

Sysco Corporation (SY)Y

\$53.29 (As of 05/08/20)

Price Target (6-12 Months): **\$45.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 05/07/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: C

Summary

Sysco has lagged the industry in the past three months. The stock was hit further following the company's dismal third-quarter fiscal 2020 results, wherein top and the bottom lines fell year over year. Results were hurt by soft volumes in the food-away-from-home channel due to the coronavirus outbreak. Increased social distancing has largely dented the company's restaurant, education and hospitality customer segments. Nonetheless, Sysco has been focused on tapping other opportunities like catering to grocers and retailers as well as entering into supply-chain and labor-sharing contracts. Also, its digital investments are aiding. Further, Sysco is enhancing liquidity and cutting costs to stay firm amid the crisis. However, these efforts are likely to offer only partial cushion from weak volumes in the fourth quarter.

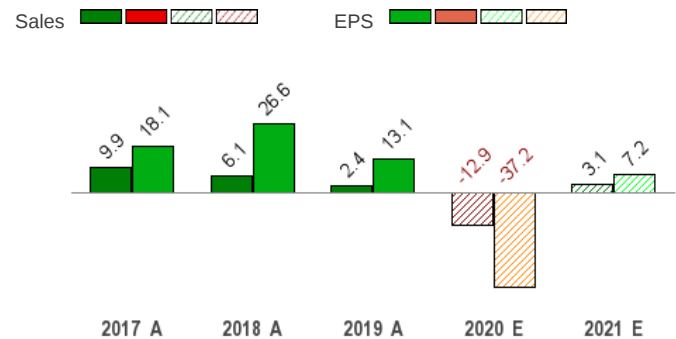
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$85.98 - \$26.00
20 Day Average Volume (sh)	5,506,400
Market Cap	\$27.1 B
YTD Price Change	-37.7%
Beta	1.15
Dividend / Div Yld	\$1.80 / 3.4%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 11% (27 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-15.1%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	-3.8%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	15.8
P/E F1	23.9
PEG F1	2.4
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	11,666 E	13,207 E	14,546 E	13,093 E	54,000 E
2020	15,303 A	15,025 A	13,699 A	8,226 E	52,363 E
2019	15,215 A	14,766 A	14,658 A	15,475 A	60,114 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.38 E	\$0.56 E	\$0.81 E	\$0.88 E	\$2.39 E
2020	\$0.98 A	\$0.85 A	\$0.45 A	-\$0.23 E	\$2.23 E
2019	\$0.91 A	\$0.75 A	\$0.79 A	\$1.10 A	\$3.55 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/08/2020. The reports text is as of 05/11/2020.

Overview

Headquartered in Houston, TX, **Sysco Corporation**, through its subsidiaries, markets and distributes a range of food and related products primarily to the foodservice or food-away-from-home industry. The company provides products and related services to approximately 425,000 customers, including restaurants, health care and educational facilities, lodging establishments and other foodservice customers.

The company's distribution facilities are located throughout the United States, Bahamas, Canada, Republic of Ireland and Northern Ireland. In fiscal 2017 that ended July 1, 2017, the company generated sales of more than \$55 billion.

In the foodservice industry, Sysco caters to restaurants, hospitals and nursing homes, hotels and motels, schools and colleges and industrial caterers among others. Some of the products distributed by the company include a full line of canned and dry foods; beverage products; fresh meat and sea foods; imported specialties; a full line of frozen foods (like meat, fruits, vegetables, desserts) and more.

Additionally, Sysco supplies non-food items like paper products (disposable plates, napkins etc), cookware (pots and utensils), cleaning supplies, restaurant and kitchen supplies and tableware (like silverware).

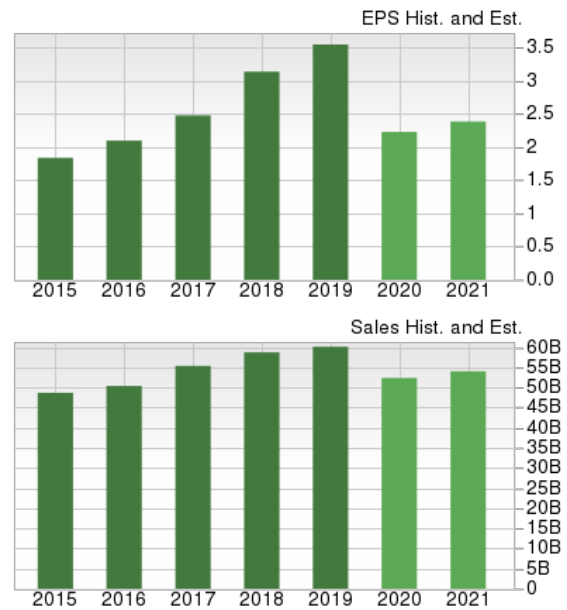
The company reports through these operating segments:

U.S. Foodservice Operations primarily includes U.S. broadline operations, Specialty Meat and FreshPoint (the specialty produce companies). In third-quarter fiscal 2020, the segment contributed 69.9% to total revenues.

International Foodservice Operations, which includes Canada, Europe, Bahamas, International Food Group, and the joint ventures in Mexico and Costa Rica. In third-quarter fiscal 2020, the segment contributed 18.3% to total revenues.

SYGMA: The company's customized distribution subsidiary.

Other: This mainly includes hotel supply operations and Sysco Labs.



Reasons To Sell:

▼ **COVID-19 Hurts Q3 Results, Stock Underperforms:** Shares of Sysco have slumped 30.5% in the past three months compared with the industry's decline of 25.2%. The stock was hit further following the company's dismal third-quarter fiscal 2020 results, wherein both top and bottom lines decreased year over year and earnings missed the Zacks Consensus Estimate. Results in both the U.S. Foodservice and International Foodservice segments were hurt by coronavirus-related hurdles. Lower volumes in the food-away-from-home channel have been a deterrent. Increased social distancing had a considerable adverse impact on the company's restaurant, education and hospitality customer segments.

Though Sysco is undertaking solid efforts to aid revenues through other channels, volume declines in the food-away-from-home space are not likely to be offset. Further, management expects sales volume declines in the fourth quarter of fiscal 2020 to be greater than the planned cost reductions. We believe that this is likely to keep the bottom line under pressure.

▼ **Increased Costs in the U.S. Foodservice Unit:** Sysco has been encountering cost-related headwinds for a while, especially in the U.S. Foodservice unit. During the third quarter of fiscal 2020, the U.S. Foodservice unit was hurt by food-cost inflation of nearly 1.3% in U.S. Broadline, particularly in categories like meat and dairy. Also, adjusted operating expenses rose 1.4% while the adjusted operating income declined 17.1% to \$636.7 million. We note that food cost inflation and adjusted higher operating expenses have been hurdles for quite some time now. Persistence of these elevated costs poses threats to margins.

▼ **Unfavorable Currency Translations:** Sysco generates solid business from its international operations, which are spread across Canada, Europe and Latin America. Evidently, sales from its International Foodservice operations constituted roughly 18.2% of the company's total revenues in the third quarter. Thus, the company remains prone to the risk of unfavorable currency translations. Foreign exchange fluctuations negatively impacted International segment sales by 1.3% during the third quarter.

▼ **Stiff Competition:** Sysco operates in a highly fragmented and competitive foodservice distribution industry. Thus, the company faces competition from various local, regional, multi-regional distributors and specialty players on grounds of lower cost advantage, pricing, product assortment, geographic reach and responsiveness to changing consumer needs among others.

Sysco has been encountering cost-related headwinds for a while. Also, foreign exchange fluctuations hurt International segment sales by 1.3% during the quarter.

Risks

- **Debt Analysis & Efforts to Enhance Liquidity:** Although Sysco's long-term debt rose 22% sequentially to \$10,566.4 million as of the end of the third quarter of fiscal 2020 (Mar 28, 2020), its cash and cash equivalents of \$2,240.8 million are sufficient to fund its short-term debt (including operating lease liabilities) of \$930.6 million. Further, the company had borrowings worth \$1.7 billion remaining under its \$2-billion revolving credit facility as of Mar 28. During its earnings call, Sysco informed that it had a strong balance sheet even before the outbreak of coronavirus and it has undertaken several measures to solidify its cash position even further. This is likely to help Sysco ensure liquidity, stay firm amid the crisis and even make investments in inventory and other services when customers' demand shifts back to foodservice. Notably, Sysco has cash and available liquidity of above \$6 billion.

Further, the company is committed to eliminating costs and better align with lower business volumes. In this regard, the company has removed expenses of more than \$500 million in the fourth quarter of fiscal 2020, which includes staff reductions through temporary furloughs and permanent removals. Further, the company is focused on lowering transport costs and enhancing productivity. It expects to see gains from such expense control efforts in the fourth quarter, though they are likely to be more than countered by lower sales volume. Permanent changes from these initiatives are expected to generate an annualized gain of about \$300 million.

- **Ways to Tap Other Opportunities Amid Crisis:** Sysco serves a wide spectrum of the foodservice space, with about half of the consumption coming from the away-from-home channel in the United States. As a significant chunk of the business has been hurt by reduced away-from-home sales amid the coronavirus crisis, the company has turned its distribution model to areas it didn't essentially cater to before the pandemic. These include grocers, retailers and supply-chain contracts. Incidentally, the company is working with some of the best retailers to address customers' needs through supply-chain as well as labor service deals. To this end, Sysco is offering supply-chain service deals like carrier services, cross-docking and freight brokerage, thanks to its solid transportation fleet and logistic capacity. Also, the company has inked temporary labor-sharing contracts with some retailers for its furloughed workers.

On the sales front, Sysco has been shifting sales to national and regional retailers, which will cater to the growing demand at retail stores. Notably, the company is collaborating with government agencies like DEFRA (in the UK), as well as USDA and FEMA (in the United States) to offer food to communities in need. Apart from this, Sysco has shipped truckloads of protein, fresh product and bulk consumables to certain retail partners. The company is also supporting healthcare customers by arranging for deliveries of important items like PPE to hospitals, urgent care facilities and long-term care facilities. Markedly, Sysco's healthcare segment sales have jumped about 15-20%. Apart from this, the company's digital investments, like its Shop platform, bode well. The company has started rolling out direct-to-consumer sales in untapped business areas. The company's focus on diversifying its business lines is likely to offer some cushion from lower volumes amid the crisis.

- **Acquisitions Driving Growth:** The company has been carrying out various acquisitions over the years to grow its distribution network and customer base and boost long-term growth. To this end, Sysco announced the buyout of J. Kings Food Service Professionals in August 2019. Prior to this, the company took over sister firms J & M Wholesale Meats and Imperio Foods in April. These are strengthening Sysco's distribution network.

Other evidences in this regard include the takeovers of HFM in Hawaii, Doerle Food Service in Louisiana and Kent Frozen Foods in the U.K. Also, the company inked a small deal in Sweden and bought the remaining 50% stake in Mayca Distribuidores of Costa Rica. Previous moves in this regard include the buyout Supplies on the Fly; North Star Seafood, Gilchrist & Soames and 50% stake in Mexico-based Pacific Star Foodservice among others.

- **Strong Business Portfolio:** Sysco has a portfolio of businesses which comprise broadline, specialty meat, chain restaurant distribution, specialty produce, hotel amenities, as well as specialty import and export which serve customers across a wide array of business segments. The company also has a sales force of marketing associates and multi-regional presence in the United States and Canada. We believe that the company's efforts to explore opportunities to provide new and improved products, technologies and services to its customers will help it to retain customers and profitably accelerate sales from both existing and new customers. Further, the company's continued focus on providing value to its local customers through innovative product offerings, value-added services, and improved e-commerce capabilities has enabled growth with local customers consistently.
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Last Earnings Report

Sysco's Earnings Miss Estimates in Q3, Sales Down

Sysco reported third-quarter fiscal 2020 results, with the top and the bottom lines declining year over year. Further, earnings missed the Zacks Consensus Estimate, while sales beat the same. Adjusted earnings of 45 cents per share fell 43% year over year and lagged the Zacks Consensus Estimate of 53 cents. The year-over-year upside can be attributed to reduced sales and margins.

This global food products maker and distributor reported sales of \$13,699 million, which declined 6.5% year over year thanks to the coronavirus outbreak. Nevertheless, the figure surpassed the Zacks Consensus Estimate of \$13,606 million. Foreign currency headwinds had an adverse impact of about 0.2% on the top line.

Gross profit in the quarter declined 6.9% to \$2,564.2 million, owing to the coronavirus pandemic. Further, gross margin contracted 7 basis points (bps) to 18.72%. Foreign currency headwinds had an adverse impact of about 0.3% on the gross profit.

Adjusted operating income fell 39.2% to \$377 million, while adjusted operating margin contracted 148 bps to 2.75%.

Segment Details

U.S. Foodservice Operations: During the quarter, segment sales declined 5.1% to \$9,587 million. Local case volumes within U.S. Broadline operations fell 4.1% (including organic sales decline of 5.2%) and total case volumes dropped 5.2% (wherein organic sales declined 5.8%). Gross profit rose 5.7% to \$1,895.4 million, while gross margin contracted 11 bps to 19.8%.

Results were negatively impacted by food-cost inflation of 1.3% in U.S. Broadline, particularly in categories like meat and dairy. Adjusted operating expenses increased 1.4% while the adjusted operating income declined 17.1% to \$636.7 million.

International Foodservice Operations: Segment sales declined 9% to \$2,508.6 million in the quarter. Foreign exchange fluctuations hurt segment sales by 1.3% during the quarter. On a constant-currency (cc) basis, sales fell 7.8%.

At cc, gross profit declined 10% to \$508.5 million and gross margin fell 50 bps to 19.99%. Currency headwinds put pressure on the segment's gross profit by 1.3%.

Adjusted operating expense declined 2.2% and the adjusted operating income decreased 91.4% to \$5 million. Operating income in the segment was positively impacted by currency movements to the tune of 2.1%. At cc, adjusted operating income declined 93.5% to \$3.8 million.

Other Updates

Sysco ended the quarter with cash and cash equivalents of \$2,240.8million, long-term debt of \$10,023.3 million and total shareholders' equity of \$2,028.9 million.

During 39-Week ended Mar 28, the company generated cash flow from operations of \$1,078.5 million and incurred net capital expenditures of \$224.1 million. Free cash flow amounted to \$487.8 million.

Quarter Ending 03/2020

Report Date	May 05, 2020
Sales Surprise	0.68%
EPS Surprise	-15.09%
Quarterly EPS	0.45
Annual EPS (TTM)	3.38

Recent News

Sysco Boosts Financial Strength, Withdraws View Amid COVID-19 – March 20, 2020

Sysco provided a updates in connection with the novel coronavirus. Management stated that Sysco has sufficient financial flexibility to sail through the pandemic-led challenges. The company had cash worth about \$2 billion as of March 20, including recent withdrawal of \$1.5 billion under its revolving credit facility.

Apart from this, Sysco is making efforts to boost financial strength, by curtailing variable costs, undertaking efficient inventory alignment as per the current situation and cutting capital expenditure. Also, the company is adopting new methods to augment revenue by utilizing supply-chain expertise to offer services to the retail grocery space. This will help counter some declines in the food-away-from-home segment.

Simultaneously, Sysco withdrew its guidance for the period fiscal 2018-20 owing to the growing spread of COVID-19 and its uncertain impact.

Sysco Declares Dividend – Feb 28, 2020

Sysco announced a quarterly cash dividend of 45 cents per share, payable on Apr 24, 2020 to shareholders of record as on Apr 3.

Valuation

Sysco shares are down 36.7% in the year-to-date period and 25.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 38.9 and 14.8%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry and the sector went down 27% and 8.1%, respectively.

The S&P 500 index is down 8.3% in the year-to-date period and up 6.3% in the past year.

The stock is currently trading at 22.52X forward 12-month earnings, which compares to 17.96X for the Zacks sub-industry, 18.91X for the Zacks sector and 21.16X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.17X and as low as 7.81X, with a 5-year median of 19.73X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$45 price target reflects 19.02X forward 12-month earnings.

The table below shows summary valuation data for SY

Valuation Multiples - SY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	22.52	17.96	18.91	21.16
	5-Year High	23.17	22.9	22.37	21.16
	5-Year Low	7.81	14.82	16.5	15.19
	5-Year Median	19.73	18.87	19.68	17.44
P/S F12M	Current	0.5	1.61	8.85	3.3
	5-Year High	0.7	2.05	11.16	3.44
	5-Year Low	0.25	1.41	8.1	2.54
	5-Year Median	0.53	1.81	9.89	3.01
EV/EBITDA F12M	Current	8.37	13.82	34.16	12.29
	5-Year High	13.59	16.59	37.75	12.64
	5-Year Low	7.26	11.67	29.77	9.09
	5-Year Median	10.94	13.24	34.08	10.82

As of 05/08/2020

Industry Analysis Zacks Industry Rank: Top 11% (27 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Campbell Soup Company (CPB)	Outperform	2
Conagra Brands Inc (CAG)	Neutral	2
General Mills Inc (GIS)	Neutral	2
The Kraft Heinz Company (KHC)	Neutral	2
Mondelez International Inc (MDLZ)	Neutral	3
Post Holdings Inc (POST)	Neutral	3
TreeHouse Foods Inc (THS)	Neutral	1
United Natural Foods Inc (UNFI)	Neutral	2

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	SYN	X Industry	S&P 500	CPB	KHC	UNFI
Zacks Recommendation (Long Term)	Underperform	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	2	2	2
VGM Score	C	-	-	A	D	A
Market Cap	27.05 B	3.59 B	20.19 B	15.47 B	36.12 B	641.27 M
# of Analysts	4	3	14	7	7	4
Dividend Yield	3.38%	0.00%	2.12%	2.73%	5.41%	0.00%
Value Score	B	-	-	A	B	A
Cash/Price	0.02	0.05	0.06	0.00	0.15	0.07
EV/EBITDA	11.77	12.96	11.95	14.25	13.22	15.98
PEG Ratio	2.41	3.74	2.60	2.56	2.11	NA
Price/Book (P/B)	13.33	2.18	2.75	6.19	0.71	0.58
Price/Cash Flow (P/CF)	10.37	12.51	10.78	13.52	8.64	0.97
P/E (F1)	23.90	18.35	19.85	18.35	12.64	9.04
Price/Sales (P/S)	0.45	1.15	2.03	1.86	1.43	0.03
Earnings Yield	4.18%	5.01%	4.83%	5.44%	7.92%	11.04%
Debt/Equity	5.21	0.64	0.75	1.97	0.62	3.59
Cash Flow (\$/share)	5.14	2.68	7.01	3.79	3.42	12.27
Growth Score	C	-	-	B	F	A
Hist. EPS Growth (3-5 yrs)	17.81%	5.03%	10.87%	-1.52%	0.09%	-6.43%
Proj. EPS Growth (F1/F0)	-37.18%	-0.31%	-9.87%	21.43%	-17.94%	-36.42%
Curr. Cash Flow Growth	7.68%	5.12%	5.88%	-12.42%	-15.53%	151.75%
Hist. Cash Flow Growth (3-5 yrs)	10.66%	5.35%	8.55%	0.50%	11.14%	30.00%
Current Ratio	1.49	1.75	1.24	0.61	1.48	1.68
Debt/Capital	83.93%	39.19%	44.23%	66.31%	38.15%	78.20%
Net Margin	2.30%	4.20%	10.68%	17.46%	7.58%	-1.38%
Return on Equity	73.70%	10.75%	16.36%	50.69%	6.54%	5.86%
Sales/Assets	3.10	1.13	0.55	0.64	0.24	3.25
Proj. Sales Growth (F1/F0)	-12.89%	0.00%	-2.26%	-8.43%	-0.14%	14.30%
Momentum Score	C	-	-	D	D	D
Daily Price Chg	1.93%	1.89%	2.40%	2.03%	2.53%	13.36%
1 Week Price Chg	-0.60%	0.00%	0.53%	-0.67%	0.51%	-6.43%
4 Week Price Chg	7.46%	5.83%	2.68%	7.35%	5.16%	19.72%
12 Week Price Chg	-31.63%	-6.69%	-19.20%	6.00%	6.45%	52.55%
52 Week Price Chg	-27.55%	-7.84%	-8.44%	31.57%	-9.27%	0.76%
20 Day Average Volume	5,506,400	222,356	2,398,409	2,165,722	6,435,319	1,367,584
(F1) EPS Est 1 week change	11.78%	0.00%	0.00%	-1.06%	0.53%	0.00%
(F1) EPS Est 4 week change	-3.78%	0.00%	-6.95%	3.38%	3.19%	7.30%
(F1) EPS Est 12 week change	-41.21%	-8.84%	-15.68%	10.24%	-6.22%	5.59%
(Q1) EPS Est Mthly Chg	-274.36%	0.00%	-13.12%	1.60%	-0.89%	31.78%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	C
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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