



# Sysco Corporation (SYY)

Updated March 5<sup>th</sup>, 2023 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$76	<b>5 Year CAGR Estimate:</b>	10.3%	<b>Market Cap:</b>	\$38.7 B
<b>Fair Value Price:</b>	\$81	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	04/05/23
<b>% Fair Value:</b>	95%	<b>5 Year Valuation Multiple Estimate:</b>	1.1%	<b>Dividend Payment Date:</b>	04/28/23
<b>Dividend Yield:</b>	2.6%	<b>5 Year Price Target</b>	\$113	<b>Years Of Dividend Growth:</b>	52
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## 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 \$38.7 billion market capitalization.

On January 31<sup>st</sup>, 2023, Sysco reported second-quarter and six months results for Fiscal Year (FY)2023. The company ends its fiscal year at the end of June. Sales for the quarter were \$18.6 billion, an increase of 13.9% versus the same period in the fiscal year 2022. Gross profit increased 15.9% to \$3.3 billion, as compared to the same quarter last year. Gross margin increased 29 basis points to 18.0% and adjusted gross margin is now 18.0% compared to 2Q2022. Adjusted net income also saw a significant increase of 39.7% year-over-year. Adjusted Earnings per share (EPS) increased to \$0.80 compared to \$0.57 for the quarter compared to the second quarter of FY2022, which is an increase of 40.4% year-over-year. The company was able to grow both top and bottom line because they have effectively managed inflation, increased case volume and grew market share. Overall, the company delivered strong financial results, growing volumes and sales, and improving profitability. At the same time, the company was able to increase free cash flow to \$219.3 million for the first six months of the fiscal year, which was an increase of \$18.2 million over the prior year period.

We expect Sysco to make \$4.03 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
<b>EPS</b>	\$1.78	\$1.76	\$1.84	\$2.10	\$2.34	\$3.14	\$3.55	\$2.01	\$1.44	\$3.25	<b>\$4.03</b>	<b>\$5.65</b>
<b>DPS</b>	\$1.11	\$1.15	\$1.19	\$1.23	\$1.30	\$1.41	\$1.53	\$1.74	\$1.88	\$1.88	<b>\$1.96</b>	<b>\$2.62</b>
<b>Shares<sup>1</sup></b>	593.0	590.0	597.0	577.0	549.0	529.0	523.0	514.0	514.0	513.0	<b>513.0</b>	<b>513.0</b>

Sysco has grown earnings by 5.1% 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.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>Avg. P/E</b>	20.4	22.1	20.8	24.9	22.2	18.70	30.80	27.20	54.00	26.50	<b>18.9</b>	<b>20.0</b>
<b>Avg. Yld.</b>	3.3%	3.1%	3.3%	2.4%	2.6%	2.1%	2.2%	3.2%	2.3%	2.2%	<b>2.6%</b>	<b>2.3%</b>

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

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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

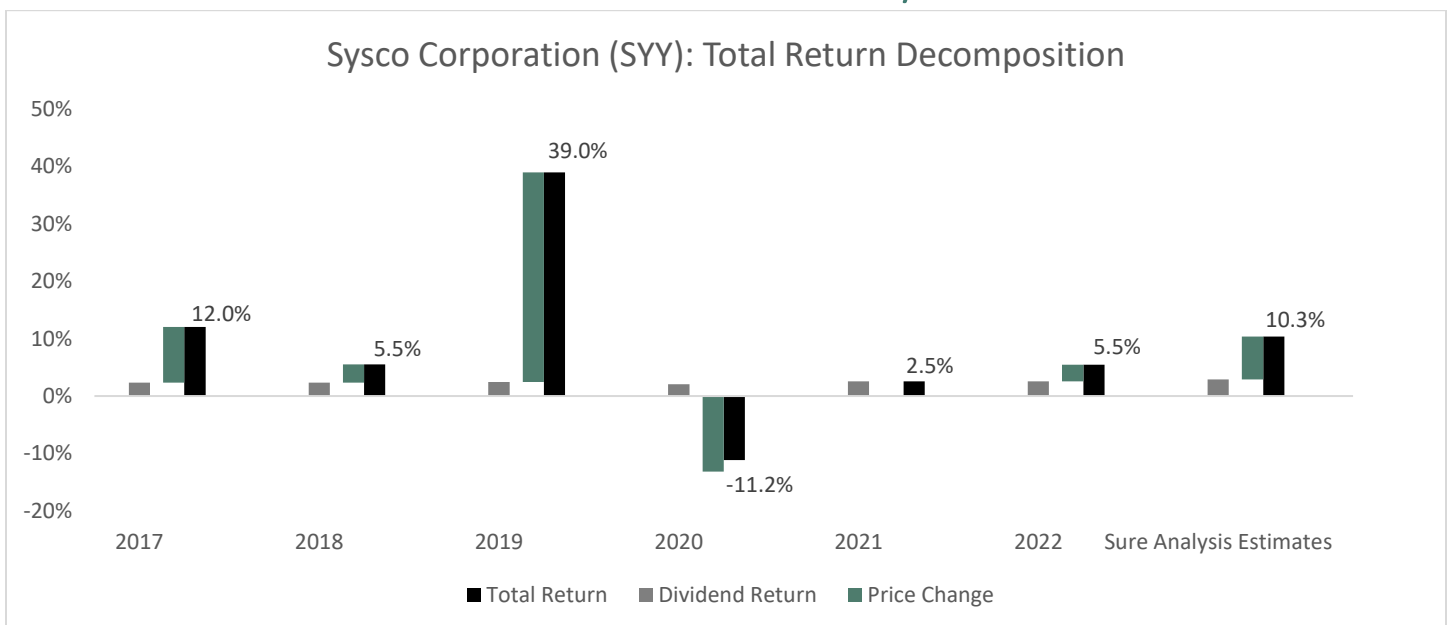
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>Payout</b>	62.4%	65.3%	64.7%	58.6%	55.6%	44.9%	43.1%	86.6%	130%	57.8%	<b>49%</b>	<b>46%</b>

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 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 8.2, 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 10.3% 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 buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	12,678	13,141	17,989	16,722	17,757	18,070	17,967	22,628	21,414	22,086
<b>Cash &amp; Equivalents</b>	412	413	5,130	3,919	870	552	513	6,059	3,007	867
<b>Acc. Receivable</b>	3,183	3,399	3,353	3,381	4,012	4,074	4,182	2,894	3,782	4,839
<b>Inventories</b>	2,396	2,602	2,692	2,639	2,996	3,125	3,216	3,095	3,695	4,437
<b>Goodwill &amp; Int. Ass.</b>	2,090	2,128	2,115	2,329	4,954	4,935	4,754	4,513	4,690	5,495
<b>Total Liabilities</b>	7,486	7,874	12,729	13,242	15,375	15,563	15,464	21,470	19,861	20,671
<b>Accounts Payable</b>	2,428	2,831	2,882	2,936	3,971	4,136	4,315	3,447	4,885	5,753
<b>Long-Term Debt</b>	2,889	2,733	7,322	7,435	8,195	8,327	8,163	14,447	11,083	10,648
<b>Total Equity</b>	5,192	5,267	5,260	3,480	2,382	2,507	2,503	1,159	1,553	1,382
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	8.0%	7.2%	4.4%	5.5%	6.6%	8.0%	9.3%	1.1%	2.4%	6.2%
<b>Return on Equity</b>	20.1%	17.8%	13.0%	21.7%	39.0%	58.5%	66.8%	11.8%	38.7%	92.6%
<b>ROIC</b>	12.6%	11.6%	6.7%	8.1%	10.6%	13.4%	15.6%	1.6%	3.7%	11.0%
<b>Shares Out.</b>	593.0	590.0	597.0	577.0	549.0	529.0	523.0	514.0	514.0	513.0
<b>Revenue/Share</b>	74.93	78.81	81.56	87.23	100.94	111.00	114.86	102.90	99.89	133.53
<b>FCF/Share</b>	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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