

Sysco Corporation

Consumer Conference Key Takeaways

Reiterate Rating: BUY | PO: 91.00 USD | Price: 80.52 USD

Key highlights from SYY group meetings

We hosted SYY Investor Relations for group meetings at our 2024 Consumer Conference in Miami. SYY, the largest and most profitable foodservice distributor in the US, feels good about its trajectory in what should likely be a more stable environment over the next 3-5 years. We reaffirm our Buy rating and highlight our key takeaways below:

See support for improving local case growth

We see support for continued improvement in local case volume trends for SYY (following F2Q's acceleration to +2.9%) from SYY's tweaks to its compensation structure for sales consultants, improvements in customer visit frequency/quality (which was biggest driver in F2Q), additions to its salesforce headcount (in F24 & beyond), and team-based selling. We expect SYY's national/chain customer business to remain strong, and also see continued growth in SYY's non-restaurants (~1/3 of total sales) and International, which experienced more prolonged recovery coming out of the pandemic.

Specialty = underpenetrated, high growth/margin category

Specialty (incl. specialty meat, specialty produce, Italian and more) continues to be an important focus in SYY's M&A strategy given it is an underpenetrated area for the company as well as a higher margin and faster growth vs. Broadlines. SYY's growing specialty offering enables greater cross selling opportunities and increased share of wallet with existing customers (who may have ordered specialty products through a smaller/specialty distributor in the past). SYY has significant whitespace in terms of existing markets without all three of these businesses, and continued growth in specialty bodes well for SYY's long-term margin outlook.

Reaffirm Buy on improving NT trends, strong LT outlook

We reaffirm our Buy as we see continued market share gains supported by SYY's scale and ongoing reinvestments (incl. customer-facing and supply chain initiatives). We see a compelling trajectory for EBIT margin expansion in F2H24 and beyond as SYY focuses on improving operational efficiency, with further support from centralized pricing, sourcing initiatives, private label and higher-margin specialty. We have trimmed our F26E adj. EPS to reflect a slightly higher expected tax rate and interest expense.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.25	4.01	4.31	4.75	5.19
GAAP EPS	2.64	3.47	4.23	4.75	5.19
EPS Change (YoY)	125.7%	23.4%	7.5%	10.2%	9.3%
Consensus EPS (Bloomberg)			4.32	4.74	5.17
DPS	1.87	1.95	2.05	2.15	2.25
Valuation (Jun)					
P/E	24.8x	20.1x	18.7x	17.0x	15.5x
GAAP P/E	30.5x	23.2x	19.0x	17.0x	15.5x
Dividend Yield	2.3%	2.4%	2.6%	2.7%	2.8%
EV / EBITDA*	14.7x	12.7x	11.4x	10.5x	9.8x
Free Cash Flow Yield*	3.1%	5.1%	5.1%	5.5%	5.8%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 13 March 2024 06:17PM EDT

13 March 2024

Equity

Key Changes

(US\$)	Previous	Current
2025E Rev (m)	82,604.1	82,921.8
2026E Rev (m)	85,577.8	85,907.0
2026E EPS	5.21	5.19

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Stock Data

Price	80.52 USD
Price Objective	91.00 USD
Date Established	30-Jan-2024
Investment Opinion	B-1-7
52-Week Range	62.24 USD - 82.89 USD
Mkt Val (mn) / Shares Out (mn)	40,085 USD / 497.8
Free Float	98.9%
Average Daily Value (mn)	254.51 USD
BofA Ticker / Exchange	SYN / NYS
Bloomberg / Reuters	SYN US / SYN.N
ROE (2024E)	84.3%
Net Dbt to Eqty (Jun-2023A)	473.4%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

Key terms:

NT = near-term

LT = long-term

2H = second half

iQprofileSM Sysco Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	12.6%	16.1%	17.0%	17.6%	17.4%
Return on Equity	114.0%	120.6%	84.3%	62.6%	49.8%
Operating Margin	3.5%	4.0%	4.3%	4.6%	4.7%
Free Cash Flow	1,240	2,052	2,052	2,205	2,343

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	1.4x	1.3x	1.3x	1.3x
Asset Replacement Ratio	0.8x	1.0x	1.0x	1.1x	1.2x
Tax Rate	24.9%	24.5%	25.1%	24.5%	24.6%
Net Debt-to-Equity Ratio	NM	473.4%	272.1%	168.0%	106.1%
Interest Cover	5.0x	5.4x	5.4x	5.9x	6.3x

Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	68,636	76,325	79,427	82,922	85,907
% Change	33.8%	11.2%	4.1%	4.4%	3.6%
Gross Profit	12,394	13,952	14,670	15,382	15,979
% Change	32.5%	12.6%	5.1%	4.9%	3.9%
EBITDA	3,327	3,847	4,280	4,685	5,008
% Change	54.4%	15.6%	11.3%	9.5%	6.9%
Net Interest & Other Income	(479)	(561)	(624)	(644)	(649)
Net Income (Adjusted)	1,673	2,044	2,172	2,375	2,574
% Change	126.0%	22.2%	6.3%	9.3%	8.4%

Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,452	1,870	2,077	2,375	2,574
Depreciation & Amortization	773	776	842	895	945
Change in Working Capital	(573)	25	(107)	(70)	(60)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	221	174	96	0	0
Capital Expenditure	(633)	(793)	(855)	(995)	(1,117)
Free Cash Flow	1,240	2,052	2,052	2,205	2,343
% Change	16.1%	65.5%	0%	7.5%	6.2%
Share / Issue Repurchase	(885)	(422)	1	1	1
Cost of Dividends Paid	(959)	(996)	(1,037)	(1,077)	(1,118)
Change in Debt	(436)	(237)	0	0	0

Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	867	745	1,761	2,890	4,115
Trade Receivables	4,839	5,092	5,367	5,603	5,805
Other Current Assets	5,155	5,192	5,445	5,666	5,855
Property, Plant & Equipment	4,456	4,915	4,928	5,028	5,200
Other Non-Current Assets	6,768	6,877	6,877	6,877	6,877
Total Assets	22,086	22,821	24,379	26,065	27,852
Short-Term Debt	581	63	63	63	63
Other Current Liabilities	8,064	8,379	8,800	9,187	9,518
Long-Term Debt	10,067	10,348	10,348	10,348	10,348
Other Non-Current Liabilities	1,960	1,990	1,990	1,990	1,990
Total Liabilities	20,671	20,779	21,200	21,588	21,918
Total Equity	1,414	2,042	3,179	4,477	5,934
Total Equity & Liabilities	22,086	22,821	24,379	26,065	27,852

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Retailing-Wholesale & Logistics

Company Description

Sysco is the largest North American foodservice distributor with roughly \$69bn in sales in F22 and an estimated 17% market share in the US. SY Y distributes food and non-food items to more than 700,000 customers globally, including restaurants, healthcare facilities, hotels, educational facilities, and retail locations. Roughly 80% of SY Y's revenues were generated from its US operations in F22, and restaurants make up roughly 2/3 of total company sales.

Investment Rationale

Our Buy rating is based on our view that SY Y deserves a premium valuation to peers given its scale advantages, industry-leading margins, lower leverage and higher dividend yield (SY Y is a dividend aristocrat). This also reflects our outlook for continued market share gains and margin recovery opportunity for SY Y both near and long-term.

Stock Data

Average Daily Volume 3,160,824

Quarterly Earnings Estimates

	2023	2024
Q1	0.97A	1.07A
Q2	0.80A	0.89A
Q3	0.90A	0.94E
Q4	1.34A	1.41E

Price objective basis & risk

Sysco Corporation (SYN)

Our \$91 price objective is based on roughly 18x our F25 adjusted EPS estimate of \$4.75. This is slightly above SYN's average two-year forward P/E of 17x over the last five years, but below its five-year high of 23x. It represents a premium to key foodservice distributor peers, which we believe is warranted given SYN's scale advantages, market share gains, higher margins, productivity improvements/supply chain transformation, lower leverage & higher dividend yield (SYN is a dividend aristocrat).

Downside risks are: 1) a highly competitive foodservice distribution industry with low switching costs, 2) risks associated with a macroeconomic slowdown or lower consumer confidence that could negatively affect food away from home consumption, 3) sales headwinds from product cost deflation or margin pressures from product cost inflation, 4) potential pressures on profitability from high fuel costs, and 5) inability to achieve productivity improvements, which could pressure operating margins.

Analyst Certification

I, Kendall Toscano, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Broadlines, Hardlines, Food Retailers & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Academy Sports + Outdoors	ASO	ASO US	Robert F. Ohmes, CFA
	Arhaus, Inc	ARHS	ARHS US	Robert F. Ohmes, CFA
	BJ's Wholesale Club Holdings	BJ	BJ US	Robert F. Ohmes, CFA
	Costco Wholesale Corporation	COST	COST US	Robert F. Ohmes, CFA
	Grocery Outlet Holding Corp.	GO	GO US	Robert F. Ohmes, CFA
	Harley-Davidson	HOG	HOG US	Alexander Perry
	Life Time	LTH	LTH US	Alexander Perry
	Mattel	MAT	MAT US	Alexander Perry
	Mister Car Wash	MCW	MCW US	Robert F. Ohmes, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Robert F. Ohmes, CFA
	Planet Fitness, Inc.	PLNT	PLNT US	Alexander Perry
	Sprouts Farmers Market, Inc.	SFM	SFM US	Robert F. Ohmes, CFA
	Sysco Corporation	SYN	SYN US	Kendall Toscano
	Target Corp.	TGT	TGT US	Robert F. Ohmes, CFA
	The Kroger Co.	KR	KR US	Robert F. Ohmes, CFA
	Topgolf Callaway Brands Corp	MODG	MODG US	Alexander Perry
	Upbound Group Inc.	UPBD	UPBD US	Vicky Liu
	Walmart Inc	WMT	WMT US	Robert F. Ohmes, CFA
NEUTRAL				
	Dick's Sporting Goods	DKS	DKS US	Robert F. Ohmes, CFA
	Fox Factory Holding Corp	FOXF	FOXF US	Alexander Perry
	Hasbro	HAS	HAS US	Alexander Perry
	Williams-Sonoma	WSM	WSM US	Robert F. Ohmes, CFA
	Xponential Fitness	XPOF	XPOF US	Alexander Perry
	YETI Holdings, Inc.	YETI	YETI US	Robert F. Ohmes, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Robert F. Ohmes, CFA
	Canada Goose Holdings Inc	YGOOS	GOOS CN	Alexander Perry
	Canada Goose Holdings Inc	GOOS	GOOS US	Alexander Perry



US - Broadlines, Hardlines, Food Retailers & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Columbia Sportswear	COLM	COLM US	Alexander Perry
	Dollar General Corporation	DG	DG US	Robert F. Ohmes, CFA
	Dollar Tree, Inc.	DLTR	DLTR US	Robert F. Ohmes, CFA
	Hibbett Sports, Inc.	HIBB	HIBB US	Alexander Perry
	National Vision	EYE	EYE US	Robert F. Ohmes, CFA
	Tractor Supply Company	TSCO	TSCO US	Robert F. Ohmes, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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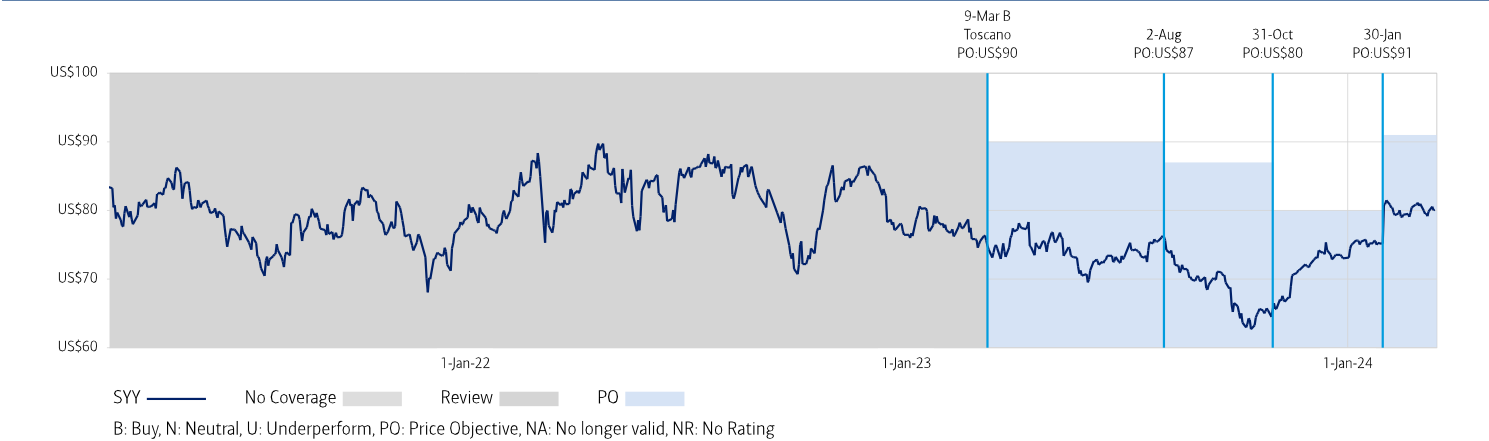
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Sysco (SY) Price Chart



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Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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