



Sysco Corporation (SYY)

Updated August 13th, 2023 by Felix Martinez

Key Metrics

Current Price:	\$72	5 Year CAGR Estimate:	13.0%	Market Cap:	\$36.35 B
Fair Value Price:	\$86	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	10/06/23 ¹
% Fair Value:	84%	5 Year Valuation Multiple Estimate:	3.6%	Dividend Payment Date:	10/28/23
Dividend Yield:	2.8%	5 Year Price Target	\$121	Years Of Dividend Growth:	53
Dividend Risk Score:	A	Retirement Suitability Score:	A	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 \$36.35 billion market capitalization.

On August 1st, 2023, Sysco reported fourth-quarter results for Fiscal Year (FY)2023. In the fourth quarter, Sysco achieved a 4.1% sales increase compared to the same period in the previous fiscal year, with U.S. Foodservice volume rising by 2.3%. Gross profit surged by 7.0% to \$3.7 billion, and operating income witnessed a remarkable growth of 26.5% to \$969.4 million. Adjusted operating income also performed well, increasing by 16.9% to \$1.0 billion. Sysco's EBITDA rose by 33.2% to \$1.3 billion, with adjusted EBITDA increasing by 14.4% to \$1.2 billion. Earnings per share (EPS) exhibited significant growth, with a 45.5% increase to \$1.44, and adjusted EPS rose by 16.5% to \$1.34, both compared to the previous fiscal year.

For the entire fiscal year 2023, Sysco demonstrated strong results, including an 11.2% increase in sales compared to fiscal year 2022 and a 5.2% rise in U.S. Foodservice volume. Gross profit reached \$14.0 billion, reflecting a growth of 13.3%. Operating income surged by 29.5% to \$3.0 billion, while adjusted operating income hit a record high of \$3.2 billion, marking a 21.7% increase. EBITDA expanded by 14.1% to \$3.6 billion, and adjusted EBITDA grew by 15.6% to \$3.8 billion. EPS experienced a notable uptick of 31.4% to \$3.47, with adjusted EPS rising by 23.4% to \$4.01. Sysco's robust financial health is evident in its enhanced cash flow from operations, which surged by 60.1% to \$2.9 billion, and free cash flow, which soared by 79.0% to \$2.1 billion compared to the same period in the previous year. The company returned approximately \$1.5 billion of capital to shareholders through share repurchases and dividends, while effectively managing its net debt to adjusted EBITDA ratio at 2.5 times, achieving its targeted level.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.76	\$1.84	\$2.10	\$2.34	\$3.14	\$3.55	\$2.01	\$1.44	\$3.25	\$4.01	\$4.30	\$6.03
DPS	\$1.15	\$1.19	\$1.23	\$1.30	\$1.41	\$1.53	\$1.74	\$1.88	\$1.88	\$1.96	\$2.05	\$2.74
Shares²	590.0	597.0	577.0	549.0	529.0	523.0	514.0	514.0	513.0	513.0	513.0	513.0

Sysco has grown earnings by 3.9% annually over the past five years and earnings growth of 9.6% 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 Ex-Dividend and Dividend payment Date are estimates.

² 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	22.1	20.8	24.9	22.2	18.70	30.80	27.20	54.00	26.50	18.50	17.0	20.0
Avg. Yld.	3.1%	3.3%	2.4%	2.6%	2.1%	2.2%	3.2%	2.3%	2.2%	2.6%	2.7%	2.3%

Over the past decade, Sysco has averaged a P/E ratio of 26.6x. 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 20x earnings.

Safety, Quality, Competitive Advantage, & Recession Resiliency

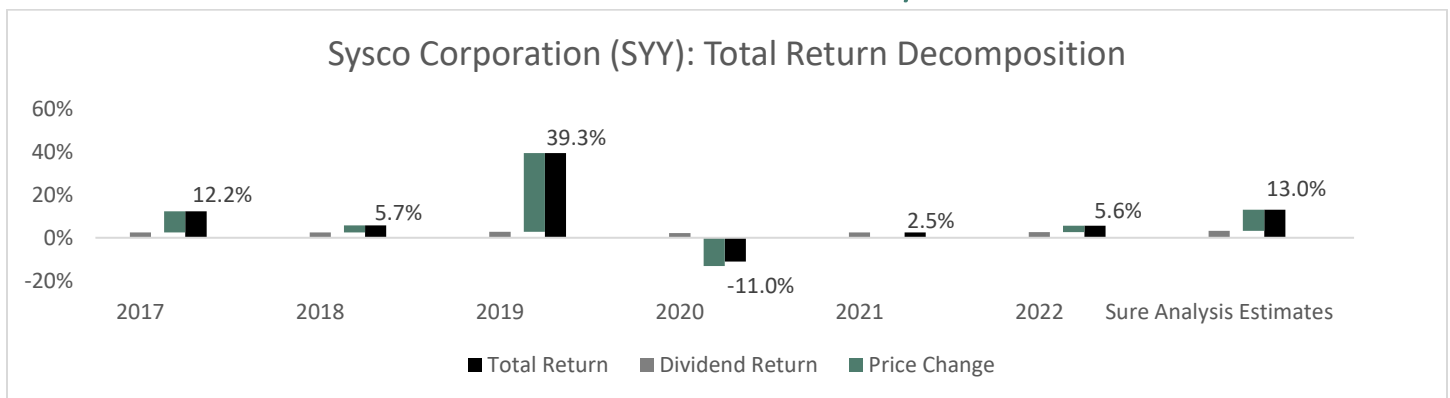
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	65.3%	64.7%	58.6%	55.6%	44.9%	43.1%	86.6%	130%	57.8%	48.9%	48%	45%

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 13.0% annual compounded returns as we advance. Thus, we rate the stock a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	46,517	48,681	50,367	55,371	58,727	60,114	52,893	51,298	68,636	76,320
Gross Profit	8,181	8,552	9,040	10,558	11,085	11,409	9,902	9,357	12,321	13,950
D&A Exp.	548	553	663	902	765	764	914	852	881	889
Operating Profit	1,587	1,229	1,851	2,055	2,314	2,330	750	1,437	2,339	3,039
Operating Margin	3.4%	2.5%	3.7%	3.7%	3.9%	3.9%	1.4%	2.8%	3.4%	4.0%
Net Profit	932	687	950	1,143	1,431	1,674	215	524	1,359	1,770
Net Margin	2.0%	1.4%	1.9%	2.1%	2.4%	2.8%	0.4%	1.0%	2.0%	2.3%
Free Cash Flow	970	1,013	1,461	1,546	1,468	1,719	898	1,433	1,158	2,074
Income Tax	544	321	483	624	525	332	78	61	388	515

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	13,141	17,989	16,722	17,757	18,070	17,967	22,628	21,414	22,086	22,820
Cash & Equivalents	413	5,130	3,919	870	552	513	6,059	3,007	867	745
Acc. Receivable	3,399	3,353	3,381	4,012	4,074	4,182	2,894	3,782	4,839	5,092
Inventories	2,602	2,692	2,639	2,996	3,125	3,216	3,095	3,695	4,437	4,481
Goodwill & Int. Ass.	2,128	2,115	2,329	4,954	4,935	4,754	4,513	4,690	5,495	5,505
Total Liabilities	7,874	12,729	13,242	15,375	15,563	15,464	21,470	19,861	20,671	20,780
Accounts Payable	2,831	2,882	2,936	3,971	4,136	4,315	3,447	4,885	5,753	6,026
Long-Term Debt	2,733	7,322	7,435	8,195	8,327	8,163	14,447	11,083	10,648	10,410
Total Equity	5,267	5,260	3,480	2,382	2,507	2,503	1,159	1,553	1,382	2,009
LTD/E Ratio	0.52	1.39	2.14	3.44	3.32	3.26	12.47	7.14	7.7	5.18

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.2%	4.4%	5.5%	6.6%	8.0%	9.3%	1.1%	2.4%	6.2%	7.9%
Return on Equity	17.8%	13.0%	21.7%	39.0%	58.5%	66.8%	11.8%	38.7%	92.6%	104%
ROIC	11.6%	6.7%	8.1%	10.6%	13.4%	15.6%	1.6%	3.7%	11.0%	14.4%
Shares Out.	590.0	597.0	577.0	549.0	529.0	523.0	514.0	514.0	513.0	509.7
Revenue/Share	78.81	81.56	87.23	100.94	111.00	114.86	102.90	99.89	133.53	149.74
FCF/Share	1.64	1.70	2.53	2.82	2.77	3.28	1.75	2.79	2.25	4.07

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

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