



Sysco Corporation (SYY)

Updated August 28th, 2022 by Felix Martinez

Key Metrics

Current Price:	\$84	5 Year CAGR Estimate:	9.1%	Market Cap:	\$42.3 B
Fair Value Price:	\$84	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	10/06/22
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.1%	Dividend Payment Date:	10/28/22
Dividend Yield:	2.3%	5 Year Price Target	\$118	Years Of Dividend Growth:	52
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

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 roughly \$42.3 billion market capitalization.

On August 9th, 2022, Sysco reported fourth-quarter and full year results for Fiscal Year (FY)2022. The company ends its fiscal year at the end of June.

Sales for the quarter were \$19.0 billion, an increase of 17.5% versus the same period in the fiscal year 2021 and 22.5% versus the same period in the fiscal year 2019. For the twelve months of the fiscal year, sales grew by 33.8% to \$68.8 billion compared to the twelve months in FY2021. Gross profit increased 18.1% to \$3.4 billion, as compared to the same quarter last year, and increased 15.6%, as compared to the same period in fiscal year 2019. Earnings per share (EPS) increased to \$0.99 compared to \$0.29 for the quarter compared to the fourth quarter of FY2021. Adjusted EPS increased to \$1.15 compared to \$0.71 in the same period last year.

For the fiscal year, sales increased 33.8% versus fiscal year 2021 and, on a comparable 52-week basis, increased 36.9% to \$68.6 billion. Sales increased 14.2% versus FY2019. EPS increased to \$2.64 compared to \$1.02 in the prior year. Adjusted1 EPS increased to \$3.25 compared to \$1.44 in the prior year and, on a comparable 52-week basis, increased \$1.86, or 133.8%.

Overall, the company delivered strong financial results, growing volumes and sales, and improving profitability. At the same time, the company was able to strengthen its balance sheet and return \$1.5 billion to its shareholders.

We expect Sysco to make \$4.20 per share for the FY2023 in this environment. These expected earnings will be used for our fair value and valuation calculations.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.78	\$1.76	\$1.84	\$2.10	\$2.34	\$3.14	\$3.55	\$2.01	\$1.44	\$3.25	\$4.20	\$5.89
DPS	\$1.11	\$1.15	\$1.19	\$1.23	\$1.30	\$1.41	\$1.53	\$1.74	\$1.88	\$1.88	\$1.88	\$2.52
Shares¹	593.0	590.0	597.0	577.0	549.0	529.0	523.0	514.0	514.0	513.0	513.0	513.0

Sysco has grown earnings by 6.0% annually over the past five years and earnings growth of 6.9% over the past nine years. Earnings were growing nicely until the COVID-19 pandemic, which caused FY2020 and FY2021 earnings to decrease. Through acquisitions and more recently, the company growth organically, with share buybacks, has increased earnings. 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. We anticipate 7.0% earnings growth over the next five years.

¹ 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	20.4	22.1	20.8	24.9	22.2	18.70	30.80	27.20	54.00	26.50	19.9	20.0
Avg. Yld.	3.3%	3.1%	3.3%	2.4%	2.6%	2.1%	2.2%	3.2%	2.3%	2.2%	2.3%	2.1%

Over the past decade, Sysco has averaged a P/E ratio of 26.8. 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 supply chain issues, we are reducing our fair value multiple estimates to 20 times earnings.

Safety, Quality, Competitive Advantage, & Recession Resiliency

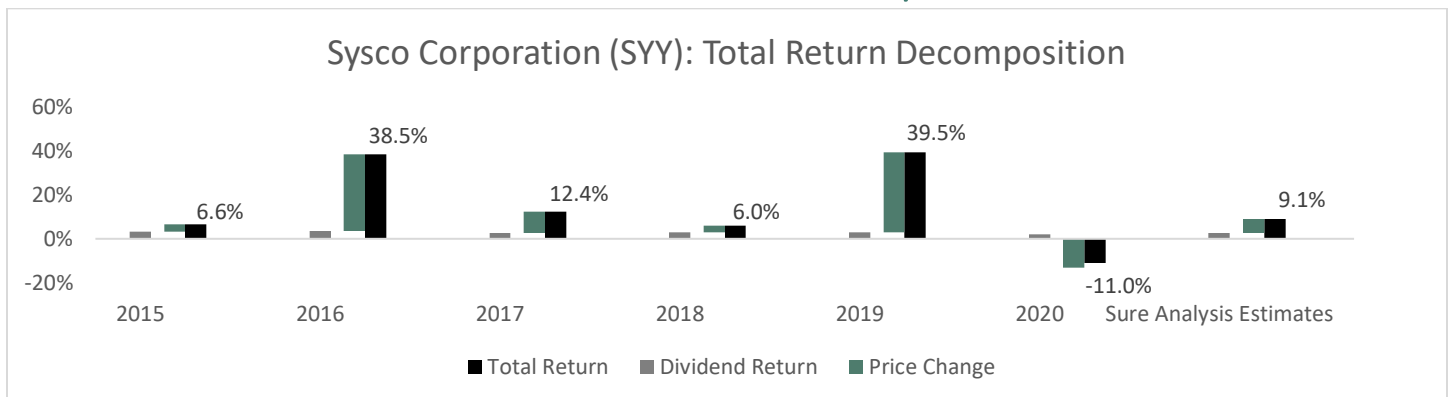
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	62.4%	65.3%	64.7%	58.6%	55.6%	44.9%	43.1%	86.6%	130%	57.8%	45%	43%

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 company's 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 7.7, which is high and concerning. Sysco's stable cash flows should allow them to service the debt in most environments comfortably, but this leverage level limits the company's ability 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, which is 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 leverage is also higher than it historically has been. While this is a great business, investors should exercise caution due to the overall market. We expect Sysco to generate 9.1% annual compounded returns as we advance, though this might be reduced downward if the market continues the downward trend. For now, we rate the stock a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	44,411	46,517	48,681	50,367	55,371	58,727	60,114	52,893	51,298	68,636
Gross Profit	7,997	8,181	8,552	9,040	10,558	11,085	11,409	9,902	9,357	12,321
D&A Exp.	510	548	553	663	902	765	764	914	852	881
Operating Profit	1,658	1,587	1,229	1,851	2,055	2,314	2,330	750	1,437	2,339
Operating Margin	3.7%	3.4%	2.5%	3.7%	3.7%	3.9%	3.9%	1.4%	2.8%	3.4%
Net Profit	992	932	687	950	1,143	1,431	1,674	215	524	1,359
Net Margin	2.2%	2.0%	1.4%	1.9%	2.1%	2.4%	2.8%	0.4%	1.0%	2.0%
Free Cash Flow	1,000	970	1,013	1,461	1,546	1,468	1,719	898	1,433	1,158
Income Tax	555	544	321	483	624	525	332	78	61	388

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	12,678	13,141	17,989	16,722	17,757	18,070	17,967	22,628	21,414	22,086
Cash & Equivalents	412	413	5,130	3,919	870	552	513	6,059	3,007	867
Acc. Receivable	3,183	3,399	3,353	3,381	4,012	4,074	4,182	2,894	3,782	4,839
Inventories	2,396	2,602	2,692	2,639	2,996	3,125	3,216	3,095	3,695	4,437
Goodwill & Int. Ass.	2,090	2,128	2,115	2,329	4,954	4,935	4,754	4,513	4,690	5,495
Total Liabilities	7,486	7,874	12,729	13,242	15,375	15,563	15,464	21,470	19,861	20,671
Accounts Payable	2,428	2,831	2,882	2,936	3,971	4,136	4,315	3,447	4,885	5,753
Long-Term Debt	2,889	2,733	7,322	7,435	8,195	8,327	8,163	14,447	11,083	10,648
Total Equity	5,192	5,267	5,260	3,480	2,382	2,507	2,503	1,159	1,553	1,382
LTD/E Ratio	0.56	0.52	1.39	2.14	3.44	3.32	3.26	12.47	7.14	7.7

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.0%	7.2%	4.4%	5.5%	6.6%	8.0%	9.3%	1.1%	2.4%	6.2%
Return on Equity	20.1%	17.8%	13.0%	21.7%	39.0%	58.5%	66.8%	11.8%	38.7%	92.6%
ROIC	12.6%	11.6%	6.7%	8.1%	10.6%	13.4%	15.6%	1.6%	3.7%	11.0%
Shares Out.	593.0	590.0	597.0	577.0	549.0	529.0	523.0	514.0	514.0	513.0
Revenue/Share	74.93	78.81	81.56	87.23	100.94	111.00	114.86	102.90	99.89	133.53
FCF/Share	1.69	1.64	1.70	2.53	2.82	2.77	3.28	1.75	2.79	2.25

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

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