



Sysco Corporation (SYY)

Updated November 20th, 2024 by Felix Martinez

Key Metrics

Current Price:	\$74	5 Year CAGR Estimate:	13.8%	Market Cap:	\$36.6 B
Fair Value Price:	\$91	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	01/03/25
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.4%	Dividend Payment Date:	01/24/25
Dividend Yield:	2.7%	5 Year Price Target	\$128	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 \$36.6 billion market capitalization.

On October 31st, 2024, Sysco reported first-quarter results for Fiscal Year (FY)2025. The company reported a strong first quarter for fiscal year 2024, with notable growth in sales, profitability, and shareholder returns. Sales increased by 2.6% year-over-year to \$19.6 billion, driven by a 1.6% growth in U.S. Foodservice volume. Gross profit rose 4.6% to \$3.6 billion, supported by effective management of product cost inflation and strategic sourcing initiatives. Operating income improved by 9.1% to \$803.6 million, while adjusted operating income grew 10.6% to \$854.3 million. The company returned \$352.9 million to shareholders through share repurchases and dividends, aiming for a total shareholder return of \$1.75 billion in FY 2024. The U.S. Foodservice segment maintained steady growth, with sales rising to \$13.7 billion, a 0.9% increase from the prior year. Total case volume expanded 1.6%, although local case volume declined slightly by 0.1%. Gross profit for the segment climbed 2.8% to \$2.7 billion, with operating income up 3.9% to \$941.0 million. International operations showed stronger performance, with sales surging 12.2% to \$3.7 billion, bolstered by favorable foreign exchange rates and a constant currency increase of 9%. Gross profit grew 12.7% to \$732.0 million, with adjusted operating income rising 8.7% to \$116.2 million.

Sysco's balance sheet and cash flow metrics reflected ongoing investments and seasonal trends. The company ended the quarter with \$569.1 million in cash, but free cash flow was negative at \$73.2 million due to working capital timing. Capital expenditures totaled \$160.4 million for the quarter. Despite these short-term impacts, Sysco remains optimistic about achieving its fiscal year 2024 guidance, projecting mid-single-digit sales growth to approximately \$80 billion and adjusted EPS growth between 5% and 10%. CEO Kevin Hourican highlighted the company's focus on supply chain efficiency, structural cost reductions, and its Recipe for Growth strategy, including the planned acquisition of Edward Don & Company to enhance its product offerings.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$1.84	\$2.10	\$2.34	\$3.14	\$3.55	\$2.01	\$1.44	\$3.25	\$4.01	\$4.31	\$4.56	\$6.40
DPS	\$1.19	\$1.23	\$1.30	\$1.41	\$1.53	\$1.74	\$1.88	\$1.88	\$1.96	\$2.00	\$2.07	\$2.77
Shares¹	597.0	577.0	549.0	529.0	523.0	514.0	514.0	513.0	513.0	501.0	501.0	501.0

Sysco has grown earnings by 17.8% 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

¹ Share count is in millions.

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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.

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	16.1	20.0
Avg. Yld.	3.3%	2.4%	2.6%	2.1%	2.2%	3.2%	2.3%	2.2%	2.6%	2.8%	2.7%	2.2%

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

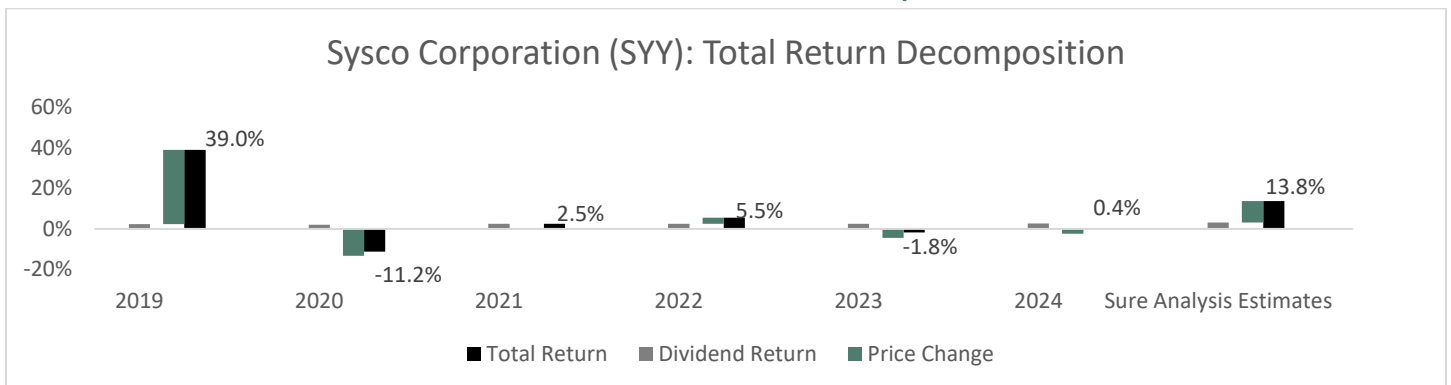
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	64.7%	58.6%	55.6%	44.9%	43.1%	86.6%	131%	57.8%	48.9%	46.4%	45%	43%

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 13.8% 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
Revenue	48,681	50,367	55,371	58,727	60,114	52,893	51,298	68,636	76,320	78840
Gross Profit	8,552	9,040	10,558	11,085	11,409	9,902	9,357	12,321	13,950	14610
D&A Exp.	553	663	902	765	764	914	852	881	889	997
Operating Profit	1,229	1,851	2,055	2,314	2,330	750	1,437	2,339	3,039	3202
Operating Margin	2.5%	3.7%	3.7%	3.9%	3.9%	1.4%	2.8%	3.4%	4.0%	4.1%
Net Profit	687	950	1,143	1,431	1,674	215	524	1,359	1,770	1955
Net Margin	1.4%	1.9%	2.1%	2.4%	2.8%	0.4%	1.0%	2.0%	2.3%	2.5%
Free Cash Flow	1,013	1,461	1,546	1,468	1,719	898	1,433	1,158	2,074	2157
Income Tax	321	483	624	525	332	78	61	388	515	610

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	17,989	16,722	17,757	18,070	17,967	22,628	21,414	22,086	22,820	24920
Cash & Equivalents	5,130	3,919	870	552	513	6,059	3,007	867	745	696
Acc. Receivable	3,353	3,381	4,012	4,074	4,182	2,894	3,782	4,839	5,092	5324
Inventories	2,692	2,639	2,996	3,125	3,216	3,095	3,695	4,437	4,481	4678
Goodwill & Int. Ass.	2,115	2,329	4,954	4,935	4,754	4,513	4,690	5,495	5,505	6341
Total Liabilities	12,729	13,242	15,375	15,563	15,464	21,470	19,861	20,671	20,780	23030
Accounts Payable	2,882	2,936	3,971	4,136	4,315	3,447	4,885	5,753	6,026	6290
Long-Term Debt	7,322	7,435	8,195	8,327	8,163	14,447	11,083	10,648	10,410	11980
Total Equity	5,260	3,480	2,382	2,507	2,503	1,159	1,553	1,382	2,009	1860
LTD/E Ratio	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
Return on Assets	4.4%	5.5%	6.6%	8.0%	9.3%	1.1%	2.4%	6.2%	7.9%	8.2%
Return on Equity	13.0%	21.7%	39.0%	58.5%	66.8%	11.8%	38.7%	92.6%	104%	99.4%
ROIC	6.7%	8.1%	10.6%	13.4%	15.6%	1.6%	3.7%	11.0%	14.4%	14.9%
Shares Out.	597.0	577.0	549.0	529.0	523.0	514.0	514.0	513.0	509.7	503.1
Revenue/Share	81.56	87.23	100.94	111.00	114.86	102.90	99.89	133.53	149.74	156.72
FCF/Share	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.

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