



Sysco Corporation (SYY)

Updated February 19th, 2024 by Felix Martinez

Key Metrics

Current Price:	\$80	5 Year CAGR Estimate:	10.8%	Market Cap:	\$39.5 B
Fair Value Price:	\$86	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	04/28/24
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.6%	Dividend Payment Date:	04/05/24
Dividend Yield:	2.5%	5 Year Price Target	\$121	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 \$39.5 billion market capitalization.

On January 30th, 2024, Sysco reported second-quarter results for Fiscal Year (FY)2024. The company has reported robust financial results for the second fiscal quarter ending December 30, 2023. In this period of fiscal year 2024, key metrics demonstrated positive growth compared to the same quarter in the previous fiscal year. Sales increased by 3.7%, driven by a 3.4% rise in U.S. Foodservice volume and a 2.9% increase in U.S. local volumes. Gross profit saw a significant uptick of 4.9% to reach \$3.5 billion, while operating income increased by 9.2% to \$700.0 million. Adjusted EBITDA showed a remarkable 82.7% increase, reaching \$914.3 million. Earnings per share (EPS) surged by 192.9% to \$0.82, with adjusted EPS growing by 11.3% to \$0.89. The first half of the fiscal year saw a 70.0% increase in cash flow from operations to \$855.9 million, and free cash flow soared by 140.5% to \$527.4 million. The company now anticipates returning approximately \$2.25 billion to shareholders in fiscal year 2024, up from the initial estimate of \$750 million to \$1.25 billion, and has reaffirmed its fiscal year 2024 guidance for top- and bottom-line growth.

Sysco's President and CEO, Kevin Hourican, expressed optimism about the results, citing over 11% growth in adjusted EPS during the second quarter. He attributed this success to increased sales and volume, positive operating leverage, and effective margin management. Hourican highlighted the company's balanced approach to achieving top- and bottom-line growth, emphasizing improvements in volume growth, local performance, supply chain productivity, and cost-out actions. He underscored Sysco's industry-leading profitability, size and scale advantages, and a strong balance sheet, projecting strong results for the remainder of fiscal year 2024 and beyond.

Breaking down the second quarter fiscal year 2024 results, total Sysco reported a 3.7% increase in sales to \$19.3 billion, with gross profit rising by 4.9% to \$3.5 billion and gross margin increasing by 21 basis points to 18.2%. Operating income increased by 9.2% to \$700.0 million. In the U.S. Foodservice Operations segment, improved volumes, positive local case performance, and effective margin management contributed to continued profit growth. Sales for the segment increased by 3.2% to \$13.5 billion, with total case volume growing by 3.4% and local case volume increasing by 2.9%. Gross profit for U.S. Foodservice Operations increased by 3.4% to \$2.6 billion, and gross margin increased by 4 basis points to 19.1%. Operating income for the segment increased by 7.4% to \$839.0 million.

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	\$4.31	\$6.04
DPS	\$1.15	\$1.19	\$1.23	\$1.30	\$1.41	\$1.53	\$1.74	\$1.88	\$1.88	\$1.96	\$2.02	\$2.74
Shares¹	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 4.0% 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

¹ Share count is in millions.

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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	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	16.4	20.0
Avg. Yld.	3.1%	3.3%	2.4%	2.6%	2.1%	2.2%	3.2%	2.3%	2.2%	2.6%	2.8%	2.2%

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. However, we think a fair value multiple estimates to 20x earnings is fair for this company.

Safety, Quality, Competitive Advantage, & Recession Resiliency

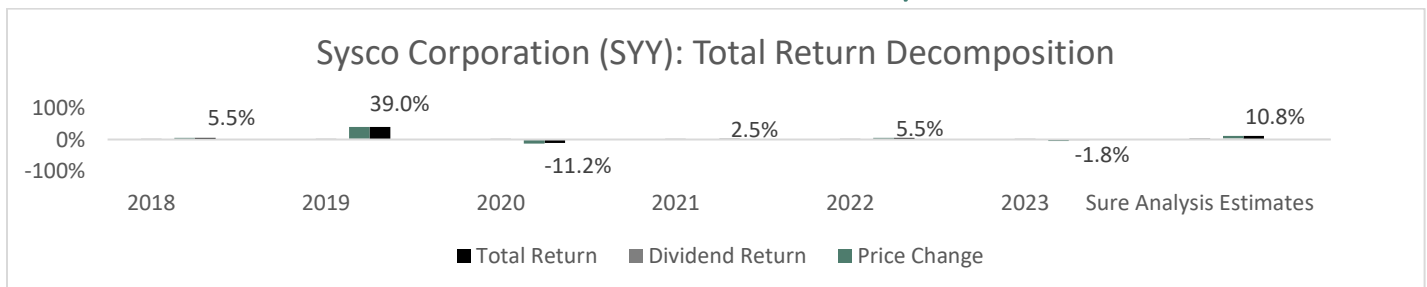
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	65.3%	64.7%	58.6%	55.6%	44.9%	43.1%	86.6%	130%	57.8%	48.9%	47%	45%

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 5.4, which is lower than last report. 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 lower 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 10.8% 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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