Sysco Corporation (SYY)

$53.48 (As of 03/26/20)

Price Target (6-12 Months): **$58.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/18/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: A | Momentum: C	

Summary

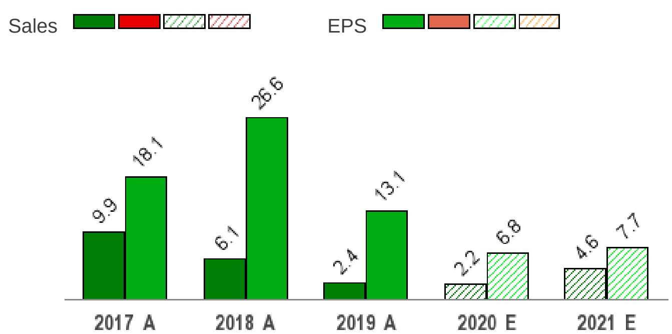
Sysco, which withdrew its fiscal 2018-20 guidance amid coronavirus, has lagged the industry in the past three months. Nonetheless, the company is boosting its financial strength by curtailing expenditure and exploring other revenue channels. Sysco has been grappling with rising costs and international unit challenges. During the second quarter of fiscal 2020, its international unit was hurt by currency woes, soft sales in Canada and headwinds in France, which are expected to continue in the fiscal. However, the company's U.S. Foodservice operations have been seeing high local case volumes for 23 straight quarters now. The company is also gaining from its focus on enhancing consumers' experience and optimizing business. These upsides helped the company deliver top and bottom-line growth in the second quarter.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$85.98 - $26.00**
20 Day Average Volume (sh)	**9,494,573**
Market Cap	**$27.2 B**
YTD Price Change	**-37.5%**
Beta	**0.70**
Dividend / Div Yld	**$1.80 / 3.4%**
Industry	**[Food - Miscellaneous]**
Zacks Industry Rank	**Top 36% (92 out of 253)**
Last EPS Surprise	**1.2%**
Last Sales Surprise	**-0.4%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**05/04/2020**
Earnings ESP	**0.0%**
P/E TTM	**14.4**
P/E F1	**14.1**
PEG F1	**1.4**
P/S TTM	**0.5**

Sales and EPS Growth Rates (Y/Y %)



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

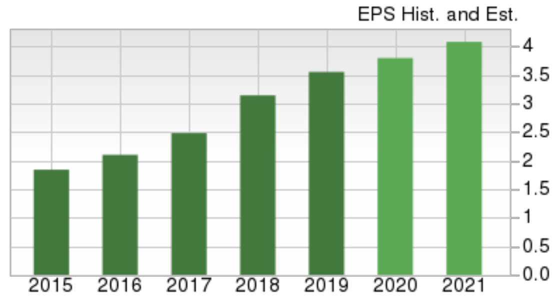
	Q1	Q2	Q3	Q4	Annual*
2021	$1.03 E	$0.89 E	$0.89 E	$1.33 E	$4.08 E
2020	$0.98 A	$0.85 A	$0.82 E	$1.14 E	$3.79 E
2019	$0.91 A	$0.75 A	$0.79 A	$1.10 A	$3.55 A

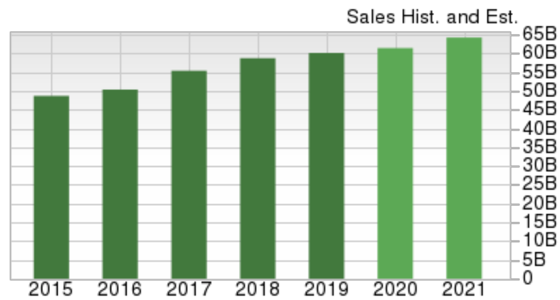
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

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' customized distribution subsidiary.

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

Reasons To Buy:

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

▲ **U.S. Foodservice Unit a Major Strength:** Sysco's U.S. Foodservice unit has been performing well for quite some time now. 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.

▲ **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.

Reasons To Sell:

- **Mixed International Performance, Stock Underperforms:** 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. These hurdles, along with rising cost challenges have caused shares of Sysco to decline 37.7% in the past three months, wider than the industry's drop of 26.1%.

> 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%.

Last Earnings Report

Sysco's Q2 Earnings Surpass Estimates, Revenues Miss

Quarter Ending	12/2019
Report Date	**Feb 03, 2020**
Sales Surprise	**-0.44%**
EPS Surprise	**1.19%**
Quarterly EPS	**0.85**
Annual EPS (TTM)	**3.72**

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.

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 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 shares are down 37.5% in the year-to-date period and 19.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 25.9% in the year-to-date period, while the Zacks Consumer Staples sector declined 25.4%. Over the past year, the Zacks sub-industry and the sector declined 18% and 19.9%, respectively.

The S&P 500 index is down 23.1% in the year-to-date period and 12.9% in the past year.

The stock is currently trading at 13.35X forward 12-month earnings, which compares to 14.1X for the Zacks sub-industry, 15.48X for the Zacks sector and 14.92X 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 19.74X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $58 price target reflects 14.48X 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	13.35	14.1	15.48	14.92
	5-Year High	23.17	22.9	22.37	19.34
	5-Year Low	7.81	14.1	15.48	14.92
	5-Year Median	19.74	19.1	19.66	17.42
P/S F12M	Current	0.43	1.29	7.58	2.68
	5-Year High	0.7	2.05	11.16	3.43
	5-Year Low	0.25	1.29	7.58	2.54
	5-Year Median	0.53	1.81	9.89	3
EV/EBITDA F12M	Current	8.67	13.78	34.16	12.28
	5-Year High	13.84	16.59	37.75	12.64
	5-Year Low	8.67	11.67	29.77	9.09
	5-Year Median	11.4	13.27	34.07	10.8

As of 03/26/2020

Industry Analysis **Zacks Industry Rank:** Top 36% (92 out of 253)

Top Peers

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

Industry Comparison Industry: Food - Miscellaneous

Industry Peers

	SYY Neutral	X Industry	S&P 500	CPB Neutral	KHC Underperform	UNFI Neutral
VGM Score	A	-	-	B	B	A
Market Cap	27.20 B	3.21 B	18.50 B	13.15 B	30.25 B	503.47 M
# of Analysts	3	3	13	6	8	4
Dividend Yield	3.37%	0.16%	2.35%	3.21%	6.46%	0.00%
Value Score	A	-	-	B	C	A
Cash/Price	0.03	0.05	0.07	0.00	0.08	0.07
EV/EBITDA	11.21	11.26	11.16	12.62	11.93	15.50
PEG Ratio	1.32	2.55	1.74	2.65	1.80	0.86
Price/Book (P/B)	10.76	1.83	2.44	5.26	0.58	0.46
Price/Cash Flow (P/CF)	10.40	10.70	9.87	11.49	7.24	0.77
P/E (F1)	13.10	14.45	15.29	16.13	10.83	7.78
Price/Sales (P/S)	0.45	1.08	1.93	1.58	1.21	0.02
Earnings Yield	7.09%	6.69%	6.47%	6.19%	9.25%	12.89%
Debt/Equity	3.42	0.60	0.70	1.97	0.55	3.59
Cash Flow ($/share)	5.14	2.68	7.01	3.79	3.42	12.27
Growth Score	A	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	17.81%	5.54%	10.85%	-1.52%	NA	-6.43%
Proj. EPS Growth (F1/F0)	6.85%	6.11%	2.89%	17.47%	-19.74%	-41.95%
Curr. Cash Flow Growth	7.68%	3.82%	5.93%	-12.42%	-15.53%	151.75%
Hist. Cash Flow Growth (3-5 yrs)	10.66%	5.64%	8.55%	0.50%	11.14%	30.00%
Current Ratio	1.25	1.58	1.23	0.61	1.03	1.68
Debt/Capital	77.46%	38.43%	42.57%	66.31%	35.28%	78.20%
Net Margin	3.00%	3.90%	11.64%	17.46%	7.75%	-1.38%
Return on Equity	78.49%	10.86%	16.74%	50.69%	5.93%	5.86%
Sales/Assets	3.25	1.15	0.54	0.64	0.24	3.25
Proj. Sales Growth (F1/F0)	2.17%	0.11%	2.37%	-12.23%	-2.64%	12.76%
Momentum Score	C	-	-	A	B	C
Daily Price Chg	17.15%	4.53%	6.21%	5.26%	7.88%	1.95%
1 Week Price Chg	-24.94%	-6.99%	-16.96%	-8.08%	-7.05%	96.15%
4 Week Price Chg	-23.25%	-16.23%	-15.70%	-4.62%	-0.80%	52.93%
12 Week Price Chg	-36.83%	-21.53%	-23.67%	-10.11%	-21.64%	4.92%
52 Week Price Chg	-19.29%	-19.54%	-13.99%	13.81%	-24.69%	-29.29%
20 Day Average Volume	9,494,573	220,488	4,286,768	5,049,254	13,109,782	2,856,270
(F1) EPS Est 1 week change	0.00%	0.00%	-0.15%	0.00%	-0.92%	0.00%
(F1) EPS Est 4 week change	0.04%	-0.07%	-2.28%	6.64%	-2.03%	-5.85%
(F1) EPS Est 12 week change	-0.57%	-2.34%	-3.22%	6.53%	-10.89%	-3.59%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-1.60%	9.36%	0.00%	-14.35%

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	C
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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