



Sysco Corporation (SYY)

Updated November 13th, 2021 by Felix Martinez

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|-----------------------|
| Current Price: | \$76 | 5 Year CAGR Estimate: | 7.5% | Market Cap: | \$39.8 B |
| Fair Value Price: | \$69 | 5 Year Growth Estimate: | 7.0% | Ex-Dividend Date: | 01/02/22 ¹ |
| % Fair Value: | 110% | 5 Year Valuation Multiple Estimate: | -1.9% | Dividend Payment Date: | 01/24/22 |
| Dividend Yield: | 2.5% | 5 Year Price Target | \$97 | Years Of Dividend Growth: | 51 |
| Dividend Risk Score: | A | Retirement Suitability Score: | B | Last Dividend Increase: | 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 \$39.8 billion.

On November 9th, 2021, Sysco reported first-quarter results for Fiscal Year (FY)2022. Sales for the first quarter were \$16.5 billion, an increase of 39.7% compared to the same period last year. Compared to pre-COVID-19 levels, sales are up 8%. Gross profit increased 33.9% to \$3.0 billion compared to the same period last year, and gross profit increased 2.3% compared to the same period in the fiscal year 2019. The International Foodservice Operations returned to profitability as operating income saw improvement compared to the prior year. Overall, the gross margin is down 79 basis points compared to 1Q2020. Net Earnings is up 147.9% from \$173.5 million in 1Q2020 to now \$429.9 million this quarter.

For the quarter, the Company earned \$0.83 per share, up 144% compared to the first quarter of FY2021.

We will use normalized earnings for our FY2022 estimate. Thus, we expect Sysco to make \$3.47 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 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$1.93 | \$1.78 | \$1.76 | \$1.84 | \$2.10 | \$2.34 | \$3.14 | \$3.55 | \$2.01 | \$1.44 | \$3.47 | \$4.87 |
| DPS | \$1.07 | \$1.11 | \$1.15 | \$1.19 | \$1.23 | \$1.30 | \$1.41 | \$1.53 | \$1.74 | \$1.88 | \$1.88 | \$2.76 |
| Shares² | 589.0 | 593.0 | 590.0 | 597.0 | 577.0 | 549.0 | 529.0 | 523.0 | 514.0 | 514.0 | 514.0 | 514.0 |

Sysco has grown earnings by 8.2% annually over the past five years and earnings growth of (3.2)% 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 \$3.47 for the fiscal year 2022 for the Company, which is reflected in our fair value price estimate and valuation multiple estimates in the Key Metrics table.

¹ Ex-Dividend and Dividend Payment Date are estimates.

² Share count is in millions.

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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 | 22.0 | 20.0 |
| Avg. Yld. | 3.6% | 3.3% | 3.1% | 3.3% | 2.4% | 2.6% | 2.1% | 2.2% | 3.2% | 2.3% | 2.5% | 2.8% |

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% | 54% | 57% |

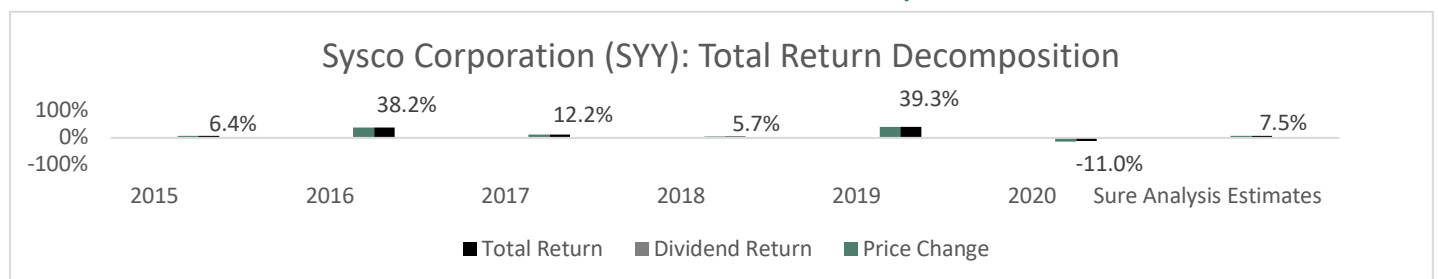
Sysco has an economic moat due to its large-scale and entrenched distribution infrastructure, which gives it a cost advantage over most competitors. This moat is evidenced by the fact that the Company generates double-digit returns on invested capital every year, much higher than its weighted average 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 7.1, which is high but an improvement from the last report of 7.6.

Sysco's stable cash flows should allow them to service the debt in most environments comfortably, 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 7.5% 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 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 42381 | 44411 | 46517 | 48681 | 50367 | 55371 | 58727 | 60114 | 52893 | 51298 |
| Gross Profit | 7779 | 7997 | 8181 | 8552 | 9040 | 10558 | 11085 | 11409 | 9902 | 9357 |
| D&A Exp. | 18.4% | 18.0% | 17.6% | 17.6% | 663 | 902 | 765 | 764 | 914 | 18.2% |
| Operating Profit | 417 | 510 | 548 | 553 | 1851 | 2055 | 2314 | 2330 | 750 | 852 |
| Operating Margin | 1891 | 1658 | 1587 | 1229 | 3.7% | 3.7% | 3.9% | 3.9% | 1.4% | 1437 |
| Net Profit | 4.5% | 3.7% | 3.4% | 2.5% | 950 | 1143 | 1431 | 1674 | 215 | 2.8% |
| Net Margin | 1122 | 992 | 932 | 687 | 1.9% | 2.1% | 2.4% | 2.8% | 0.4% | 524 |
| Free Cash Flow | 2.6% | 2.2% | 2.0% | 1.4% | 1461 | 1546 | 1468 | 1719 | 898 | 1.0% |
| Income Tax | 620 | 1000 | 970 | 1013 | 483 | 624 | 525 | 332 | 78 | 1433 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 12137 | 12678 | 13141 | 17989 | 16722 | 17757 | 18070 | 17967 | 22628 | 21414 |
| Cash & Equivalents | 689 | 412 | 413 | 5130 | 3919 | 870 | 552 | 513 | 6059 | 3007 |
| Acc. Receivable | 2967 | 3183 | 3399 | 3353 | 3381 | 4012 | 4074 | 4182 | 2894 | 3782 |
| Inventories | 2179 | 2396 | 2602 | 2692 | 2639 | 2996 | 3125 | 3216 | 3095 | 3695 |
| Goodwill & Int. Ass. | 1779 | 2090 | 2128 | 2115 | 2329 | 4954 | 4935 | 4754 | 4513 | 4690 |
| Total Liabilities | 7452 | 7486 | 7874 | 12729 | 13242 | 15375 | 15563 | 15464 | 21470 | 19861 |
| Accounts Payable | 2209 | 2428 | 2831 | 2882 | 2936 | 3971 | 4136 | 4315 | 3447 | 4885 |
| Long-Term Debt | 3018 | 2889 | 2733 | 7322 | 7435 | 8195 | 8327 | 8163 | 14447 | 11083 |
| Total Equity | 4685 | 5192 | 5267 | 5260 | 3480 | 2382 | 2507 | 2503 | 1159 | 1553 |
| D/E Ratio | 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 |
|-------------------------|-------|-------|-------|-------|-------|--------|--------|--------|--------|-------|
| Return on Assets | 9.5% | 8.0% | 7.2% | 4.4% | 5.5% | 6.6% | 8.0% | 9.3% | 1.1% | 2.4% |
| Return on Equity | 23.9% | 20.1% | 17.8% | 13.0% | 21.7% | 39.0% | 58.5% | 66.8% | 11.8% | 38.7% |
| ROIC | 14.9% | 12.6% | 11.6% | 6.7% | 8.1% | 10.6% | 13.4% | 15.6% | 1.6% | 3.7% |
| Shares Out. | 589.0 | 593.0 | 590.0 | 597.0 | 577.0 | 549.0 | 529.0 | 523.0 | 514.0 | 514.0 |
| Revenue/Share | 71.96 | 74.93 | 78.81 | 81.56 | 87.23 | 100.94 | 111.00 | 114.86 | 102.90 | 99.89 |
| FCF/Share | 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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