



# Sysco Corporation (SYY)

Updated August 3<sup>rd</sup>, 2024 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$77	<b>5 Year CAGR Estimate:</b>	13.0%	<b>Market Cap:</b>	\$37.7 B
<b>Fair Value Price:</b>	\$92	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	10/05/24
<b>% Fair Value:</b>	83%	<b>5 Year Valuation Multiple Estimate:</b>	3.7%	<b>Dividend Payment Date:</b>	10/27/24
<b>Dividend Yield:</b>	2.7%	<b>5 Year Price Target</b>	\$129	<b>Years Of Dividend Growth:</b>	53
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	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 \$37.7 billion market capitalization.

On July 30<sup>th</sup>, 2024, Sysco reported fourth-quarter results for Fiscal Year (FY)2024. For the fourth quarter, the company saw a 4.2% increase in sales and a 3.5% rise in U.S. Foodservice volume. Gross profit grew by 4.2% to \$3.8 billion, and operating income increased by 1.2% to \$977 million, with adjusted operating income climbing 6.4% to \$1.1 billion. However, EBITDA decreased by 7.7% to \$1.2 billion, while adjusted EBITDA went up by 5.4% to \$1.3 billion. Earnings per share (EPS) fell by 14.6% to \$1.23, whereas adjusted EPS rose by 3.7% to \$1.39.

For the full fiscal year 2024, Sysco's sales increased by 3.3%, with U.S. Foodservice volume growing by 3.1% and local volumes by 1.1%. The gross profit for the year rose by 4.7% to \$14.6 billion. Operating income saw a 5.4% increase to \$3.2 billion, and adjusted operating income increased by 8.4% to \$3.5 billion. EBITDA improved by 12.7% to \$4.0 billion, and adjusted EBITDA grew by 9.0% to \$4.2 billion. EPS increased by 12.1% to \$3.89, while adjusted EPS went up by 7.5% to \$4.31. Cash flow from operations increased by 4.2% to \$3.0 billion, and free cash flow rose by 5.6% to \$2.2 billion.

Sysco's CEO, Kevin Hourican, highlighted the company's market share gains, profit growth, and substantial cash flow during the quarter and fiscal year. He acknowledged the team's focus on core business drivers and strategic initiatives, noting a significant improvement in the international business segment with a 19.4% increase in operating income and a 23.6% rise in adjusted operating income for the year. Sysco also returned approximately \$2.2 billion to shareholders through share repurchases and dividends, reflecting the company's strong financial performance and commitment to shareholder value.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$1.84	\$2.10	\$2.34	\$3.14	\$3.55	\$2.01	\$1.44	\$3.25	\$4.01	\$4.31	<b>\$4.60</b>	<b>\$6.45</b>
<b>DPS</b>	\$1.19	\$1.23	\$1.30	\$1.41	\$1.53	\$1.74	\$1.88	\$1.88	\$1.96	\$2.00	<b>\$2.09</b>	<b>\$2.80</b>
<b>Shares<sup>1</sup></b>	597.0	577.0	549.0	529.0	523.0	514.0	514.0	513.0	513.0	501.0	<b>501.0</b>	<b>501.0</b>

Sysco has grown earnings by 18% annually over the past five years and earnings growth of 9.9% 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.

<sup>1</sup> Share count is in millions.

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## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	20.8	24.9	22.2	18.7	30.80	27.20	54.00	26.50	18.50	16.60	<b>16.7</b>	<b>20.0</b>
Avg. Yld.	3.3%	2.4%	2.6%	2.1%	2.2%	3.2%	2.3%	2.2%	2.6%	2.8%	<b>2.7%</b>	<b>2.2%</b>

Over the past decade, Sysco has averaged a P/E ratio of 26.0x. 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

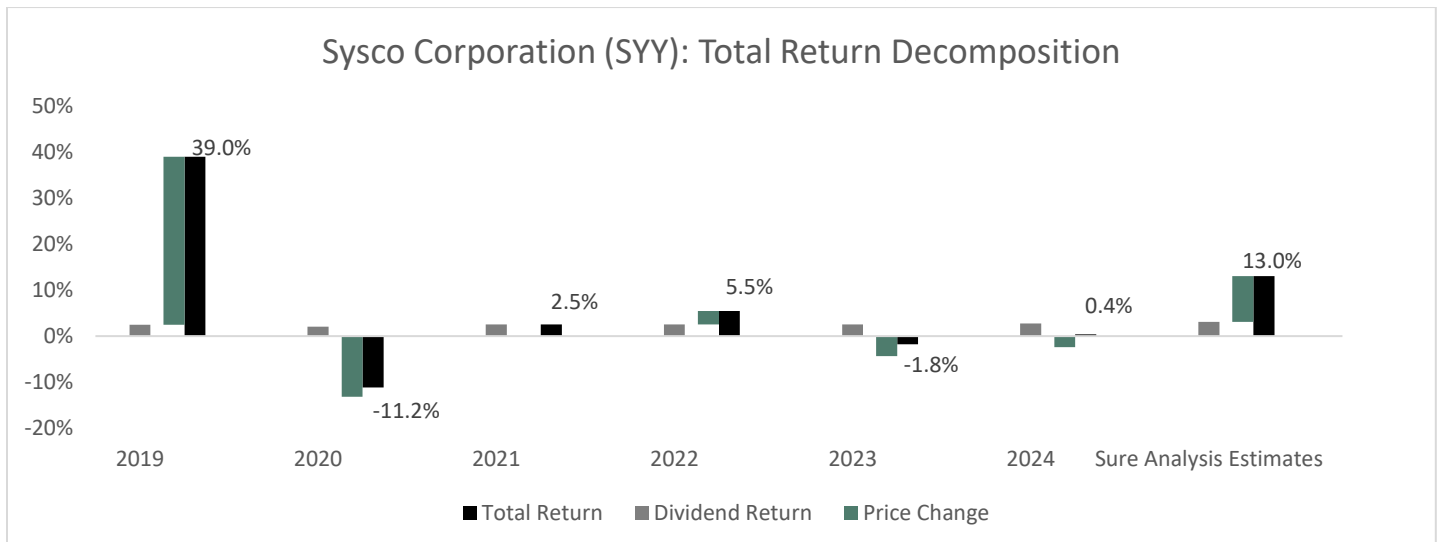
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	64.7%	58.6%	55.6%	44.9%	43.1%	86.6%	131%	57.8%	48.9%	46.4%	<b>45%</b>	<b>43%</b>

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 6.2, which is higher 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 13.0% 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Revenue</b>	48,681	50,367	55,371	58,727	60,114	52,893	51,298	68,636	76,320	78840
<b>Gross Profit</b>	8,552	9,040	10,558	11,085	11,409	9,902	9,357	12,321	13,950	14610
<b>D&amp;A Exp.</b>	553	663	902	765	764	914	852	881	889	997
<b>Operating Profit</b>	1,229	1,851	2,055	2,314	2,330	750	1,437	2,339	3,039	3202
<b>Operating Margin</b>	2.5%	3.7%	3.7%	3.9%	3.9%	1.4%	2.8%	3.4%	4.0%	4.1%
<b>Net Profit</b>	687	950	1,143	1,431	1,674	215	524	1,359	1,770	1955
<b>Net Margin</b>	1.4%	1.9%	2.1%	2.4%	2.8%	0.4%	1.0%	2.0%	2.3%	2.5%
<b>Free Cash Flow</b>	1,013	1,461	1,546	1,468	1,719	898	1,433	1,158	2,074	2157
<b>Income Tax</b>	321	483	624	525	332	78	61	388	515	610

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Total Assets</b>	17,989	16,722	17,757	18,070	17,967	22,628	21,414	22,086	22,820	24920
<b>Cash &amp; Equivalents</b>	5,130	3,919	870	552	513	6,059	3,007	867	745	696
<b>Acc. Receivable</b>	3,353	3,381	4,012	4,074	4,182	2,894	3,782	4,839	5,092	5324
<b>Inventories</b>	2,692	2,639	2,996	3,125	3,216	3,095	3,695	4,437	4,481	4678
<b>Goodwill &amp; Int. Ass.</b>	2,115	2,329	4,954	4,935	4,754	4,513	4,690	5,495	5,505	6341
<b>Total Liabilities</b>	12,729	13,242	15,375	15,563	15,464	21,470	19,861	20,671	20,780	23030
<b>Accounts Payable</b>	2,882	2,936	3,971	4,136	4,315	3,447	4,885	5,753	6,026	6290
<b>Long-Term Debt</b>	7,322	7,435	8,195	8,327	8,163	14,447	11,083	10,648	10,410	11980
<b>Total Equity</b>	5,260	3,480	2,382	2,507	2,503	1,159	1,553	1,382	2,009	1860
<b>LTD/E Ratio</b>	1.39	2.14	3.44	3.32	3.26	12.47	7.14	7.7	5.18	6.44

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Return on Assets</b>	4.4%	5.5%	6.6%	8.0%	9.3%	1.1%	2.4%	6.2%	7.9%	8.2%
<b>Return on Equity</b>	13.0%	21.7%	39.0%	58.5%	66.8%	11.8%	38.7%	92.6%	104%	99.4%
<b>ROIC</b>	6.7%	8.1%	10.6%	13.4%	15.6%	1.6%	3.7%	11.0%	14.4%	14.9%
<b>Shares Out.</b>	597.0	577.0	549.0	529.0	523.0	514.0	514.0	513.0	509.7	503.1
<b>Revenue/Share</b>	81.56	87.23	100.94	111.00	114.86	102.90	99.89	133.53	149.74	156.72
<b>FCF/Share</b>	1.70	2.53	2.82	2.77	3.28	1.75	2.79	2.25	4.07	4.29

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

### Disclaimer

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