

Sysco Corporation (SY) (SY)

\$78.21 (As of 02/14/20)

Price Target (6-12 Months): **\$83.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/18/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: F

Summary

Sysco's shares have outpaced the industry in the past six months, backed by strength of its U.S. Foodservice operations, wherein local case volumes rose for the 23rd straight time in second-quarter fiscal 2020. The company is also gaining from its strategies for 2020, which include enhancing consumers' experience, optimizing business, stimulating power of its people and achieving operational efficacy. These upsides helped the company deliver top and bottom-line growth in the second quarter. Also, these efforts should provide cushion against rising costs and international unit challenges. During the quarter, the U.S. Foodservice unit saw high labor and food costs. Moreover, the international unit was hurt by currency woes, soft sales in Canada and headwinds in France, which are expected to continue in the fiscal.

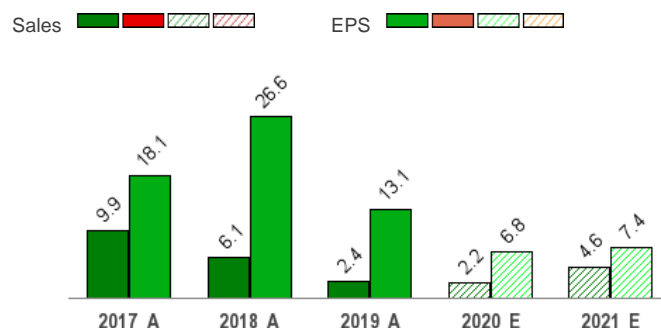
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$85.98 - \$65.24
20 Day Average Volume (sh)	2,643,935
Market Cap	\$39.8 B
YTD Price Change	-8.6%
Beta	0.48
Dividend / Div Yld	\$1.80 / 2.3%
Industry	Food - Miscellaneous
Zacks Industry Rank	Bottom 36% (164 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.2%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	-0.6%
Expected Report Date	NA
Earnings ESP	-2.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	15,979 E	15,658 E	15,781 E	17,542 E	64,212 E
2020	15,303 A	15,025 A	15,099 E	15,990 E	61,417 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	\$1.03 E	\$0.89 E	\$0.89 E	\$1.33 E	\$4.07 E
2020	\$0.98 A	\$0.85 A	\$0.82 E	\$1.14 E	\$3.79 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.

P/E TTM	21.0
P/E F1	20.6
PEG F1	2.1
P/S TTM	0.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/14/2020. The reports text is as of 02/17/2020.

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).

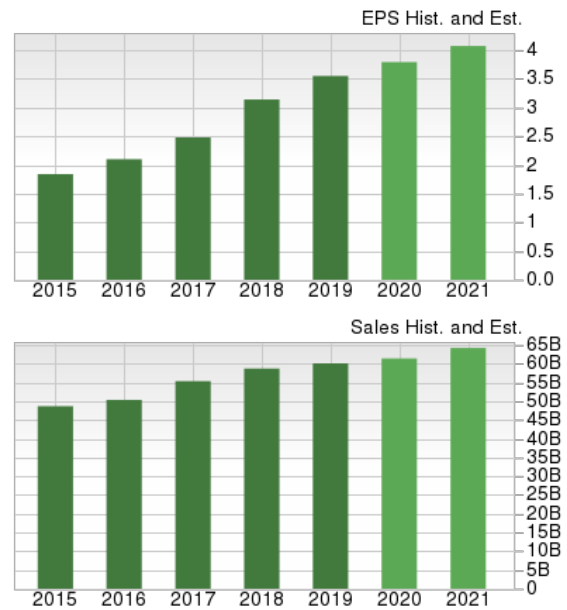
The company reports through these operating segments:

U.S. Foodservice Operations primarily includes U.S. broadline operations, Specialty Meat and FreshPoint (the specialty produce companies). In second-quarter fiscal 2020, the segment contributed 69.3% to total revenues.

International Foodservice Operations, which includes Canada, Europe, Bahamas, International Food Group, and the joint ventures in Mexico and Costa Rica. In second-quarter fiscal 2020, the segment contributed 19.2% to total revenues.

SYGMA: The company's customized distribution subsidiary.

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



Reasons To Buy:

- ▲ **U.S. Foodservice Unit a Major Strength for the Stock:** Sysco's U.S. Foodservice unit has been performing well for quite some time now. This has helped shares of the company gain 6.2% in the past six months compared with the industry's growth of 4.3%. The robust trend continued in second-quarter fiscal 2020, wherein sales advanced year over year.

During the quarter, sales in this division advanced 3.2% to \$10,413.6 million. Local case volumes within U.S. Broadline operations grew 3.7% (including organic sales growth of 2.5%) and total case volumes 2% (wherein organic sales increased 1.3%). Notably, local case volumes in this segment have been rising year over year for 23 consecutive quarters now. Clearly, a favorable economic scenario marked by a strong labor market is likely to continue working in favor of restaurant sales, thereby boosting the U.S. Foodservice segment.

Sysco's four core strategies include enhancing consumers' experience; optimizing business; stimulating power of its people and achieving operational efficacy.

- ▲ **Strategies for 2020 Bode Well:** Sysco outlined its key growth strategies at New York Investor Day event in December 2017, wherein it also highlighted its three-year financial goals. Sysco's four core strategies include enhancing consumers' experience; optimizing business; stimulating power of its people and achieving operational efficacy. In this regard, the company remains focused on enhancing assortments, making constant innovations, ensuring food safety and revitalizing brands. Notably, Sysco's decision to sell its Iowa Premium cattle processing business will help it focus on core areas with greater growth potential.

Further, to evolve with the changing consumer preferences, Sysco remains committed toward investing in technology and enhancing e-commerce operations. To this end, the company witnessed continued increase in the use of its digital ordering platform. Also, it is focused on enhancing its customer-facing tools like a fresh delivery app and other enrichments on its digital shopping platform. Coming back to the strategic priorities, Sysco plans to improve supply chain, increase transparency, enhance deliveries and manage product costs effectively.

- ▲ **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 on Aug 12. Prior to this, the company took over sister firms J & M Wholesale Meats and Imperio Foods in April. It also announced a deal to acquire Waugh Foods earlier. These are expected to strengthen 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 U.S. 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.

- ▲ **Initiatives to Reduce Costs:** Sysco is on track with its cost-saving initiatives, which is reflected in its results. The first initiative, Finance Transformation Roadmap concentrates on modernizing the company's international financial platform. Further, the company is focused on centralizing its actions, mechanizing work and dealing with offshore partners. Also, Sysco is focusing on its Smart Spending initiatives, which involve a detailed analysis of indirect spending categories. This is aimed at spotting such areas and making cost curtailments accordingly. Finally, Sysco is committed toward lowering its overall administrative costs.
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Reasons To Sell:

- ▼ **Mixed International Performance:** Sysco's International unit's performance was mixed in the second quarter of fiscal 2020. Segment revenues remained flat at \$2,890.1 million in the quarter, with adverse foreign currency impacts of 0.9%. Also, gross margin contracted 10 bps to 20.31%. Currency headwinds weighed on segment gross profit by 1%.

While sales improved in Latin America, it was soft in Canada on account of sluggish economy in some parts of the country as well as absence of a large-chain customer. Further, the company's Europe results were mixed. Sweden and Ireland saw higher sales but performance in France continued being hurt by operational and supply-chain integration endeavors related to Brake France and Davigel. These challenges are likely to persist throughout the fiscal. Meanwhile, performance in the U.K. was stable despite uncertainties related to Brexit.

Sysco has been encountering cost-related headwinds for a while. Also, foreign exchange fluctuations hurt International segment sales by 0.9% during the quarter.

- ▼ **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 19.2% of the company's total revenues in the second quarter. Thus, the company remains prone to the risk of unfavorable currency translations. In fact, foreign exchange fluctuations negatively impacted International segment sales by 0.9% during the second quarter.
- ▼ **Increased Costs in the U.S. Foodservice Unit:** Sysco has been encountering cost-related headwinds for a while. During the first quarter of fiscal 2020, the U.S. Foodservice unit was hurt by food-cost inflation of nearly 2.6% in U.S. Broadline, particularly in categories like meat and dairy. Also, adjusted operating expenses rose 0.4% on higher labor costs, stemming from the company's decision to retain driver and warehouse personnel amid a tight labor market. In fact, the metric was up 0.4% in the preceding quarter and 4.7%, 2.3% and 4.9% in the second, third and fourth quarters of fiscal 2019, respectively. Persistence of these elevated costs poses threats to margins.
- ▼ **Lowered Operating Income Guidance:** Owing to cost inflation, hurdles in France, increased discrete corporate expenses and plans to make certain growth-related investments, management lowered its operating income growth guidance. Sysco now expects operating income of roughly \$500-\$525 million, compared with approximately \$600 million expected earlier. Also, management curtailed its three-year adjusted operating income growth forecast from 8% to 7%.
- ▼ **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.

Volatile and price-sensitive demand for food-away-from-home products also restricts the company to undertake price increases, despite rising input costs and inflationary trends in the industry. Additionally, rising competition from non-traditional players like club stores or commercial wholesale markets, which have a lower cost structure, creates pricing pressure and remains a threat to Sysco's margins.

Last Earnings Report

Sysco's Q2 Earnings Surpass Estimates, Revenues Miss

Quarter Ending **12/2019**

Sysco Corporation reported second-quarter fiscal 2020 results, with both top and bottom lines rising year over year. Further, earnings beat the Zacks Consensus Estimate for the fifth straight time, while sales marked its eighth consecutive miss.

Adjusted earnings of 85 cents per share increased 13.2% year over year and surpassed the Zacks Consensus Estimate by a penny. The year-over-year upside can be attributable to improved sales and margins. Also, interest expenses declined year over year.

Report Date	Feb 03, 2020
Sales Surprise	-0.44%
EPS Surprise	1.19%
Quarterly EPS	0.85
Annual EPS (TTM)	3.72

This global food products maker and distributor reported sales of \$15,025 million, which climbed 1.8% year over year. However, the figure fell short of the Zacks Consensus Estimate of \$15,092 million. Foreign currency headwinds had an adverse impact of about 0.2% on the top line.

Gross profit in the quarter improved 2% to \$2,828.4 million, courtesy of higher sales. Further, gross margin expanded 5 basis points (bps) to 18.82%. Foreign currency headwinds had an adverse impact of about 0.2% on the gross profit.

Adjusted operating income rose 3.9% to \$626.9 million, while adjusted operating margin expanded 9 bps to 4.17%.

Segment Details

U.S. Foodservice Operations: During the quarter, segment sales advanced 3.2% to \$10,413.6 million. Local case volumes within U.S. Broadline operations grew 3.7% (including organic sales growth of 2.5%) and total case volumes 2% (wherein organic sales increased 1.3%). Gross profit rose 2.4% to \$2,048.9 million, while gross margin contracted 17 bps to 19.7%.

Results were negatively impacted by food-cost inflation of 2.6% in U.S. Broadline, particularly in categories like meat and dairy. Adjusted operating expenses escalated 1% but the adjusted operating income rose 4.7% to \$772.5 million.

International Foodservice Operations: Segment sales remained flat at \$2,890.1 million in the quarter. Foreign exchange fluctuations hurt segment sales by 0.9% during the quarter. On a constant-currency or cc basis, sales grew 0.9%.

At cc, gross profit rose 0.4% to \$592.1 million but gross margin fell 10 bps to 20.31%. Currency headwinds weighed on segment gross profit by 1%.

Adjusted operating expenses increased 1% due to operational headwinds related to Sysco's integration efforts associated with its France operations. Adjusted operating income declined 10.8% to \$74 million. Operating income in the segment was positively impacted by currency movements to the tune of 0.3%. On a cc basis, adjusted operating income declined 11.1% to \$73.8 million.

Other Updates

Sysco ended the quarter with cash and cash equivalents of \$524.6 million, long-term debt of \$8,092.9 million and total shareholders' equity of \$2,527.5 million.

During the first half of fiscal 2020, the company generated cash flow from operations of \$754.5 million and incurred net capital expenditure of \$383.1 million. Free cash flow amounted to \$371.4 million.

Recent News

Sysco Hikes Dividend - Nov 14, 2019

Sysco is focused on boosting investors' sentiments through several growth initiatives and shareholder-friendly moves. To this end, the company announced a 15% hike in its quarterly dividend, taking it from 39 cents a share to 45 cents. This is payable on Jan 24, 2020 to shareholders of record as on Jan 3.

Sysco has been committed toward boosting shareholders' returns for quite a few years now. In fact, this marks the 51st hike for the food company, which has been paying out dividends every quarter since 1970. The last hike of 3 cents or 8% was announced on Nov 15, 2018.

Sysco to Bolster Portfolio with the Buyout of J. Kings - Aug 12, 2019

Sysco Corporation announced the buyout of J. Kings Food Service Professionals. Both companies have signed a definitive agreement pertaining to the deal. However, terms of this transaction were not disclosed.

J. Kings Food Service Professionals is a broadline distributor based in New York. It also offers services to customers located in Connecticut and New Jersey. While J. Kings' majority customers are independent restaurant operators, it also caters to retail, institutional and multi-unit customers. The company accounts for annual sales of nearly \$150 million. Sysco's sturdy business scale and resources combined with J. Kings' solid local presence is likely to strengthen the businesses of the companies as well as aid meeting customers' needs more efficiently.

Will Sysco's U.S. Foodservice Gain From Sister Firms' Buyout? – Apr 14, 2019

Sysco acquired two food distributors — J & M Wholesale Meats and Imperio Foods — in a deal, financial terms of which were undisclosed. Per the deal, both the companies will continue to be operated by their existing executives and owners.

This move is in sync with the company's plans to grow its distribution network and customer base along with boosting long-term growth. J&M and Imperio, also known as sister companies, generate approximately \$44 million in combined annual sales. While J&M specializes in center of the plate products, catering to foodservice customers and small retail locations in the Hispanic segment, Imperio supplies dry Hispanic retail-pack canned goods.

Well, this deal will enable the company to expand customer base to Hispanic regions. Apart from this, it will also strengthen Sysco's existing business in the California region, as the sister companies operate across northern California and Oregon.

Valuation

Sysco shares are down 8.6% in the year-to-date period and up 15.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 1% in the year-to-date period, while the Zacks Consumer Staples sector is up 0.7%. Over the past year, the Zacks sub-industry is up 7.9%, while the sector gained 11.1%.

The S&P 500 index is up 4.9% in the year-to-date period and 20.9% in the past year.

The stock is currently trading at 19.7X forward 12-month earnings, which compares to 18.35X for the Zacks sub-industry, 19.81X for the Zacks sector and 19.36X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.17X and as low as 16.85X, with a 5-year median of 19.79X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$83 price target reflects 20.91X 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	19.7	18.35	19.81	19.36
	5-Year High	23.17	22.9	22.38	19.36
	5-Year Low	16.85	14.82	16.66	15.18
	5-Year Median	19.76	19.19	19.76	17.47
P/S F12M	Current	0.63	1.73	10.1	3.58
	5-Year High	0.7	2.05	11.13	3.58
	5-Year Low	0.41	1.44	8.09	2.54
	5-Year Median	0.52	1.81	9.88	3
EV/EBITDA F12M	Current	12.92	14.08	34.39	12.66
	5-Year High	13.84	16.59	37.23	12.66
	5-Year Low	9.22	11.67	29.38	9.08
	5-Year Median	11.4	13.27	33.58	10.79

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Bottom 36% (164 out of 255)



Top Peers

Conagra Brands Inc. (CAG)	Neutral
Campbell Soup Company (CPB)	Neutral
General Mills, Inc. (GIS)	Neutral
The Kraft Heinz Company (KHC)	Neutral
Mondelez International, Inc. (MDLZ)	Neutral
Post Holdings, Inc. (POST)	Neutral
TreeHouse Foods, Inc. (THS)	Neutral
United Natural Foods, Inc. (UNFI)	Underperform

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	SY Y Neutral	X Industry	S&P 500	CPB Neutral	KHC Neutral	UNFI Underperform
VGM Score	A	-	-	C	B	C
Market Cap	39.77 B	4.32 B	24.61 B	14.67 B	32.82 B	403.45 M
# of Analysts	5	3	13	6	8	3
Dividend Yield	2.30%	0.12%	1.78%	2.88%	5.95%	0.00%
Value Score	A	-	-	C	B	B
Cash/Price	0.01	0.04	0.04	0.00	0.06	0.10
EV/EBITDA	15.20	13.98	14.06	14.94	-6.24	15.60
PEG Ratio	2.08	2.25	2.09	3.23	1.80	0.66
Price/Book (P/B)	15.73	2.92	3.29	11.75	0.63	0.36
Price/Cash Flow (P/CF)	15.21	13.50	13.65	12.83	6.63	0.61
P/E (F1)	20.64	17.63	19.21	19.20	10.81	5.94
Price/Sales (P/S)	0.66	1.30	2.70	1.66	1.31	0.02
Earnings Yield	4.85%	5.48%	5.19%	5.20%	9.26%	16.84%
Debt/Equity	3.42	0.62	0.71	5.37	0.54	3.62
Cash Flow (\$/share)	5.14	2.72	6.92	3.79	4.06	12.27
Growth Score	A	-	-	C	B	D
Hist. EPS Growth (3-5 yrs)	17.81%	5.29%	10.85%	-0.30%	NA	-3.64%
Proj. EPS Growth (F1/F0)	6.82%	6.84%	7.17%	10.14%	-12.76%	-38.94%
Curr. Cash Flow Growth	7.68%	1.85%	8.56%	-12.42%	-2.47%	151.75%
Hist. Cash Flow Growth (3-5 yrs)	10.66%	7.12%	8.36%	0.50%	20.68%	30.00%
Current Ratio	1.25	1.57	1.23	0.60	1.00	1.69
Debt/Capital	77.46%	38.38%	42.91%	84.30%	35.18%	78.37%
Net Margin	3.00%	3.15%	11.81%	2.07%	7.75%	-2.65%
Return on Equity	78.49%	10.86%	16.86%	64.48%	5.93%	5.89%
Sales/Assets	3.25	1.16	0.54	0.66	0.24	3.29
Proj. Sales Growth (F1/F0)	2.17%	2.56%	3.85%	-12.90%	-1.00%	12.96%
Momentum Score	F	-	-	B	D	B
Daily Price Chg	0.35%	0.10%	0.06%	0.58%	-3.20%	-3.83%
1 Week Price Chg	-5.82%	0.47%	2.47%	1.01%	1.16%	3.75%
4 Week Price Chg	-5.38%	-2.17%	0.59%	1.14%	-15.28%	-19.27%
12 Week Price Chg	-1.27%	2.27%	6.98%	3.84%	-11.11%	-7.14%
52 Week Price Chg	17.50%	11.96%	16.62%	41.19%	-43.22%	-48.43%
20 Day Average Volume	2,643,935	134,666	2,020,569	1,620,649	8,227,521	919,911
(F1) EPS Est 1 week change	-0.21%	0.00%	0.00%	0.00%	0.00%	1.40%
(F1) EPS Est 4 week change	-0.60%	-0.04%	-0.05%	-0.11%	-0.62%	1.40%
(F1) EPS Est 12 week change	-0.63%	-0.63%	-0.17%	0.73%	-2.31%	-5.05%
(Q1) EPS Est Mthly Chg	-1.60%	-0.10%	-0.24%	-1.72%	0.43%	0.00%

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	A
Growth Score	A
Momentum Score	F
VGM Score	A

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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