

Sysco Corporation (SYN)

\$59.70 (As of 08/17/20)

Price Target (6-12 Months): **\$51.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 07/28/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)
4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: F

Summary

Sysco has lagged the industry in the past six months. The company has been bearing the brunt of coronavirus-related hurdles. This was also witnessed in fourth-quarter fiscal 2020, wherein top and bottom lines deteriorated year over year. Sales declined in both the U.S. Foodservice and International Foodservice segments due to temporary pandemic-led closures. Notably, soft volumes in the food-away-from-home channel have been a deterrent due to increased social distancing. Apart from this, currency headwinds and food cost inflation in the U.S. Foodservice unit have been limiting factors. Nonetheless, Sysco is utilizing its sales team to boost additional businesses and prepare for the return of demand in the food-away-from-home channel. The company is also helping its restaurant partners to reshape the business, as per the current landscape.

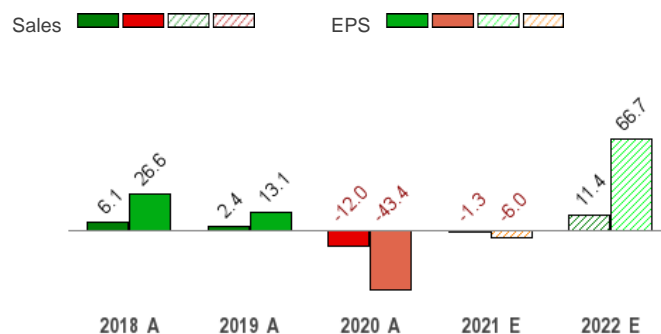
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$85.98 - \$26.00
20 Day Average Volume (sh)	3,191,212
Market Cap	\$30.3 B
YTD Price Change	-30.2%
Beta	1.08
Dividend / Div Yld	\$1.80 / 3.0%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 49% (123 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	25.6%
Last Sales Surprise	8.3%
EPS F1 Est- 4 week change	-16.8%
Expected Report Date	11/02/2020
Earnings ESP	0.0%
P/E TTM	30.0
P/E F1	31.6
PEG F1	3.2
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	14,768 E	15,699 E	15,026 E	12,992 E	58,198 E
2021	12,111 E	13,193 E	13,363 E	13,562 E	52,228 E
2020	15,303 A	15,025 A	13,699 A	8,867 A	52,893 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.82 E	\$0.81 E	\$0.88 E	\$0.78 E	\$3.15 E
2021	\$0.28 E	\$0.45 E	\$0.48 E	\$0.72 E	\$1.89 E
2020	\$0.98 A	\$0.85 A	\$0.45 A	-\$0.29 A	\$2.01 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 08/17/2020. The reports text is as of 08/18/2020.

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).

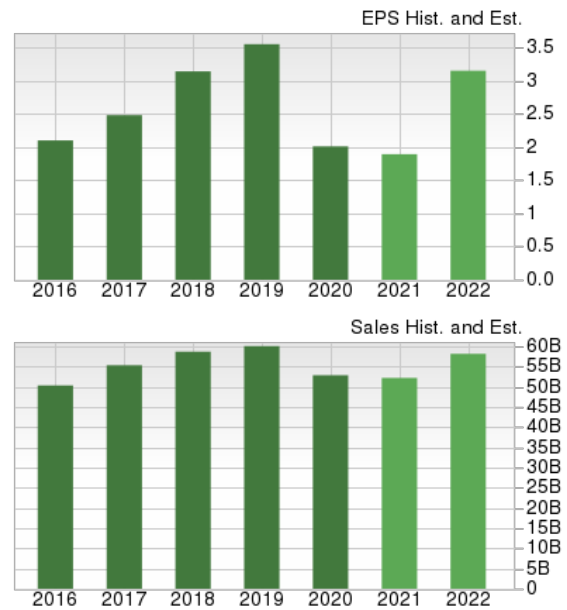
The company reports through these operating segments:

U.S. Foodservice Operations primarily includes U.S. broadline operations, Specialty Meat and FreshPoint (the specialty produce companies). In fourth-quarter fiscal 2020, the segment contributed 69% to total revenues.

International Foodservice Operations, which includes Canada, Europe, Bahamas, International Food Group, and the joint ventures in Mexico and Costa Rica. In fourth-quarter fiscal 2020, the segment contributed 15.4% to total revenues.

SYGMA: The company's customized distribution subsidiary. In fourth-quarter fiscal 2020, the segment contributed 14.5% to total revenues.

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



Reasons To Sell:

- ▼ **COVID-19 Hurts Q4 Results, Stock Underperforms:** Shares of Sysco have slumped 21.7% in the past three months compared with the industry's growth of 0.5%. The company has been bearing the brunt of coronavirus-related hurdles. This was also witnessed in fourth-quarter fiscal 2020 results, wherein both top and bottom lines deteriorated year over year. The company posted an adjusted loss of 29 cents per share, significantly lower than the year-ago period's adjusted earnings of \$1.10 per share. Further, Sysco reported sales of \$8,866.6 million, which slumped 42.7% year over year, thanks to the coronavirus outbreak and foreign currency headwinds. Sales declined in both – the U.S. Foodservice and International Foodservice segments on account of temporary closures amid the pandemic. 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 the company saw its sales improve week over week from May to June as things started reopening, the rising number of cases in some locations has stagnated business recovery.
- ▼ **Food Cost Inflation in the U.S. Foodservice Unit:** Sysco has been encountering inflation in the meat category in the U.S. Foodservice unit for a while now. During the fourth quarter of fiscal 2020, the U.S. Foodservice's food-cost inflation was almost flat in U.S. Broadline, as deflationary trends in frozen and poultry categories were countered by inflation in meat. Gross profit in the segment plunged 45.7% to \$1,165.6 million, while gross margin contracted 102 bps to 19.06%. Also, adjusted operating income slumped 80% to \$164.9 million. Persistence of such trends 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 15.4% of the company's total revenues in the fourth quarter. Thus, the company remains prone to the risk of unfavorable currency translations. Foreign exchange fluctuations negatively impacted International segment sales by 1.5% during the fourth quarter. Currency woes hurt the company's overall top line as well as gross profit.
- ▼ **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.
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The company has been bearing the brunt of coronavirus-related hurdles. This was also witnessed in fourth-quarter fiscal 2020 results, wherein both top and bottom lines deteriorated year over year.

Risks

- **Debt Analysis & Efforts to Enhance Liquidity:** Although Sysco's long-term debt (including operating lease liabilities) rose 27% sequentially to roughly \$13,436 million as of the end of the fourth quarter of fiscal 2020 (Jun 27, 2020), its cash and cash equivalents of \$6,059.4 million are sufficient to fund its short-term debt (including operating lease liabilities) of \$1,649.3 million. Further, during the fourth quarter, the company paid about \$930 million on its revolving credit facility and still had \$700 million remaining. Notably, Sysco had cash and available liquidity of more than \$8 billion as of Aug 11. In its fourth-quarter earnings call, management informed that it has sufficient liquidity even to navigate through the current situation.
- **Ways to Tap Other Opportunities Amid Crisis:** Sysco is making robust efforts to manage its business amid the pandemic. To this end, it is utilizing its sales team to boost additional businesses and also prepare for the return of demand in the food-away-from-home channel. The company is also helping its restaurant partners to reshape business, as per the current environment, by offering solutions related to meal kits, contactless menus, curbside/takeout, along with safety and sanitation. Encouragingly, management expects fiscal 2021 sales to be stronger than the fiscal 2020 level despite the current scenario. This also makes the company optimistic about its profitability in fiscal 2021.

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. On the sales front, Sysco has been shifting sales to national and regional retailers, which will cater to the growing demand at retail stores. 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. Apart from this, the company's digital investments, like its Shop platform, bode well.

- **Transformation Initiatives on Track:** Sysco is focused on its transformation initiatives. To this end, the company has been focused on working toward becoming more digitally oriented, as part of which it is making investments to enhance its Sysco Shop digital order platform among other efforts. Further, Sysco is concentrating on improving its sales model – including transforming sales structure to be more focused, coordinating sales force incentives more closely with the company's business goals and enhancing partnership of sales teams across its different business lines. Moving on, Sysco is on track to regionalize its U.S. operations, which is likely to enhance the company's efficiency.

The company's fourth initiative involves removing structural fixed costs. The company now intends to eliminate annualized permanent fixed costs of about \$350 million from its business in fiscal 2021. Apart from these savings, management has outlined other cost-reduction opportunities, which are expected to deliver savings fiscal 2022 onwards. Incidentally, Sysco cut operating expenses by about \$500 million in the fourth quarter of fiscal 2020 itself, including nearly \$300 million of structural and permanent costs on an annual run-rate basis.

Last Earnings Report

Sysco's Q4 Loss Narrower Than Expected, Sales Down Y/Y

Sysco reported fourth-quarter fiscal 2020 results, wherein it posted an adjusted loss of 29 cents per share, which was narrower than the Zacks Consensus Estimate of a loss of 39 cents. However, the bottom line fell significantly from the year-ago period's adjusted earnings of \$1.10 per share. The year-over-year deterioration can be attributed to reduced sales and margins.

Sysco reported sales of \$8,866.6 million, which slumped 42.7% year over year, thanks to the coronavirus outbreak. Nevertheless, the figure surpassed the Zacks Consensus Estimate of \$8,188.2 million. Foreign currency headwinds had an adverse impact of about 0.3% on the top line.

Gross profit in the quarter declined 47.4% to \$1,565.7 million and the gross margin contracted 159 basis points (bps) to 17.66%. Foreign currency headwinds had an adverse impact of about 0.3% on the gross profit. Adjusted operating loss was \$33.9 million against adjusted operating income of roughly \$818 million in the year-ago period.

Segment Details

U.S. Foodservice Operations: During the fourth quarter, segment sales declined 42.8% to \$6,114.9 million. Local case volumes within U.S. Broadline operations fell 38.7% (including organic sales decline of 39.4%) and total case volumes dropped 41.5% (wherein organic sales declined 41.9%). Gross profit plunged 45.7% to \$1,165.6 million, while gross margin contracted 102 bps to 19.06%. Food-cost inflation was almost flat in U.S. Broadline, as inflation in meat was countered by deflationary trends in frozen and poultry categories.

International Foodservice Operations: Segment sales declined 53.4% to \$1,361.1 million in the fourth quarter. Foreign exchange fluctuations hurt segment sales by 1.5% during the quarter. On a constant-currency (cc) basis, sales fell 51.9% to \$1,405.6 million. At cc, gross profit declined 56.4% to \$270.9 million and gross margin fell 199 bps to 19.27%. Currency headwinds affected the segment's gross profit by 1.3%.

SYGMA sales dropped 16.8% to \$1,288.9 million. **Other** segment sales tumbled 66.8% to \$101.6 million.

Other Updates

Sysco ended the quarter with cash and cash equivalents of \$6,059.4 million, long-term debt of \$12,902.5 million and total shareholders' equity of \$1,158.6 million. During fiscal 2020, the company generated cash flow from operations of \$1,618.7 million and free cash flow amounted to \$927 million.

The company is making robust efforts to manage its business amid the pandemic. To this end, it is utilizing its sales team to boost additional businesses and prepare for the return of demand in the food-away-from-home channel. The company is also helping its restaurant partners to reshape business, as per the current environment, by offering solutions related to meal kits, contactless menus, curbside/takeout, along with safety and sanitation.

Quarter Ending 06/2020

Report Date	Aug 11, 2020
Sales Surprise	8.29%
EPS Surprise	25.64%
Quarterly EPS	-0.29
Annual EPS (TTM)	1.99

Recent News

Sysco Declares Dividend – May 22, 2020

Sysco announced a quarterly cash dividend of 45 cents per share, payable on Jul 24, 2020 to shareholders of record as on Jun 2

Valuation

Sysco shares are down 30.2% in the year-to-date period and 18.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 2.3% and 7.8%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry went up 4.3% while the sector declined 5.9%.

The S&P 500 index is up 4.5% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 28.96X forward 12-month earnings, which compares to 19.29X for the Zacks sub-industry, 19.92X for the Zacks sector and 22.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.08X and as low as 7.81X, with a 5-year median of 19.94X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$51 price target reflects 24.74X forward 12-month earnings.

The table below shows summary valuation data for SYY

Valuation Multiples - SYY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.96	19.29	19.92	22.85
	5-Year High	29.08	22.9	22.37	22.85
	5-Year Low	7.81	14.82	16.63	15.25
	5-Year Median	19.94	18.57	19.58	17.58
P/S F12M	Current	0.57	1.72	9.43	3.7
	5-Year High	0.7	2.05	11.15	3.7
	5-Year Low	0.25	1.41	8.1	2.53
	5-Year Median	0.53	1.75	9.89	3.05
EV/EBITDA F12M	Current	12.45	13.21	35.53	12.87
	5-Year High	13.96	14.65	37.49	14.23
	5-Year Low	6.77	10.97	25.81	9.05
	5-Year Median	11.12	13.2	33.82	11.02

As of 08/17/2020

Industry Analysis Zacks Industry Rank: Top 49% (123 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
The Kraft Heinz Company (KHC)	Outperform	3
TreeHouse Foods, Inc. (THS)	Outperform	1
Conagra Brands Inc. (CAG)	Neutral	3
Campbell Soup Company (CPB)	Neutral	2
General Mills, Inc. (GIS)	Neutral	3
Mondelez International, Inc. (MDLZ)	Neutral	3
United Natural Foods, Inc. (UNFI)	Neutral	3
Post Holdings, Inc. (POST)	Underperform	5

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	SYN	X Industry	S&P 500	CPB	KHC	UNFI
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	4	-	-	2	3	3
VGM Score	B	-	-	B	A	A
Market Cap	30.30 B	3.89 B	23.75 B	15.80 B	43.93 B	1.11 B
# of Analysts	4	3	14	7	7	2
Dividend Yield	3.02%	0.00%	1.62%	2.68%	4.45%	0.00%
Value Score	B	-	-	B	B	A
Cash/Price	0.20	0.08	0.07	0.08	0.06	0.05
EV/EBITDA	20.46	13.28	13.49	13.84	14.69	16.25
PEG Ratio	3.16	3.87	3.03	2.20	2.30	NA
Price/Book (P/B)	26.16	2.36	3.18	6.12	0.89	0.95
Price/Cash Flow (P/CF)	13.95	12.58	12.85	13.79	10.50	1.69
P/E (F1)	31.37	19.82	22.17	18.24	13.80	15.08
Price/Sales (P/S)	0.57	1.41	2.49	1.89	1.73	0.04
Earnings Yield	3.17%	4.93%	4.32%	5.49%	7.24%	6.62%
Debt/Equity	11.59	0.57	0.77	2.01	0.57	3.05
Cash Flow (\$/share)	4.28	2.81	6.94	3.79	3.42	12.27
Growth Score	B	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	12.72%	5.50%	10.44%	-2.14%	-0.23%	-6.45%
Proj. EPS Growth (F1/F0)	-5.85%	3.12%	-5.97%	-2.38%	-8.67%	-42.78%
Curr. Cash Flow Growth	-17.79%	3.40%	5.22%	-12.42%	-15.53%	151.75%
Hist. Cash Flow Growth (3-5 yrs)	5.26%	5.90%	8.52%	0.50%	11.14%	30.00%
Current Ratio	1.84	1.62	1.33	0.84	1.09	1.50
Debt/Capital	92.07%	37.17%	44.59%	66.79%	36.37%	75.32%
Net Margin	0.41%	2.44%	10.13%	18.34%	-0.76%	-1.22%
Return on Equity	50.53%	9.79%	14.51%	46.05%	6.68%	9.88%
Sales/Assets	2.60	1.02	0.51	0.66	0.25	3.31
Proj. Sales Growth (F1/F0)	-1.26%	0.00%	-1.67%	-4.83%	2.57%	4.14%
Momentum Score	F	-	-	D	B	D
Daily Price Chg	0.27%	0.37%	-0.02%	1.26%	0.96%	1.67%
1 Week Price Chg	3.01%	0.64%	1.09%	3.32%	0.51%	2.31%
4 Week Price Chg	12.58%	4.27%	4.83%	6.22%	5.30%	3.71%
12 Week Price Chg	15.36%	11.56%	13.09%	8.13%	19.97%	18.55%
52 Week Price Chg	-18.89%	1.25%	2.77%	21.05%	39.75%	162.15%
20 Day Average Volume	3,191,212	204,478	1,932,479	1,573,598	5,853,180	709,334
(F1) EPS Est 1 week change	-16.81%	0.00%	0.00%	0.20%	0.00%	0.00%
(F1) EPS Est 4 week change	-16.81%	0.00%	1.80%	0.20%	8.40%	0.00%
(F1) EPS Est 12 week change	-20.73%	2.50%	2.88%	1.62%	8.79%	-13.90%
(Q1) EPS Est Mthly Chg	-26.32%	0.00%	0.80%	0.00%	1.72%	0.00%

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	B
Momentum Score	F
VGM Score	B

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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