



# Sysco Corporation (SYY)

Updated November 13<sup>th</sup>, 2020 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$68	<b>5 Year CAGR Estimate:</b>	2.7%	<b>Market Cap:</b>	\$34.6B
<b>Fair Value Price:</b>	\$53	<b>5 Year Growth Estimate:</b>	5.2%	<b>Ex-Dividend Date:</b>	1/1/21 <sup>1</sup>
<b>% Fair Value:</b>	130%	<b>5 Year Valuation Multiple Estimate:</b>	-5.0%	<b>Dividend Payment Date:</b>	1/23/21 <sup>2</sup>
<b>Dividend Yield:</b>	2.6%	<b>5 Year Price Target</b>	\$67.5	<b>Years Of Dividend Growth:</b>	51
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	15.4%

## 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 market capitalization of approximately \$34.6 billion.

On November 3<sup>rd</sup>, 2020, Sysco reported first quarter fiscal 2021 results. Sales decreased by 23.0% to \$11.8 billion, gross profit decreased by 24.6% to \$2.2 billion, and gross margin decreased by 39 basis points. Operating income fell by a whopping 37.2% to \$419.6 million, while adjusted operating income declined by 50.8% to \$364.7 million. Finally, adjusted earnings-per-share decreased from \$0.64 to \$0.34. Our estimate is for \$1.87 in earnings-per-share for this year, but we use an earnings power estimate of \$3.50 for our fair value and valuation calculations.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$1.99	\$1.96	\$1.90	\$1.67	\$1.58	\$1.84	\$2.10	\$2.48	\$3.01	\$3.55	<b>\$1.87</b>	<b>\$4.50</b>
<b>DPS</b>	\$0.99	\$1.03	\$1.07	\$1.11	\$1.16	\$1.19	\$1.23	\$1.30	\$1.41	\$1.53	<b>\$1.80</b>	<b>\$2.25</b>
<b>Shares<sup>3</sup></b>	588	593	586	586	586	594	560	530	521	513	<b>500</b>	<b>460</b>

Sysco has grown earnings by 15.7% annually over the past 5 years, and 6.6% over the past 9 years. The company grows organically, through tuck-in acquisitions, and more recently with share buybacks. Tax cuts and share buybacks have accelerated earnings growth in recent years, but this level of growth will not be permanent. The company is also in the process of cutting overhead costs, which should mildly boost bottom-line growth. Consensus analyst expectations are for 7.7% earnings growth over the next 3 years, and we anticipate 5.2% growth over the next 5 years.

If it weren't for the COVID-19 disruptions to the business – while still allowing for some permanent impairment due to customer bankruptcies and closures – we assume earnings-per-share “earnings power” of \$3.50 for this year for the company, which is reflected in our fair value price estimate and valuation multiple estimate in the Key Metrics table.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
<b>Avg. P/E</b>	13.8	15.0	15.1	19.2	22.2	20.8	20.3	21.2	19.3	19.4	<b>19.4</b>	<b>15.0</b>
<b>Avg. Yld.</b>	3.6%	3.5%	3.7%	3.5%	3.3%	3.1%	2.9%	2.5%	2.4%	2.2%	<b>2.6%</b>	<b>3.3%</b>

Over the past decade, Sysco has averaged a P/E ratio of 18.6. The company was valued at a lower level in the post-recession years, but quickly expanded to maintaining a multiple that fluctuates around 20 in most market conditions. Given the current uncertainties stemming from the coronavirus outbreak, we are reducing our fair value multiple

<sup>1</sup> Estimated Date

<sup>2</sup> Estimated Date

<sup>3</sup> Share count is in millions.

Disclosure: This analyst is long SYY.



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estimate to 15 times earnings as we believe the company's performance will bounce back quickly within a few months once the quarantine conditions are lifted, and people resume eating at restaurants and traveling to hotels. The company is also driving new revenue streams from delivery to grocery stores.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>Payout</b>	50%	53%	56%	66%	73%	65%	59%	52%	47%	43%	<b>96%</b>	<b>50%</b>

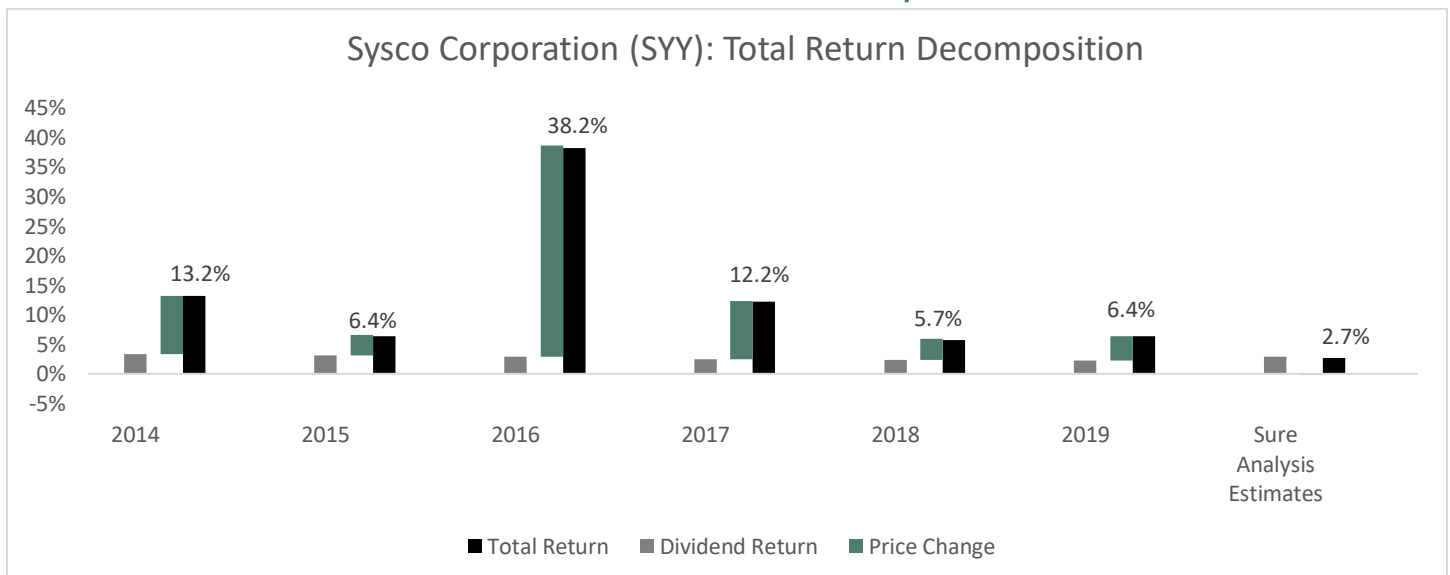
Sysco has an economic moat due to its large scale and entrenched distribution infrastructure, which gives it a cost advantage over most competitors. This moat is evidenced by the fact that the company generates double-digit returns on invested capital every year, which is much higher than its weighted average cost of capital. 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 approximately \$8 billion in net debt (total debt minus cash and short-term investments) compared to less than \$1.7 billion in net income, resulting in a debt/income ratio of nearly 5, which is rather high. Sysco's stable cash flows should allow them to comfortably service the debt in most environments, but this level of leverage limits the company's flexibility going forward. Most of this debt increase occurred within the past few years and went in part towards share buybacks to take advantage of low interest rates. The company has a BBB+ credit rating from S&P, which is towards the middle of 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 being priced at a premium, and Sysco is no exception. Its valuation is modestly higher than its long-term average, and the company's leverage is also higher than it historically has been. While this is a great business, investors should exercise caution due to the uncertain impacts of the coronavirus outbreak. We expect Sysco to generate 2.7% annual compounded returns going forward, though this might be reduced downward if the pandemic's impacts appear to be prolonged. For now, we rate the stock a sell.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	37243	39323	42381	44411	46517	48681	50367	55371	58727	60114
<b>Gross Profit</b>	7188	7395	7779	7997	8181	8552	9040	10558	11085	11409
<b>Gross Margin</b>	19.3%	18.8%	18.4%	18.0%	17.6%	17.6%	17.9%	19.1%	18.9%	19.0%
<b>SG&amp;A Exp.</b>	5212	5463	5889	6338	6594	7322	7190	8504	8756	
<b>D&amp;A Exp.</b>	390	403	417	510	548	553	663	902	765	764
<b>Operating Profit</b>	1976	1932	1891	1658	1587	1229	1851	2053	2329	2,330
<b>Operating Margin</b>	5.3%	4.9%	4.5%	3.7%	3.4%	2.5%	3.7%	3.7%	4.0%	3.9%
<b>Net Profit</b>	1180	1152	1122	992	932	687	950	1143	1431	1,674
<b>Net Margin</b>	3.2%	2.9%	2.6%	2.2%	2.0%	1.4%	1.9%	2.1%	2.4%	2.8%
<b>Free Cash Flow</b>	291	455	620	1000	970	1013	1461	1553	1471	1,719
<b>Income Tax</b>	670	675	662	555	544	321	483	624	525	332

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	10314	11386	12137	12678	13141	17989	16722	17757	18070	17967
<b>Cash &amp; Equivalents</b>	585	640	689	412	413	5130	3919	870	552	513
<b>Acc. Receivable</b>	2617	2898	2967	3183	3399	3353	3381	4012	4074	4,182
<b>Inventories</b>	1772	2074	2179	2396	2602	2692	2639	2996	3125	3,216
<b>Goodwill &amp; Int. Ass.</b>	1656	1743	1779	2090	2128	2115	2329	4954	4935	4,754
<b>Total Liabilities</b>	6486	6680	7452	7486	7874	12688	13167	15292	15526	15464
<b>Accounts Payable</b>	1953	2183	2209	2428	2831	2882	2936	3971	4136	4,315
<b>Long-Term Debt</b>	2481	2669	3018	2889	2733	7322	7435	8195	8327	8,163
<b>Total Equity</b>	3828	4705	4685	5192	5267	5260	3480	2382	2507	2,503
<b>D/E Ratio</b>	0.65	0.57	0.64	0.56	0.52	1.39	2.14	3.44	3.32	3.26

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	11.5%	10.6%	9.5%	8.0%	7.2%	4.4%	5.5%	6.6%	8.0%	9.3%
<b>Return on Equity</b>	32.4%	27.0%	23.9%	20.1%	17.8%	13.0%	21.7%	39.0%	58.5%	66.8%
<b>ROIC</b>	19.3%	16.8%	14.9%	12.6%	11.6%	6.7%	8.0%	10.6%	13.3%	15.6%
<b>Shares Out.</b>	588	593	586	586	586	594	560	530	521	513
<b>Revenue/Share</b>	62.74	66.80	71.96	74.93	78.81	81.56	87.23	100.94	111.00	114.9
<b>FCF/Share</b>	0.49	0.77	1.05	1.69	1.64	1.70	2.53	2.83	2.78	3.28

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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