’s Organics, a distributor of organic produce and perishable produce items, which became the first national Certified Organic distributor. In 2010, UNFI acquired SunOpta Distribution Group, which was Canada’s first nationwide organic food distributor. In October 2018, UNFI purchased Minnesota-based Supervalu for roughly \$2.9 billion, which was its largest-ever acquisition. (Supervalu is one of the largest grocery wholesalers and retailers in the US.)

Following the Supervalu acquisition, UNFI currently has nearly 29,000 employees, 32 million square feet of warehouse space across 63 distribution centers and warehouses, and 2,200 delivery trucks delivering over 250,000 stock-keeping units. Approximately 42% of its full and part-time employees are covered by 51 collective bargaining agreements. Whole Foods Market is UNFI’s largest customer, accounting for approximately 18% of UNFI’s total revenues. UNFI has been the primary distributor to Whole Foods Market for over 20 years⁵

Environment

Roughly 35% of UNFI’s overall emissions come from its fleet. The company depends on fuel for transporting products via truck and storing and packaging products in warehouses. The company claims that it optimizes its fleet efficiency by leasing trucks and more rapidly cycling its fleet to make sure it is using the most modern and fuel efficient equipment available. The industry average lease term for a truck is approximately 6 to 8 years or more, however, UNFI cycles trucks every 5 years. UNFI uses a centralized national routing team to oversee all routing, which the company

³

<https://www.sec.gov/ix?doc=/Archives/edgar/data/1020859/000102085920000064/f2010-k.htm#sCE3BE6B36CD85BF098D0318D8CD39495>

⁴ <https://www.unfi.com/our-history>

⁵ <https://www.sec.gov/Archives/edgar/data/0001020859/000102085920000064/f2010-k.htm>

claims facilitates greater oversight, route consolidation, reduced idling, and improved fleet efficiency. The company is conducting feasibility studies of electric trucks in certain areas and anticipates using these technologies in the coming years.⁶ In California, UNFI began piloting its first all-electric solar powered refrigerated trailer in an effort to reduce the emissions impact of its fleet. Relative to a baseline year in 2018, the company aims to improve miles per gallon for its fleet by 7.6%, improve trailer load efficiency by 14.6%, and reduce idle time to 3.0% (from 3.22%).⁷

In 2018, UNFI began working on science-based targets, modeling what the company's share of emissions reduction would have to be to meet the commitments of the Paris Agreement to limit global warming to less than 2 degrees Celsius, and pursue efforts to limit warming to 1.5 degrees Celsius for the best chance of avoiding the worst impacts of climate change. UNFI says that it plans to submit its targets to the Science-Based Targets Initiative sometime in 2021, which would make it the first North American wholesale grocery distributor to adopt science-based targets.⁸ UNFI claims that the adoption of science-based targets is a core element of its 2030 ESG agenda.

One of UNFI's main environmental initiatives is reducing food waste. The company is currently identifying ways to reduce food waste in all of its warehouses. In 2019, the company conducted food waste audits at 10 distribution centers. UNFI follows the EPA's Food Recovery Hierarchy guidelines which prioritizes source reduction, feeding the hungry, feeding animals, industrial uses, composting, and finally landfill or incineration as a last resort. The company has a partnership with Feeding America that has helped the company divert the majority of its food waste. In 2019, the company donated over 33 million pounds of food, equivalent to approximately 28 million meals.⁹ The company's overall waste diversion rate for 2019 was 54%. The company is targeting a 50% reduction in distribution center food waste by 2025 (from a 2019 baseline). UNFI has 8 LEED Gold certified distribution centers and its headquarters in Rhode Island is LEED Silver certified.

UNFI is currently conducting a materiality assessment to identify and prioritize the most important environmental and social issues facing the company and its stakeholders. The company says that it will share the results of its materiality assessment in its 2020 CSR report.

6

https://www.cdp.net/en/formatted_responses/responses?campaign_id=70692136&discloser_id=855026&locale=en&organization_name=UNFI&organization_number=31070&program=Investor&project_year=2020&redirect=https%3A%2F%2Fcdp.credit360.com%2Fsurveys%2F6sc15v4h%2F87083&survey_id=68887525

⁷ <https://www.unfi.com/sites/default/files/sustainability-reports/unfi-csr-report-2019.pdf>

8

<https://ir.unfi.com/news/press-release-details/2020/UNFI-Commits-to-Setting-Science-Based-Targets-to-Limit-Climate-Change-Impact/default.aspx>

⁹ <https://www.unfi.com/sites/default/files/sustainability-reports/unfi-csr-report-2019.pdf>

Management Integrity and Ethics

UNFI has published an annual CSR report since 2010. The company has been reporting an annual Climate Change response to the CDP since 2017, with independent third party verification of its GHG emissions data since 2018. In 2020, UNFI improved its CDP Climate Change score to an A- from a B through improved disclosures, emissions reduction initiatives and actions to mitigate climate risk.¹⁰

UNFI's sustainability program is overseen by the CEO, Board Chairman, and Nominating and Governance Committee. The company has a Sustainability and Philanthropy Manager who is responsible for energy and emissions data management and performance tracking, implementing emissions reduction activities, and communicating the company's climate strategy. The company uses an internal sustainability dashboard to help measure and manage its environmental performance by looking at factors such as energy consumption, waste diversion, and GHG emissions intensity. UNFI says that these performance indicators are distributed to management monthly.

UNFI's Board of Directors has a total of 10 members, including 8 independent directors and 3 women. Board diversity is an area where we hope to see improvement, as the company has only one non-white director.

In 2019, the UNFI Foundation donated over \$1 million to 69 community nonprofits aimed at making better food more accessible and helping children adopt better eating practices. The company says that it is working to increase access to better food, particularly for low-income and rural communities, through monetary and in-kind donations. Through UNFI's Helping Hands program, the company encourages employees to take 16 hours of volunteer time off each year. The company also looks for ways to enhance diversity in its supply chain, and spent \$956 million (including \$207 million in direct spending and \$749 million in indirect spending) with over 1,200 women and minority-owned businesses in fiscal 2019. UNFI says that it aims to grow its spending with diverse-owned businesses by 2% year-over-year in 2020.

¹⁰ <https://www.betterforall.unfi.com/reports.html>

Legal Notice

The material contained in this report is provided for informational purposes only and should not be considered an individualized recommendation of any particular security, strategy or investment product. This report is not intended to be used as a general guide to investing, or as a substitute for personalized investment advice, and it makes no implied or express recommendations concerning the manner in which any specific client account should be handled. If you have questions regarding the applicability of any issue discussed on this report to your own situation, you are encouraged to consult with a professional advisor of your choosing. Prentiss Smith & Co is neither a law firm nor a certified public accounting firm, and no portion of this report should be construed as legal or tax advice.

No guarantee is made as to the accuracy, completeness or timeliness of any information, projections or opinions contained in this report or upon which any such projections or opinions have been based. The information contained in this report is compiled for the convenience of site visitors and is accepted by the reader on the condition that errors or omissions shall not be made the basis for any claim, demand or cause of action. Due to factors that may include changing market conditions or applicable laws, some content on this report may no longer be reflective of our current positions or opinions. Some information on this report has also been obtained from published sources and/or prepared by unaffiliated third parties. While such sources are believed to be reliable, neither Prentiss Smith & Co nor its respective employees or representatives assumes any responsibility for the accuracy or completeness of such information. References and hyperlinks to other websites are not an endorsement, approval or certification of information, projections or opinions located at such web sites.

Investing in securities involves risk, including the loss of all principal invested. Other types of investments involve varying degrees of risk. There can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Prentiss Smith & Co), will be profitable or suitable for your portfolio or individual situation.