



# Sysco Corporation (SYY)

Updated September 6<sup>th</sup>, 2021 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$77	<b>5 Year CAGR Estimate:</b>	6.2%	<b>Market Cap:</b>	\$39.6 B
<b>Fair Value Price:</b>	\$66	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	09/30/21
<b>% Fair Value:</b>	117%	<b>5 Year Valuation Multiple Estimate:</b>	-3.1%	<b>Dividend Payment Date:</b>	10/22/21
<b>Dividend Yield:</b>	2.4%	<b>5 Year Price Target</b>	\$93	<b>Years Of Dividend Growth:</b>	51
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	4.4%

## 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 roughly \$39.6 billion.

On August 10th, 2021, Sysco reported fourth-quarter and Fiscal Year (FY)2021 results. Sales for the fourth quarter were \$16.1 billion, an increase of 82.0% compared to the same period last year. However, for the full fiscal year, sales decreased (3.0)% to \$51.3 billion versus 2020 and decreased (14.7)% versus the fiscal year 2019. Gross profit increased 86.2% to \$2.9 billion for the quarter, and gross margin increased 41 basis points to 18.1% vs. the fourth quarter of FY2020. But, gross profit decreased (5.5)% to \$9.4 billion for the entire year, and gross margin decreased 48 basis points to 18.2%, compared to the prior year. For the quarter, the Company earned \$0.71 per share, which is flat compared to the fourth quarter FY2021. But, for the year, earnings on a per-share basis are down (28.4)% to \$1.44 per share.

We will use normalized earnings for our FY2022 estimate. Thus, we expect Sysco to make \$3.30 per share for the year in a typical environment. The normalized earnings will be used for our fair value and valuation calculations.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$1.93	\$1.78	\$1.76	\$1.84	\$2.10	\$2.34	\$3.14	\$3.55	\$2.01	\$1.44	<b>\$3.30</b>	<b>\$4.63</b>
<b>DPS</b>	\$1.07	\$1.11	\$1.15	\$1.19	\$1.23	\$1.30	\$1.41	\$1.53	\$1.74	\$1.88	<b>\$1.88</b>	<b>\$2.76</b>
<b>Shares<sup>1</sup></b>	589.0	593.0	590.0	597.0	577.0	549.0	529.0	523.0	514.0	514.0	<b>514.0</b>	<b>514.0</b>

Sysco has grown earnings by 9.5% annually over the past five years and earnings growth of 0.3% over the past nine years. Earnings were growing nicely until the COVID-19 pandemic, which caused FY2020 and FY2021 earnings to decrease. 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% earnings growth over the next three years, and we anticipate 7.0% growth over the next five years.

Suppose it weren't for the COVID-19 disruptions to the business. In that case, while still allowing for some permanent impairment due to customer bankruptcies and closures – we assume earnings-per-share "earnings power" of \$3.30 for the fiscal year 2021 for the Company, which is reflected in our fair value price estimate and valuation multiple estimates in the Key Metrics table.

<sup>1</sup> Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.1	20.4	22.1	20.8	24.9	22.2	18.70	30.80	27.20	54.00	<b>23.4</b>	<b>20.0</b>
Avg. Yld.	3.6%	3.3%	3.1%	3.3%	2.4%	2.6%	2.1%	2.2%	3.2%	2.3%	<b>2.4%</b>	<b>3.0%</b>

Over the past decade, Sysco has averaged a P/E ratio of 25.8. 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 estimates to 20 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	55.4%	62.4%	65.3%	64.7%	58.6%	55.6%	44.9%	43.1%	86.6%	130.6%	<b>57%</b>	<b>60%</b>

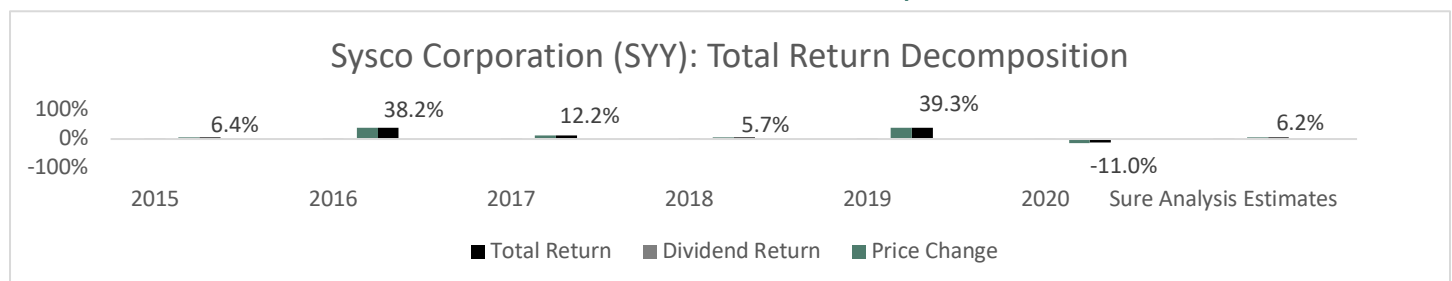
Sysco has an economic moat due to its large-scale and entrenched distribution infrastructure, which gives it a cost advantage over most competitors. This moat is evidenced by the fact that the Company generates double-digit returns on invested capital every year, much higher than its weighted average capital cost. 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 a current Debt to Equity ratio of 7.6, which is high but an improvement from the last report of 9.6.

Sysco's stable cash flows should allow them to comfortably service the debt in most environments, but this leverage level limits the Company's flexibility in the future. Most of this debt increase occurred within the past few years and took part in share buybacks to take advantage of low-interest rates. The Company has a BBB- credit rating from S&P, towards the lower end of the 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 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 coronavirus outbreak's uncertain impacts. We expect Sysco to generate 6.2% annual compounded returns as we advance, though this might be reduced downward if the pandemic's effects appear to be prolonged. For now, we rate the stock a Hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	42381	44411	46517	48681	50367	55371	58727	60114	52893	51298
<b>Gross Profit</b>	7779	7997	8181	8552	9040	10558	11085	11409	9902	9357
<b>D&amp;A Exp.</b>	18.4%	18.0%	17.6%	17.6%	663	902	765	764	914	18.2%
<b>Operating Profit</b>	417	510	548	553	1851	2055	2314	2330	750	852
<b>Operating Margin</b>	1891	1658	1587	1229	3.7%	3.7%	3.9%	3.9%	1.4%	1437
<b>Net Profit</b>	4.5%	3.7%	3.4%	2.5%	950	1143	1431	1674	215	2.8%
<b>Net Margin</b>	1122	992	932	687	1.9%	2.1%	2.4%	2.8%	0.4%	524
<b>Free Cash Flow</b>	2.6%	2.2%	2.0%	1.4%	1461	1546	1468	1719	898	1.0%
<b>Income Tax</b>	620	1000	970	1013	483	624	525	332	78	1433

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	12137	12678	13141	17989	16722	17757	18070	17967	22628	21414
<b>Cash &amp; Equivalents</b>	689	412	413	5130	3919	870	552	513	6059	3007
<b>Acc. Receivable</b>	2967	3183	3399	3353	3381	4012	4074	4182	2894	3782
<b>Inventories</b>	2179	2396	2602	2692	2639	2996	3125	3216	3095	3695
<b>Goodwill &amp; Int. Ass.</b>	1779	2090	2128	2115	2329	4954	4935	4754	4513	4690
<b>Total Liabilities</b>	7452	7486	7874	12729	13242	15375	15563	15464	21470	19861
<b>Accounts Payable</b>	2209	2428	2831	2882	2936	3971	4136	4315	3447	4885
<b>Long-Term Debt</b>	3018	2889	2733	7322	7435	8195	8327	8163	14447	11083
<b>Total Equity</b>	4685	5192	5267	5260	3480	2382	2507	2503	1159	1553
<b>D/E Ratio</b>	0.64	0.56	0.52	1.39	2.14	3.44	3.32	3.26	12.47	7.14

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	9.5%	8.0%	7.2%	4.4%	5.5%	6.6%	8.0%	9.3%	1.1%	2.4%
<b>Return on Equity</b>	23.9%	20.1%	17.8%	13.0%	21.7%	39.0%	58.5%	66.8%	11.8%	38.7%
<b>ROIC</b>	14.9%	12.6%	11.6%	6.7%	8.1%	10.6%	13.4%	15.6%	1.6%	3.7%
<b>Shares Out.</b>	589.0	593.0	590.0	597.0	577.0	549.0	529.0	523.0	514.0	514.0
<b>Revenue/Share</b>	71.96	74.93	78.81	81.56	87.23	100.94	111.00	114.86	102.90	99.89
<b>FCF/Share</b>	1.05	1.69	1.64	1.70	2.53	2.82	2.77	3.28	1.75	2.79

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

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