



Sysco Corporation (SYY)

Updated May 19th, 2023 by Felix Martinez

Key Metrics

Current Price:	\$73	5 Year CAGR Estimate:	11.1%	Market Cap:	\$37.08 B
Fair Value Price:	\$80	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	07/06/23
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.8%	Dividend Payment Date:	07/28/23
Dividend Yield:	2.7%	5 Year Price Target	\$112	Years Of Dividend Growth:	53
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	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 \$37.08 billion market capitalization.

On May 2nd, 2023, Sysco reported third-quarter results for Fiscal Year (FY)2023. The third quarter of fiscal year 2023 showcased impressive financial performance for the company across various key metrics. Sales recorded a significant increase of 11.7% compared to the same period in the previous fiscal year, indicating strong revenue growth. This growth highlights the company's ability to capitalize on market opportunities and drive sales performance. Additionally, U.S. Foodservice volume experienced a commendable increase of 6.1%, reflecting the company's success in expanding its foodservice operations and meeting customer demands. The company's gross profit demonstrated remarkable growth, rising by 13.9% to reach \$3.4 billion compared to the same period last year. This improvement signifies enhanced profitability and effective cost management by the company. Operating income surged by 40.0% to \$694.2 million, while adjusted operating income increased by 27.8% to \$735.5 million. Notably, Sysco achieved the highest Q3 adjusted operating income on record, surpassing the prior peak by 18.6%. These impressive operating results underscore the company's ability to effectively manage its operations and generate higher income. Furthermore, the company exhibited robust financial strength with EBITDA increasing by 25.8% to \$885.0 million and adjusted EBITDA rising by 19.0% to \$899.7 million compared to the same period last year. These figures highlight the company's solid financial performance and its capacity to generate strong operational cash flow. The company's earnings per share (EPS) experienced significant growth, with a 42.4% increase to \$0.84 and adjusted EPS rising by 26.8% to \$0.90, compared to the same period last year. These improved earnings per share demonstrate the company's success in driving profitability and delivering stronger returns for its shareholders.

We expect Sysco to make \$4.00 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	\$4.00	\$5.61
DPS	\$1.11	\$1.15	\$1.19	\$1.23	\$1.30	\$1.41	\$1.53	\$1.74	\$1.88	\$1.88	\$1.96	\$2.62
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 5.0% 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

¹ Share count is in millions.

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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
Avg. P/E	20.4	22.1	20.8	24.9	22.2	18.70	30.80	27.20	54.00	26.50	18.3	20.0
Avg. Yld.	3.3%	3.1%	3.3%	2.4%	2.6%	2.1%	2.2%	3.2%	2.3%	2.2%	2.7%	2.3%

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 20x 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

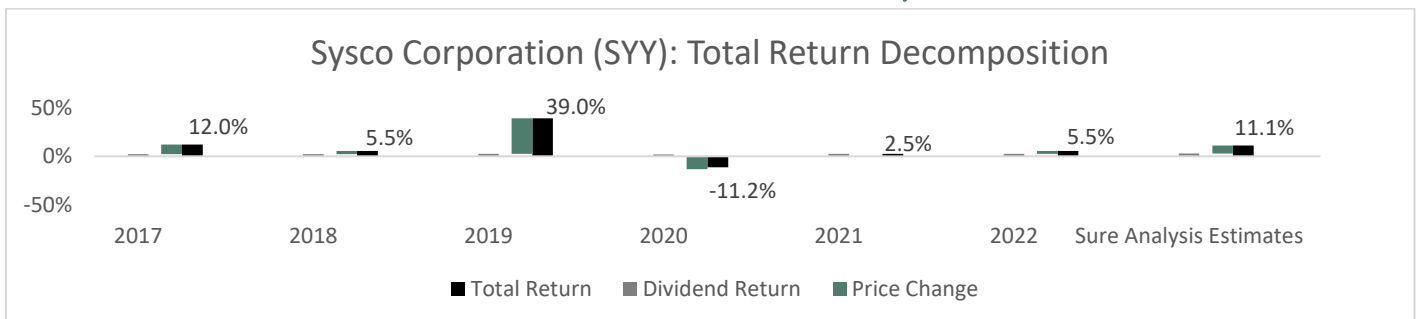
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	62.4%	65.3%	64.7%	58.6%	55.6%	44.9%	43.1%	86.6%	130%	57.8%	49%	47%

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 7.4, 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 11.1% 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 buy.

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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