



Sysco Corporation (SYY)

Updated May 3rd, 2024 by Felix Martinez

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|----------|
| Current Price: | \$75 | 5 Year CAGR Estimate: | 12.0% | Market Cap: | \$36.9 B |
| Fair Value Price: | \$86 | 5 Year Growth Estimate: | 7.0% | Ex-Dividend Date: | 07/05/24 |
| % Fair Value: | 88% | 5 Year Valuation Multiple Estimate: | 2.7% | Dividend Payment Date: | 07/26/24 |
| Dividend Yield: | 2.8% | 5 Year Price Target | \$121 | Years Of Dividend Growth: | 53 |
| Dividend Risk Score: | A | Retirement Suitability Score: | A | Rating: | Buy |

Overview & Current Events

Sysco Corporation (SYY) is the largest wholesale food distributor in the United States and is expanding internationally. The company was founded in Houston, Texas, in 1969 and now serves 600,000 locations with food delivery, including restaurants, hospitals, schools, hotels, and other facilities. According to estimates, the company has a 16% market share of total food delivery within the United States. The company has approximately 67,000 employees and a roughly \$36.9 billion market capitalization.

On April 30th, 2024, Sysco reported Third-quarter results for Fiscal Year (FY)2024. The company demonstrated significant growth across key metrics compared to the same period in fiscal year 2023. With sales rising by 2.7% to \$19.4 billion and gross profit surging by 5.2% to \$3.6 billion, Sysco showcased its resilience and adaptability amidst a challenging economic environment. CEO Kevin Hourican praised the company's disciplined efforts, noting its ability to achieve strong profit growth despite softer sales and case volumes attributed to reduced restaurant traffic. Sysco's focus on seizing market share profitably and its leadership team's agility and accountability were highlighted as instrumental in meeting profit objectives for the quarter.

CFO Kenny Cheung outlined Sysco's financial strategy, emphasizing the sixth consecutive quarter of positive operating leverage and the decision to raise cost-out targets to \$120 million for the fiscal year. Sysco's commitment to returning approximately \$2.25 billion to shareholders in fiscal year 2024 underscores its dedication to both business investment and shareholder rewards. Segment-wise analysis revealed positive trends in both U.S. and International Foodservice Operations, showcasing Sysco's ability to navigate diverse market conditions effectively. Despite challenges, the company's strong financial performance and strategic initiatives position it well for continued growth and success in the future.

In summary, Sysco's third-quarter results highlight its resilience, adaptability, and steadfast focus on profitability and shareholder value. The company's disciplined approach to cost management, coupled with its commitment to returning value to shareholders, underscores its strong position in the market and its ability to capitalize on opportunities for growth.

Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$1.76 | \$1.84 | \$2.10 | \$2.34 | \$3.14 | \$3.55 | \$2.01 | \$1.44 | \$3.25 | \$4.01 | \$4.30 | \$6.03 |
| DPS | \$1.15 | \$1.19 | \$1.23 | \$1.30 | \$1.41 | \$1.53 | \$1.74 | \$1.88 | \$1.88 | \$1.96 | \$2.02 | \$2.70 |
| Shares¹ | 590.0 | 597.0 | 577.0 | 549.0 | 529.0 | 523.0 | 514.0 | 514.0 | 513.0 | 513.0 | 513.0 | 513.0 |

Sysco has grown earnings by 3.9% annually over the past five years and earnings growth of 9.6% over the past nine years. Earnings were growing nicely until the COVID-19 pandemic, which caused FY2020 and FY2021 earnings to decrease. Through acquisitions and more recently, the company growth organically, with share buybacks, has increased earnings. Tax cuts and share buybacks have accelerated earnings growth in recent years, but this level of growth will not be permanent. The company is also in the process of cutting overhead costs, which should mildly boost bottom-line growth. We anticipate 7.0% earnings growth over the next five years.

¹ Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|-----------|------|------|------|------|-------|-------|-------|-------|-------|-------|------|------|
| Avg. P/E | 22.1 | 20.8 | 24.9 | 22.2 | 18.70 | 30.80 | 27.20 | 54.00 | 26.50 | 18.50 | 17.5 | 20.0 |
| Avg. Yld. | 3.1% | 3.3% | 2.4% | 2.6% | 2.1% | 2.2% | 3.2% | 2.3% | 2.2% | 2.6% | 2.8% | 2.2% |

Over the past decade, Sysco has averaged a P/E ratio of 26.6x. The company was valued at a lower level in the post-recession years but quickly expanded to maintaining a multiple that fluctuates around 20x in most market conditions. However, we think a fair value multiple estimates to 20x earnings is fair for this company.

Safety, Quality, Competitive Advantage, & Recession Resiliency

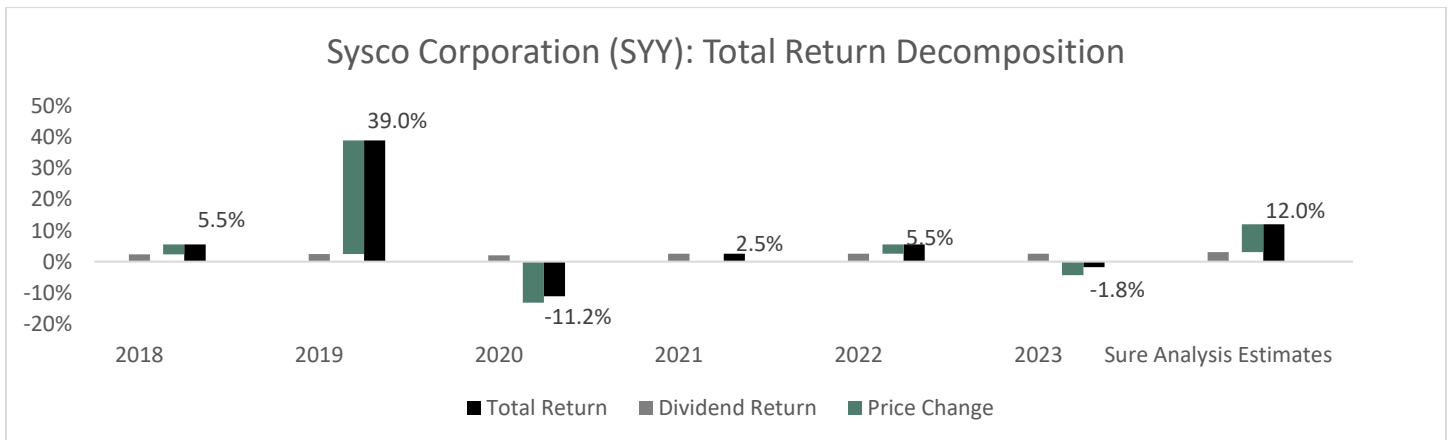
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|-------|-------|-------|-------|-------|-------|-------|------|-------|-------|------|------|
| Payout | 65.3% | 64.7% | 58.6% | 55.6% | 44.9% | 43.1% | 86.6% | 130% | 57.8% | 48.9% | 47% | 45% |

Sysco has an economic moat due to its large-scale and entrenched distribution infrastructure, which gives it a cost advantage over most competitors. This moat is evidenced by the company's double-digit returns on invested capital every year, much higher than its weighted average capital cost. It's also quite defensive; the company was almost unfazed by the previous recession and recovered from a mild earnings dip within one year. Thanks to this stability, Sysco has raised its dividend every year since it went public, and we expect it to continue to grow in the years to come. As one blemish, Sysco's balance sheet is mediocre. The company has a current Debt to Equity ratio of 5.4, which is lower than last report. Sysco's stable cash flows should allow them to service the debt in most environments comfortably, but this leverage level limits the company's ability in the future. Most of this debt increase occurred within the past few years and took part in share buybacks to take advantage of low-interest rates. The company has a BBB credit rating from S&P, which is towards the lower end of the investment grade.

Final Thoughts & Recommendation

Sysco has a moderate-growth business and a long track record of dividend growth. Because the global economy is currently experiencing slowing growth, many defensive companies are priced at a premium, and Sysco is no exception. Its valuation is modestly lower than its long-term average, and the company leverage is also higher than it historically has been. While this is a great business, investors should exercise caution due to the overall market. We expect Sysco to generate 12.0% annual compounded returns as we advance. Thus, we rate the stock a buy.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 46,517 | 48,681 | 50,367 | 55,371 | 58,727 | 60,114 | 52,893 | 51,298 | 68,636 | 76,320 |
| Gross Profit | 8,181 | 8,552 | 9,040 | 10,558 | 11,085 | 11,409 | 9,902 | 9,357 | 12,321 | 13,950 |
| D&A Exp. | 548 | 553 | 663 | 902 | 765 | 764 | 914 | 852 | 881 | 889 |
| Operating Profit | 1,587 | 1,229 | 1,851 | 2,055 | 2,314 | 2,330 | 750 | 1,437 | 2,339 | 3,039 |
| Operating Margin | 3.4% | 2.5% | 3.7% | 3.7% | 3.9% | 3.9% | 1.4% | 2.8% | 3.4% | 4.0% |
| Net Profit | 932 | 687 | 950 | 1,143 | 1,431 | 1,674 | 215 | 524 | 1,359 | 1,770 |
| Net Margin | 2.0% | 1.4% | 1.9% | 2.1% | 2.4% | 2.8% | 0.4% | 1.0% | 2.0% | 2.3% |
| Free Cash Flow | 970 | 1,013 | 1,461 | 1,546 | 1,468 | 1,719 | 898 | 1,433 | 1,158 | 2,074 |
| Income Tax | 544 | 321 | 483 | 624 | 525 | 332 | 78 | 61 | 388 | 515 |

Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 13,141 | 17,989 | 16,722 | 17,757 | 18,070 | 17,967 | 22,628 | 21,414 | 22,086 | 22,820 |
| Cash & Equivalents | 413 | 5,130 | 3,919 | 870 | 552 | 513 | 6,059 | 3,007 | 867 | 745 |
| Acc. Receivable | 3,399 | 3,353 | 3,381 | 4,012 | 4,074 | 4,182 | 2,894 | 3,782 | 4,839 | 5,092 |
| Inventories | 2,602 | 2,692 | 2,639 | 2,996 | 3,125 | 3,216 | 3,095 | 3,695 | 4,437 | 4,481 |
| Goodwill & Int. Ass. | 2,128 | 2,115 | 2,329 | 4,954 | 4,935 | 4,754 | 4,513 | 4,690 | 5,495 | 5,505 |
| Total Liabilities | 7,874 | 12,729 | 13,242 | 15,375 | 15,563 | 15,464 | 21,470 | 19,861 | 20,671 | 20,780 |
| Accounts Payable | 2,831 | 2,882 | 2,936 | 3,971 | 4,136 | 4,315 | 3,447 | 4,885 | 5,753 | 6,026 |
| Long-Term Debt | 2,733 | 7,322 | 7,435 | 8,195 | 8,327 | 8,163 | 14,447 | 11,083 | 10,648 | 10,410 |
| Total Equity | 5,267 | 5,260 | 3,480 | 2,382 | 2,507 | 2,503 | 1,159 | 1,553 | 1,382 | 2,009 |
| LTD/E Ratio | 0.52 | 1.39 | 2.14 | 3.44 | 3.32 | 3.26 | 12.47 | 7.14 | 7.7 | 5.18 |

Profitability & Per Share Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------------|-------|-------|-------|--------|--------|--------|--------|-------|--------|--------|
| Return on Assets | 7.2% | 4.4% | 5.5% | 6.6% | 8.0% | 9.3% | 1.1% | 2.4% | 6.2% | 7.9% |
| Return on Equity | 17.8% | 13.0% | 21.7% | 39.0% | 58.5% | 66.8% | 11.8% | 38.7% | 92.6% | 104% |
| ROIC | 11.6% | 6.7% | 8.1% | 10.6% | 13.4% | 15.6% | 1.6% | 3.7% | 11.0% | 14.4% |
| Shares Out. | 590.0 | 597.0 | 577.0 | 549.0 | 529.0 | 523.0 | 514.0 | 514.0 | 513.0 | 509.7 |
| Revenue/Share | 78.81 | 81.56 | 87.23 | 100.94 | 111.00 | 114.86 | 102.90 | 99.89 | 133.53 | 149.74 |
| FCF/Share | 1.64 | 1.70 | 2.53 | 2.82 | 2.77 | 3.28 | 1.75 | 2.79 | 2.25 | 4.07 |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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