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**Covered Companies Mentioned:**

CHUY	\$33.91
NDLS	\$2.36
PFGC	\$55.77
STKS	\$4.44
SY Y	\$65.18
TXRH	\$95.49
WEN	\$19.11

## Consumer: Restaurants & Food Distribution

**Reason for Report:** Industry Update

### 3Q23 Earnings Preview: Foodservice Distribution

#### INVESTMENT CONCLUSION:

At a high level, shares of the foodservice distribution group have underperformed the market year-to-date with the group being down (12%) on average vs. the S&P500 at up 12%. The macro backdrop remains cloudy as high-level recession concerns persist relative to slowing restaurant traffic and spend in the third quarter while industry-wide commodity dis-inflation remains a general near-term headwind for foodservice stocks for the next quarter or two.

All that said, we reiterate our long-term favorable view on our foodservice distribution names. Our view is that the consumer will ultimately prove to be more resilient within the core restaurant segment vs. current expectations while other key leisure, hospitality, and travel categories are likely to steadily improve. From a valuation perspective, both SY Y and PFGC shares are near the low-end of the stock's respective pre-Covid EV/EBITDA levels which could prove to be an interesting entry point for patient investors.

#### KEY POINTS:

We outline our company-specific thoughts and notable estimate changes across our foodservice distribution universe ahead of the upcoming calendar 3Q23 earnings period (organized chronologically by reporting date). See additional data and detail in the back pages of this note. For GAAP EPS, please see the attached company models.

**High-Level Perspective From Conversations:** Sentiment around the space and the "big 3" food distributors remained muted of late given the overarching macro pressures, near-term headwinds from dis-inflation, and modest concerns around slowing consumer foot traffic to restaurants into the year-end. That said, we generally noted an ongoing appreciation for 1) the margin expansion opportunity at US Foods (USFD; not covered), 2) the opportunity for Performance Food Group (PFGC; OW-rated) to continue building out its unique convenience and foodservice business, and 3) appreciation for Sysco's (SY Y; OW-rated) recent acquisition of Edward Don & Company (note [here](#)). Specific to Sysco, we believe 1) it is well understood that this transaction was already built into the current guidance ranges previously shared and recognize a nascent view that Sysco could build upon the strong position Edward Don has with chains currently and (over time) penetrate the independent restaurant category.

**Sysco (SY Y): OW-Rated, \$90 PT:** Sysco is scheduled to report earnings on 10/31 BMO. We are modestly trimming our F1Q24 case volume estimate to 2.5% (vs. 3% prior and vs. the Street at 2.6%) to reflect the slowing traffic trends within the core restaurant category. *Continued on page 2.*

See important disclosures and analyst certification on pages 12 - 13 of this report. This report constitutes a compendium report (covers six or more subject companies). As such, Stephens Inc. chooses to provide specific disclosures for the companies mentioned by reference. To access current disclosures for the companies in this report, clients should refer to <https://stephens2.bluematrix.com/sellside/Disclosures.action> or contact your Stephens Inc. representative for additional information.

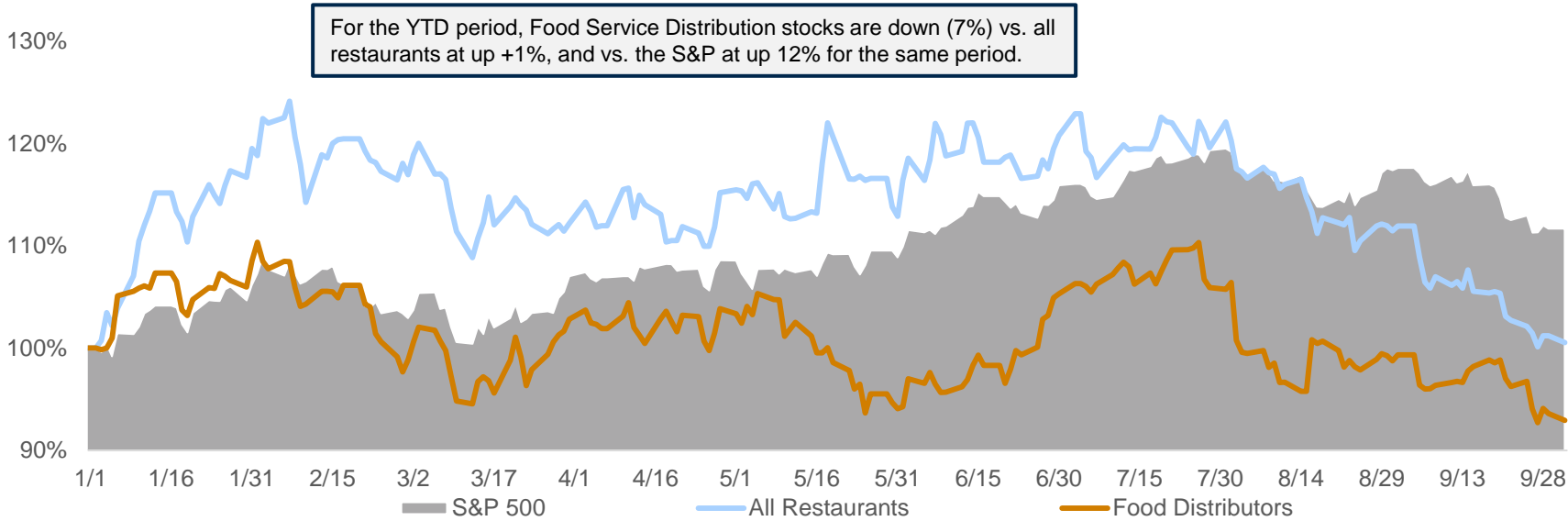
**Sysco (SYY): OW-Rated, \$90 PT, Continued:** We are also refining our expectations around the rate of near-term disinflation which appears to be marginally outpacing our prior estimates. Our updated operating margins of 4.3% are a touch below our prior estimates (in-line with consensus) on account of fine-tuning our estimates and our fiscal 1Q24 Adj. EPS moves to \$1.05 (vs. our Street high \$1.08 estimate prior and vs. consensus at \$1.04). For the year, we maintain our EPS estimate of \$4.30 (in-line with consensus), which represents the mid-point of the company's guidance range of \$4.20-\$4.40.

Shares of SYY are down (15%) YTD vs. the foodservice distribution group at down (12%) and vs. the S&P500 at up 12%. The macro backdrop remains cloudy as high-level recession concerns persist relative to slowing restaurant traffic and spend while industry-wide commodity disinflation also remains a general near-term headwind for foodservice stocks. From a valuation perspective, we note that SYY shares are back near the low-end of the stock's pre-Covid EV/EBITDA range (last seen in mid-2017), which could prove to be an interesting entry point for patient investors. We are maintaining our \$90 price target based on ~13x our FY24E EV/EBITDA.

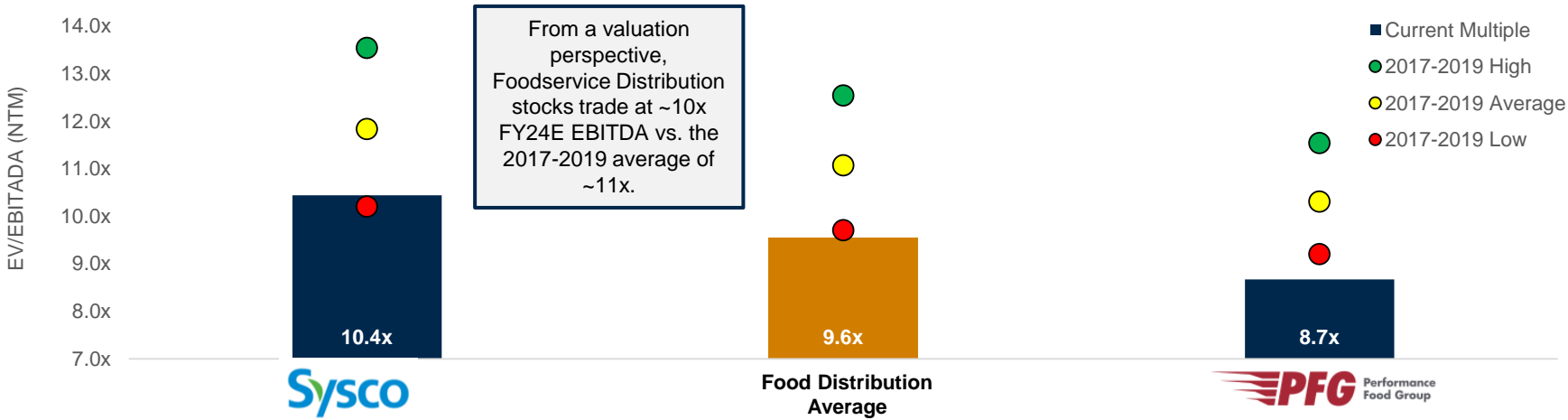
**Performance Food Group (PFGC): OW-Rated, \$75 PT:** Performance Food Group is expected to report earnings BMO in early November. We are tweaking our F1Q24 revenue estimates to reflect a now slightly higher case volume estimate of +2% (vs. our Street-low 1.7% estimate prior and vs. Street estimates at +2.5%). We are also refining our expectations around the rate of near-term disinflation which appears to be marginally outpacing our prior estimates. We believe the company remains uniquely positioned to drive growth across its customer mix of restaurants, convenience stores, and movie theater/vending business (via its legacy Vistar segment). Our operating margin estimate remains at 1.9% (in-line with consensus) and our fiscal 1Q24 Adj. EPS remains unchanged at \$1.06 (vs. consensus at \$1.09). For the year, we maintain our EPS estimate of \$4.23 (vs. the Street at \$4.34). Our estimates remain within the company's guidance ranges of \$59 bil.-\$60 bil. in revenue and \$1.45 bil.-\$1.50 bil. in adjusted EBITDA.

Shares of PFGC are down (4%) YTD vs. the foodservice distribution group at down (12%) and vs. the S&P500 at up 12%. From a valuation perspective, we note that PFGC shares are below the low-end of the stock's pre-Covid EV/EBITDA range, which could prove to be an interesting entry point for patient investors. We are maintaining our \$75 price target based on ~11x our FY24E EV/EBITDA.

Food Distribution YTD Indexed Returns

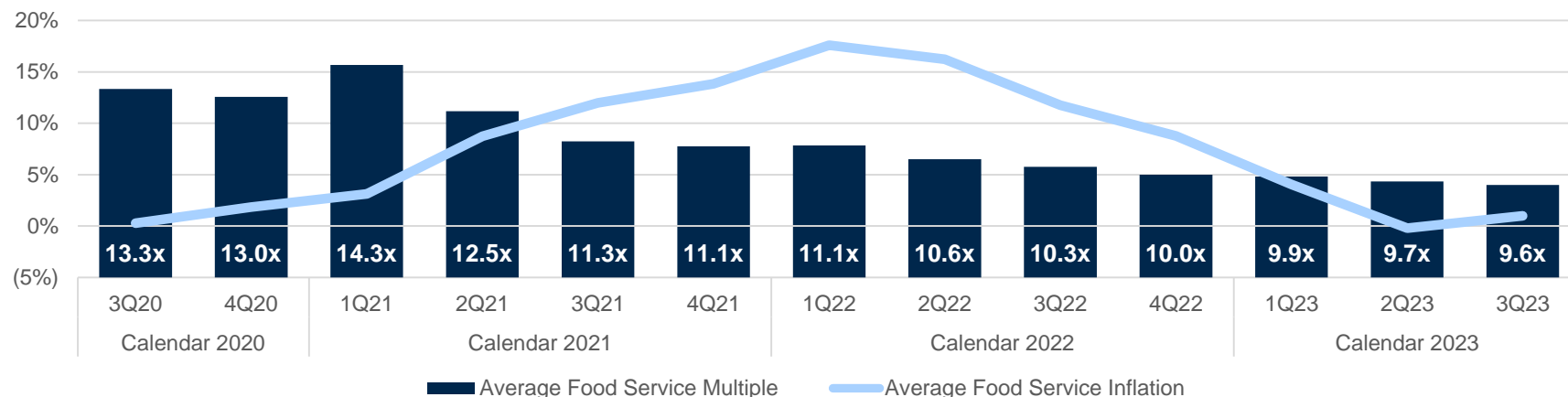


Food Distribution EV/EBITDA (NTM) Multiples

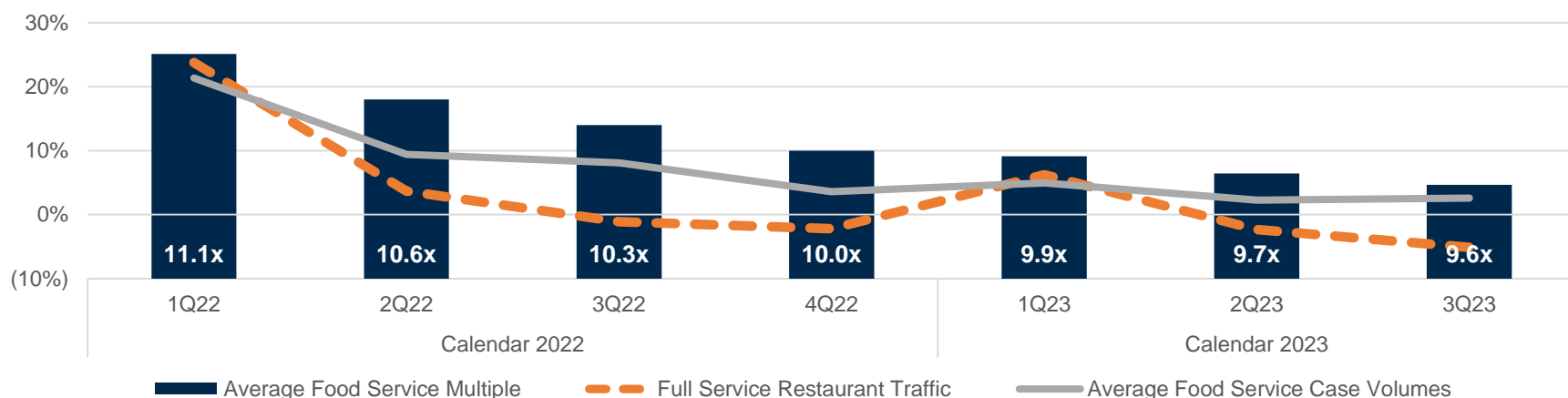


The average food service multiple has been pressured in calendar year '23 as inflation falls off, full service public restaurant traffic faces headwinds, and a generally tougher macro. That said, case volumes remain relatively steady as our covered companies have unique opportunities to grow existing wallet share (SYY/PFGC) and compete in niche sectors like theater and convenience stores (PFGC).

## Average EV/EBITDA (NTM) Multiples vs. Average Food Service Inflation



## Average EV/EBITDA (NTM) Multiples vs. Case Volumes & Full Service Restaurant Traffic



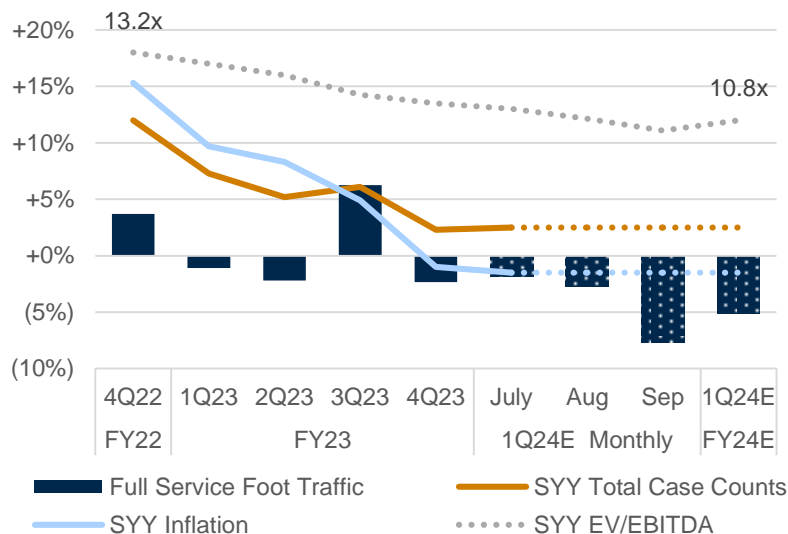
## Our Thoughts Into The Quarter

**Sentiment on SYY and Distribution Group Muted:** Shares of SYY are down (15%) YTD vs. the foodservice distribution group at down (12%) and vs. the S&P500 at up 12%. The macro backdrop remains cloudy as high-level recession concerns persist relative to slowing full-service chain traffic and credit card spend and industry-wide commodity dis-inflation remains a general near-term headwind for foodservice stocks. From a valuation perspective, we note that SYY shares are back near the low-end of the stock's pre-Covid EV/EBITDA range (last seen in mid-2017), which could prove to be an interesting entry point for patient investors.

**Restaurant Foot Traffic Softened Through the Quarter:** Restaurants are a key piece of Sysco's U.S. foodservice business at approximately 67% of sales (roughly split between chain and independent operators). During the quarter, full service publicly traded restaurant traffic showed progressive pressure during July, August, and September. Our channel check conversations suggest the independent sector of restaurants could be faring better from a traffic perspective relative to public operators.

**Encouraged By Edward Don Acquisition:** Sysco recently announced its intention to acquire Chicago-based distributor Edward Don & Company, a leading distributor of food service equipment and supplies. We view the announcement as an additional example of Sysco finding ways to go after growth within the higher margin specialty category.

## SYY Case Volumes vs. Restaurant Data

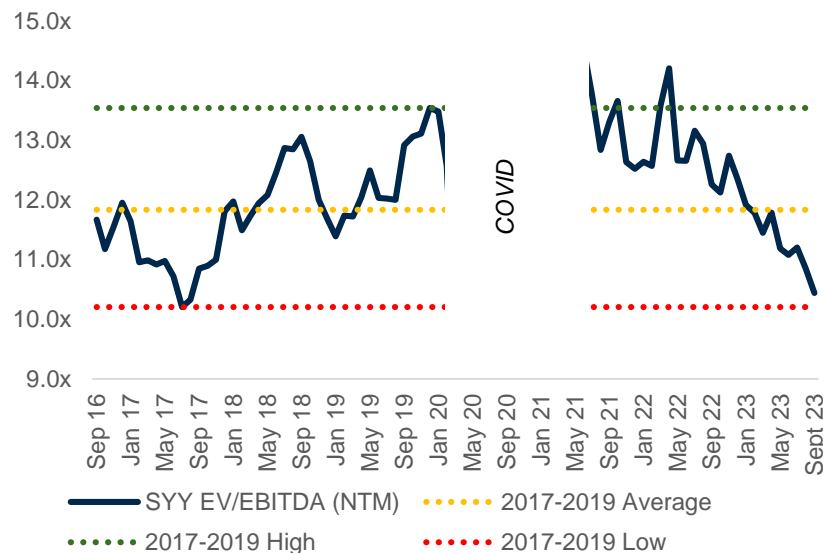


## Stephens Estimates vs. Consensus

SYY	Fiscal 1Q24E			Fiscal 2024E		
	Stephens		Consensus Expectations	Stephens		Consensus Expectations
	Prior	New		Prior	New	
Foodservice Case Vol	+3.0%	+2.5%	+2.6%	+3.0%	+2.9%	+2.8%
Revenue in mil.	\$ 19,882.1	\$ 19,678.1	\$ 19,799.3	\$ 80,043.8	\$ 79,839.7	\$ 79,587.9
Op. Margin	4.4%	4.3%	4.3%	4.3%	4.3%	4.3%
Adjusted EPS	\$ 1.08	\$ 1.05	\$ 1.04	\$ 4.30	\$ 4.30	\$ 4.30
	Lowered			Mixed		

**Trimming Our Fiscal 1Q24 Estimates; Maintaining Price Target:** We are trimming our F1Q24 estimates to reflect the slowing traffic trends within the core restaurant category and refined expectations around the near-term rate of dis-inflation which appears to be marginally outpacing our prior estimates. Our revenue estimates modestly tick lower as a result of these adjustments. Our EPS estimate also moves lower to \$1.05 (vs. consensus at \$1.04) vs. being Street high at \$1.08 previously, reflecting fine tuning around our margin builds as a part of regular model maintenance. For the year, we maintain our EPS estimate of \$4.30 (in-line with consensus), which represents the mid-point of the company's guidance range of \$4.20-\$4.40. We are maintaining our \$90 price target based on ~13x our FY24E EV/EBITDA.

## Historical EV/EBITDA (NTM, Consensus)



# Sysco Corporation: OW-Rated; \$90 Price Target

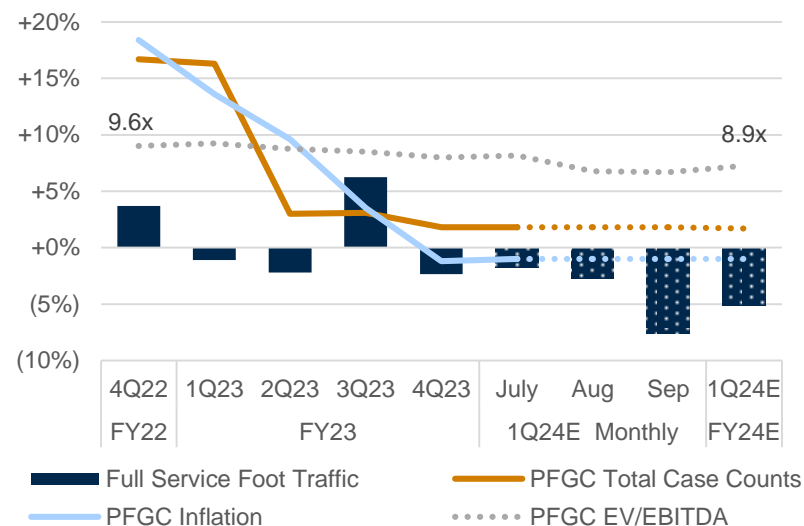
Sysco Corporation Earnings Model																Extra Week					
Fiscal Year Ended June																Fiscal Year Ended June					
2023 Estimate				2024 Estimate				2025 Estimate				2026 Estimate				2027 Estimate					
Fiscal Year Ended June	1Q23	2Q23	3Q23	4Q23	1Q24E	2Q24E	3Q24E	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E	1Q26E	2Q26E	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	
Revised 10/19/23 (\$ millions)	10/01/22	12/31/22	04/01/23	07/01/23	09/30/23	12/31/23	03/31/24	06/30/24	09/30/24	12/31/24	03/31/25	06/30/25	09/30/25	12/31/25	03/31/26	06/30/26	09/30/26	12/31/26	03/31/27	06/30/27	
Local Case Volume U.S. Broadline	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	
Organic Case Volume	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	
Acquisition Case Volume	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	
Total Case Volume U.S. Broadline	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	
Local Case Volume U.S. Foodservice	+5.4%	+3.2%	+4.2%	+0.8%	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%	
Organic Case Volume	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	
Total Case Volume U.S. Foodservice	+7.3%	+5.2%	+6.1%	+2.3%	+2.5%	+3.0%	+3.0%	+3.0%	+2.5%	+2.5%	+2.5%	+2.5%	+2.5%	+2.5%	+2.5%	+2.5%	+2.5%	+2.5%	+2.5%	+2.5%	
INCOME STATEMENT																					
US Foodservice	\$ 13,602.5	\$ 13,077.1	\$ 13,257.5	\$ 13,745.8	\$ 13,738.5	\$ 13,469.4	\$ 13,787.8	\$ 14,295.7	\$ 14,356.7	\$ 14,075.5	\$ 14,408.3	\$ 14,939.0	\$ 15,471.1	\$ 15,999.0	\$ 16,530.0	\$ 17,061.1	\$ 17,592.2	\$ 18,123.3	\$ 18,654.4	\$ 19,185.5	
International Foodservice	3,283.7	3,608.5	3,550.8	3,649.3	3,644.9	3,933.2	3,799.3	3,868.3	3,717.8	4,011.9	3,875.3	3,945.7	4,071.1	4,141.1	4,211.1	4,281.1	4,351.1	4,421.1	4,491.1	4,561.1	
SYGMA	1,933.5	1,933.5	1,972.1	2,004.1	1,972.1	2,011.5	2,044.1	2,068.3	1,996.8	1,996.9	2,036.6	2,069.7	2,096.8	2,123.9	2,151.0	2,178.1	2,205.2	2,232.3	2,259.4	2,286.5	
Other	307.2	307.3	306.5	329.0	322.5	322.7	321.8	335.6	328.9	331.3	331.3	348.1	351.1	354.1	357.1	360.1	363.1	366.1	369.1	372.1	
Total Sales	\$ 19,126.8	\$ 19,926.4	\$ 19,086.8	\$ 19,728.2	\$ 19,678.1	\$ 19,697.5	\$ 19,920.5	\$ 20,543.7	\$ 20,400.3	\$ 20,455.5	\$ 20,651.5	\$ 21,302.4	\$ 21,541.1	\$ 21,641.1	\$ 21,741.1	\$ 21,841.1	\$ 21,941.1	\$ 22,041.1	\$ 22,141.1	\$ 22,241.1	
Sales	\$ 19,126.8	\$ 19,926.4	\$ 19,086.8	\$ 19,728.2	\$ 19,678.1	\$ 19,697.5	\$ 19,920.5	\$ 20,543.7	\$ 20,400.3	\$ 20,455.5	\$ 20,651.5	\$ 21,302.4	\$ 21,541.1	\$ 21,641.1	\$ 21,741.1	\$ 21,841.1	\$ 21,941.1	\$ 22,041.1	\$ 22,141.1	\$ 22,241.1	
Cost of Sales	\$ 6,640.5	\$ 6,508.9	\$ 6,514.0	\$ 6,043.1	\$ 6,062.7	\$ 6,130.8	\$ 6,294.9	\$ 6,705.9	\$ 6,652.0	\$ 6,714.1	\$ 6,888.1	\$ 7,317.1	\$ 7,368.1	\$ 7,419.1	\$ 7,470.1	\$ 7,521.1	\$ 7,572.1	\$ 7,623.1	\$ 7,674.1	\$ 7,725.1	
Gross Profit	3,486.3	3,417.5	3,472.8	3,685.2	3,615.4	3,566.7	3,625.5	3,837.8	3,748.3	3,701.5	3,763.4	3,985.3	4,173.0	4,222.0	4,271.0	4,322.0	4,373.0	4,424.0	4,475.0	4,526.0	
Operating Expenses	2,766.0	2,734.5	2,737.1	2,662.6	2,764.9	2,842.7	2,828.2	2,748.3	2,836.9	2,932.4	2,901.6	2,829.9	2,891.1	2,941.1	2,991.1	3,041.1	3,091.1	3,141.1	3,191.1	3,241.1	
Operating Income	770.3	683.0	735.7	1,022.6	850.5	724.0	797.3	1,089.4	911.4	769.1	861.9	1,155.4	1,281.1	1,331.1	1,381.1	1,431.1	1,481.1	1,531.1	1,581.1	1,631.1	
Interest Expense	124.2	132.0	134.9	135.6	139.3	139.3	139.3	139.3	140.7	141.2	141.2	141.2	141.2	141.2	141.2	141.2	141.2	141.2	141.2	141.2	
Other Expense (Income)	15.3	15.2	4.8	(3.3)	7.5	7.5	7.5	7.5	-	-	-	-	-	-	-	-	-	-	-	-	
Pre-Tax Income	630.8	535.7	596.0	890.2	703.7	577.3	650.6	942.7	770.7	627.9	720.7	1,014.2	1,140.2	1,190.2	1,240.2	1,290.2	1,340.2	1,390.2	1,440.2	1,490.2	
Income Taxes	138.2	127.8	135.5	207.0	172.4	141.4	159.4	231.0	188.8	153.8	176.6	248.5	278.5	288.5	298.5	308.5	318.5	328.5	338.5	348.5	
Operating Net Income	492.6	407.9	460.5	683.2	531.3	435.9	491.2	711.7	581.9	474.1	544.1	765.7	861.7	901.7	941.7	981.7	1,021.7	1,061.7	1,101.7	1,141.7	
Non-Operating Items	(27.0)	(266.7)	(30.9)	50.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Reported Net Income	465.6	141.2	429.6	733.7	531.3	435.9	491.2	711.7	581.9	474.1	544.1	765.7	861.7	901.7	941.7	981.7	1,021.7	1,061.7	1,101.7	1,141.7	
Shares Outstanding	510.4	510.1	509.8	508.5	507.5	506.0	504.5	503.0	502.0	500.5	499.0	497.5	496.0	494.5	493.0	491.5	490.0	488.5	487.0	485.5	
Depreciation & Amortization	188.9	190.0	196.0	200.7	196.8	197.0	199.2	205.4	204.0	204.2	206.5	213.0	213.0	213.0	213.0	213.0	213.0	213.0	213.0	213.0	
EBITDA	908.0	500.5	885.0	1,294.2	1,047.3	921.0	996.5	1,294.9	1,115.4	973.3	1,068.4	1,368.4	1,368.4	1,368.4	1,368.4	1,368.4	1,368.4	1,368.4	1,368.4	1,368.4	
Adjusted EBITDA	916.9	831.3	899.7	1,188.6	1,047.3	921.0	996.5	1,294.9	1,115.4	973.3	1,068.4	1,368.4	1,368.4	1,368.4	1,368.4	1,368.4	1,368.4	1,368.4	1,368.4	1,368.4	
EPS--Operating	\$ 0.97	\$ 0.80	\$ 0.90	\$ 1.34	\$ 1.05	\$ 0.86	\$ 0.97	\$ 1.41	\$ 1.16	\$ 0.95	\$ 1.09	\$ 1.54	\$ 1.54	\$ 1.54	\$ 1.54	\$ 1.54	\$ 1.54	\$ 1.54	\$ 1.54	\$ 1.54	
EPS--Extraordinary	\$ (0.05)	\$ (0.52)	\$ (0.06)	\$ 0.10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
EPS--Reported	\$ 0.91	\$ 0.28	\$ 0.84	\$ 1.44	\$ 1.05	\$ 0.86	\$ 0.97	\$ 1.41	\$ 1.16	\$ 0.95	\$ 1.09	\$ 1.54	\$ 1.54	\$ 1.54	\$ 1.54	\$ 1.54	\$ 1.54	\$ 1.54	\$ 1.54	\$ 1.54	
MARGIN ANALYSIS																					
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Cost of Sales	81.8%	81.9%	81.8%	81.3%	81.6%	81.9%	81.8%	81.3%	81.6%	81.9%	81.8%	81.3%	81.3%	81.3%	81.3%	81.3%	81.8%	81.9%	81.7%	81.6%	
Gross Margin	18.2%	18.1%	18.2%	18.7%	18.4%	18.1%	18.2%	18.7%	18.4%	18.1%	18.2%	18.7%	18.7%	18.7%	18.7%	18.7%	18.2%	18.1%	18.3%	18.4%	
Operating Expenses	14.2%	14.4%	14.3%	13.5%	14.1%	14.4%	14.2%	13.4%	13.9%	14.4%	14.1%	13.3%	13.3%	13.3%	13.3%	13.3%	13.3%	13.3%	13.3%	13.3%	
Operating Income	4.0%	3.6%	3.9%	5.2%	4.3%	3.7%	4.0%	5.3%	4.5%	3.8%	4.2%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	
Interest Expense	0.6%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	
Other Expense (Income)	0.1%	0.1%	0.0%	(0.0%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Pre-Tax Income	3.3%	2.8%	3.1%	4.5%	3.6%	2.9%	3.3%	4.6%	3.8%	3.1%	3.5%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	
Income Taxes	21.9%	23.9%	22.7%	23.3%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	
Operating Net Income	2.6%	2.2%	2.4%	3.5%	2.7%	2.2%	2.5%	3.5%	2.9%	2.3%	2.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	
Depreciation & Amortization	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	
EBITDA	4.7%	2.6%	4.6%	6.6%	5.3%	4.7%	5.0%	6.3%	5.5%	4.8%	5.2%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	
Adjusted EBITDA	4.8%	4.4%	4.7%	6.1%	5.3%	4.7%	5.0%	6.3%	5.5%	4.8%	5.2%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	
YEAR-OVER-YEAR % CHANGE																					
Sales	16.2%	16.0%	12.9%	4.1%	2.9%	4.1%	4.4%	4.1%	3.7%	3.6%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	
Gross Profit	17.3%	18.2%	14.1%	5.7%	3.7%	4.4%	4.4%	4.1%	3.7%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	
Operating Expenses	18.8%	14.2%	10.9%	2.0%	1.8%	4.0%	3.3%	3.2%	2.6%	3.2%	2.6%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
Operating Income	12.4%	37.8%	27.9%	16.6%	10.4%	6.0%	8.4%	6.5%	7.2%	6.2%	8.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	
Operating Net Income	14.6%	39.7%	26.9%	16.1%	7.9%	6.8%	6.7%	4.2%	9.5%	8.8%	10.8%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	
Operating EPS	15.8%	40.9%	27.5%	17.3%	8.5%	7.7%	7.8%	5.3%	10.7%	10.0%	12.0%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	
EBITDA	10.5%	(22.6%)	25.8%	33.2%	15.3%	84.0%	12.6%	0.0%	6.5%	5.7%	7.2%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	
Adjusted EBITDA	7.5%	23.9%	19.0%	14.2%	14.2%	10.8%	10.8%	8.0%	6.5%	5.7%	7.2%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	

## Our Thoughts Into The Quarter

**Sentiment on SYR and Distribution Group Muted:** Shares of PFGC are down (4%) YTD vs. the foodservice distribution group at down (12%) and vs. the S&P500 at up 12%. The macro backdrop remains cloudy as high-level recession concerns persist relative to slowing full-service chain traffic and credit card spend and industry-wide commodity dis-inflation remains a general near-term headwind for foodservice stocks. From a valuation perspective, we note that PFGC shares are below the low-end of the stock's pre-Covid EV/EBITDA range, which could prove to be an interesting entry point for patient investors.

**Restaurant Foot Traffic Softened While Convenience Store Traffic Fared Better Through the Quarter:** Restaurants are a key piece of Performance Food Group's foodservice business at approximately 45% of sales (with national chains representing approximately two-thirds of the mix). During the quarter, full service publicly traded restaurant traffic showed progressive pressure during July, August, and September. Our channel check conversations suggest the independent sector of restaurants could be faring better from a traffic perspective relative to public operators. Additionally, traffic at convenience stores (a unique component of the PFGC story representing 21% of total sales) fared better than full-service restaurant traffic while traffic at movie theaters (<7% of business) showed strength following a strong movie line up with the launch of the Barbie and Oppenheimer films.

## PFGC Case Volumes vs. Restaurant Data

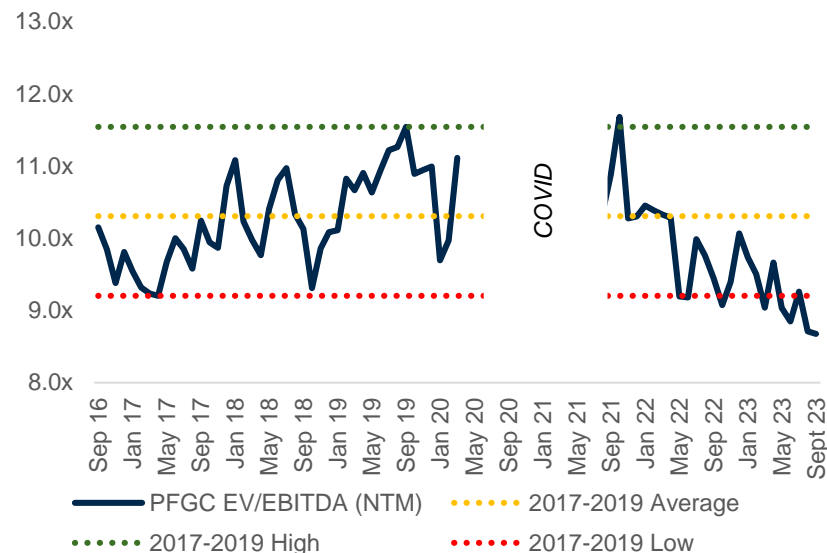


## Stephens Estimates vs. Consensus

PFGC	Fiscal 1Q24E			Fiscal 2024E		
	Stephens		Consensus	Stephens		Consensus
	Prior	New		Prior	New	
Total Case Volume	+1.7%	+2.0%	+2.5%	+3.2%	+3.0%	+3.1%
Revenue in mil.	\$ 14,983.7	\$ 14,932.4	\$ 14,958.8	\$ 59,494.7	\$ 59,411.4	\$ 59,376.2
Op. Margin	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Adjusted EPS	\$ 1.06	\$ 1.06	\$ 1.09	\$ 4.23	\$ 4.23	\$ 4.34
	Mixed			Mixed		

**Tweaking Our Fiscal 1Q24 Revenue Estimate; Maintaining EPS Estimate and Price Target:** We are tweaking our F1Q24 revenue estimate to reflect a now slightly higher case volume estimate of +2% (vs. our Street-low 1.7% estimate prior) offset by a greater level of deflation than previously modeled. Our revenue estimates modestly tick lower as a result of these adjustments. Our EPS estimate remains \$1.06 vs. the Street at \$1.09. For the year, we maintain our EPS estimate of \$4.23 (vs. the Street at \$4.34). Our estimates remain within the company's guidance ranges of \$59 bil.-\$60 bil. in revenue and \$1.45 bil.-\$1.50 bil. in adjusted EBITDA. We are maintaining our \$75 price target based on ~11x our FY24E EV/EBITDA.

## Historical EV/EBITDA (NTM, Consensus)





Performance Food Group Company																	
Earnings Model		2023 Estimate				2024 Estimate				2025 Estimate				Fiscal Year Ended June			
Fiscal Year Ended June		1Q23	2Q23	3Q23	4Q23	1Q24E	2Q24E	3Q24E	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E	2022	2023	2024E	2025E
Revised 10/19/23 (\$ millions)		10/0/22	12/3/22	03/3/23	06/30/23	09/30/23	12/3/23	03/3/24	06/30/24	09/30/24	12/3/24	03/3/25	06/30/25	52-wks	52-wks	52-wks	52-wks
Organic Case Volume		+0.0%	+0.0%	+3.1%	+18%	+2.0%	+3.0%	+3.5%	+3.5%	+3.5%	+3.5%	+3.5%	+3.5%	+0.5%	+12%	+3.0%	+3.5%
Organic Independent Case Volume		+4.6%	+4.3%	+8.3%	+7.6%	na	na	na	na	na	na	na	na	(3.0%)	+6.2%	na	na
Independent Case Volume		+6.9%	+6.6%	+7.2%	+7.6%	na	na	na	na	na	na	na	na	na	na	na	na
Acquisition Case Volume		+0.0%	+0.0%	+0.0%	+0.0%	+0.0%	+0.0%	+0.0%	+0.0%	+0.0%	+0.0%	+0.0%	+0.0%	+9.3%	+0.0%	+0.0%	+0.0%
Total Case Volume		+6.3%	+3.0%	+3.1%	+18%	+2.0%	+3.0%	+3.5%	+3.5%	+3.5%	+3.5%	+3.5%	+3.5%	+29.8%	+6.1%	+3.0%	+3.5%
INCOME STATEMENT														258%	290%		
Foodservice	\$ 7,330.0	\$ 6,896.6	\$ 6,946.2	\$ 7,317.8	\$ 7,366.7	\$ 7,103.5	\$ 7,258.8	\$ 7,647.1	\$ 7,771.8	\$ 7,494.2	\$ 7,658.0	\$ 8,067.7	\$ 8,067.7	\$ 26,579.2	\$ 28,490.6	\$ 29,376.0	\$ 30,991.7
Vistar	1090.1	118.9	114.8	1225.5	1109.2	1208.4	1204.0	1348.1	1348.1	164.6	1268.8	1264.2	145.5	3,681.8	4,549.3	4,869.6	5,113.1
Convenience	6,286.9	5,864.1	5,681.3	6,287.3	6,444.1	6,098.7	5,908.6	6,538.8	6,538.8	6,637.4	6,281.6	6,144.9	6,800.3	20,603.3	24,119.6	24,990.1	25,864.3
Corporate, Net	12.3	19.3	29.0	34.6	12.5	36.8	54.9	71.5	71.5	29.6	31.5	65.4	94.5	29.8	95.2	175.7	221.0
Total Sales	\$ 14,719.3	\$ 13,898.9	\$ 13,771.3	\$ 14,865.2	\$ 14,932.4	\$ 14,447.3	\$ 14,426.2	\$ 15,605.5	\$ 15,605.5	\$ 15,603.5	\$ 15,076.2	\$ 15,132.4	\$ 16,377.9	\$ 50,894.1	\$ 57,254.7	\$ 59,411.4	\$ 62,190.0
Sales	\$ 14,719.3	\$ 13,898.9	\$ 13,771.3	\$ 14,865.2	\$ 14,932.4	\$ 14,447.3	\$ 14,426.2	\$ 15,605.5	\$ 15,605.5	\$ 15,603.5	\$ 15,076.2	\$ 15,132.4	\$ 16,377.9	\$ 50,894.1	\$ 57,254.7	\$ 59,411.4	\$ 62,190.0
Cost of Sales	13,444.2	12,399.3	12,259.4	13,196.9	13,294.3	12,858.1	12,839.3	13,856.1	13,856.1	13,869.9	13,386.1	13,443.7	14,524.0	45,637.7	50,999.8	52,847.9	55,223.7
Gross Profit	1575.1	1499.6	1511.9	1668.3	1638.1	1589.2	1586.9	1749.4	1749.4	1733.5	1690.0	1688.8	1854.0	5,256.4	6,254.9	6,563.5	6,966.3
Operating Expenses	1297.1	1287.5	1285.0	1377.6	1358.8	1343.6	1341.6	1404.5	1404.5	1404.3	1408.1	1398.2	1470.7	4,547.8	5,247.2	5,448.6	5,681.4
Operating Income	278.0	212.1	226.9	290.7	279.2	245.6	245.2	344.9	344.9	329.2	281.9	290.5	383.2	708.6	1,007.7	1,115.0	1,284.9
Interest Expense	50.4	55.7	55.9	56.0	51.9	51.9	51.9	51.9	51.9	50.2	50.2	50.2	50.2	182.9	218.0	207.7	200.7
Other Expense (Income)	10.9	(3.8)	9.3	(0.8)	-	-	-	-	-	-	-	-	-	(22.6)	15.6	-	-
Pre-Tax Income	216.7	160.2	161.7	235.5	227.3	193.7	193.3	293.0	293.0	279.1	231.7	240.4	333.1	548.3	774.1	907.3	1,084.2
Income Taxes	48.8	30.3	31.5	57.0	61.4	52.3	52.2	79.1	79.1	75.3	62.6	64.9	89.9	153.8	167.6	245.0	292.7
Operating Net Income	167.9	129.9	130.2	178.5	165.9	141.4	141.1	213.9	213.9	203.7	169.2	175.5	243.1	394.5	606.5	662.3	791.5
Non-Operating Items	(72.2)	(58.8)	(49.9)	(28.4)	-	-	-	-	-	-	-	-	-	(282.0)	(209.3)	-	-
Reported Net Income	95.7	71.1	80.3	150.1	165.9	141.4	141.1	213.9	213.9	203.7	169.2	175.5	243.1	112.5	397.2	662.3	791.5
Shares Outstanding	155.6	156.1	156.5	156.6	156.6	156.6	156.6	156.7	156.7	156.7	156.7	156.7	156.7	151.4	156.2	156.6	156.7
Depreciation & Amortization	76.1	77.4	78.7	83.5	78.5	78.9	78.8	78.4	78.4	81.0	81.6	81.9	81.5	279.7	315.7	314.6	326.0
EBITDA	299.5	277.1	292.5	389.6	357.7	324.5	324.0	423.3	423.3	410.3	363.6	372.4	464.7	812.8	1,258.7	1,429.6	1,611.0
Adjusted EBITDA	354.7	308.8	314.7	385.2	370.7	330.5	347.0	433.3	433.3	453.3	368.6	377.4	469.7	1,019.8	1,363.4	1,481.6	1,631.0
EPS--Operating	\$ 1.08	\$ 0.83	\$ 0.83	\$ 1.14	\$ 1.06	\$ 0.90	\$ 0.90	\$ 1.37	\$ 1.37	\$ 1.30	\$ 1.08	\$ 1.12	\$ 1.55	\$ 2.59	\$ 3.88	\$ 4.23	\$ 5.05
EPS--Extraordinary	\$ (0.46)	\$ (0.38)	\$ (0.32)	\$ (0.18)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1.86)	\$ (1.34)	\$ -	\$ -
EPS--Reported	\$ 0.62	\$ 0.46	\$ 0.51	\$ 0.96	\$ 1.06	\$ 0.90	\$ 0.90	\$ 1.37	\$ 1.37	\$ 1.30	\$ 1.08	\$ 1.12	\$ 1.55	\$ 0.73	\$ 2.54	\$ 4.23	\$ 5.05
MARGIN ANALYSIS																	
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Sales	89.3%	89.2%	89.0%	88.8%	89.0%	89.0%	89.0%	88.8%	88.8%	88.9%	88.8%	88.8%	88.7%	89.7%	89.1%	89.0%	88.8%
Gross Margin	10.7%	10.8%	11.0%	11.2%	11.0%	11.0%	11.0%	11.2%	11.2%	11.1%	11.2%	11.2%	11.3%	10.3%	10.9%	11.0%	11.2%
Operating Expenses	8.8%	9.3%	9.3%	9.3%	9.1%	9.3%	9.3%	9.0%	9.0%	9.0%	9.3%	9.2%	9.0%	8.9%	9.2%	9.2%	9.1%
Operating Income	19%	15%	16%	2.0%	1.9%	1.7%	1.7%	2.2%	2.2%	2.1%	1.9%	1.9%	2.3%	1.4%	1.8%	1.9%	2.1%
Interest Expense	0.3%	0.4%	0.4%	0.4%	0.3%	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.3%	0.3%
Other Expense (Income)	0.1%	(0.0%)	0.1%	(0.0%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	(0.0%)	0.0%	0.0%	0.0%
Pre-Tax Income	15%	12%	12%	16%	15%	13%	13%	19%	19%	18%	15%	16%	2.0%	1.1%	14%	15%	17%
Income Taxes	22.5%	18.9%	19.5%	24.2%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	28.1%	21.7%	27.0%	27.0%
Operating Net Income	1.1%	0.9%	0.9%	1.2%	1.1%	1.0%	1.0%	1.4%	1.4%	1.3%	1.1%	1.2%	1.5%	0.8%	1.1%	1.1%	1.3%
Depreciation & Amortization	0.5%	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.6%	0.5%	0.5%
EBITDA	2.0%	2.0%	2.1%	2.6%	2.4%	2.2%	2.2%	2.7%	2.7%	2.6%	2.4%	2.5%	2.8%	1.6%	2.2%	2.4%	2.6%
Adjusted EBITDA	2.4%	2.2%	2.3%	2.6%	2.5%	2.3%	2.4%	2.8%	2.8%	2.7%	2.4%	2.5%	2.9%	2.0%	2.4%	2.5%	2.6%
YEAR-OVER-YEAR % CHANGE																	
Foodservice	15.2%	11.0%	5.2%	(1.1%)	0.5%	3.0%	4.5%	4.5%	4.5%	5.5%	5.5%	5.5%	5.5%	214%	7.2%	3.1%	5.5%
Vistar	28.8%	23.3%	24.9%	18.3%	1.8%	8.0%	8.0%	10.0%	10.0%	5.0%	5.0%	5.0%	5.0%	58.8%	23.6%	7.0%	5.0%
Convenience	98.2%	2.7%	1.9%	2.3%	2.5%	4.0%	4.0%	4.0%	4.0%	3.0%	3.0%	4.0%	4.0%	233.9%	17.1%	3.6%	3.5%
Corporate, Net	86.4%	17.18%	297.3%	293.2%	1.6%	90.5%	89.2%	106.8%	106.8%	137.0%	(14.2%)	19.1%	32.0%	98.7%	219.5%	84.5%	25.8%
Sales	417%	8.3%	5.3%	19%	1.4%	3.9%	4.8%	5.0%	5.0%	4.5%	4.4%	4.9%	4.9%	67.4%	12.5%	3.8%	4.7%
Gross Profit	37.9%	17.3%	12.4%	12.0%	4.0%	6.0%	5.0%	4.9%	4.9%	5.8%	6.3%	6.4%	6.0%	49.3%	10.0%	4.9%	6.1%
Operating Income	1212%	23.4%	50.5%	117%	0.4%	15.8%	8.1%	16.6%	16.6%	17.9%	14.8%	18.5%	11%	79.4%	42.2%	10.6%	15.2%
Operating Net Income	174.3%	46.7%	64.3%	7.9%	(12%)	8.9%	8.4%	19.8%	19.8%	22.8%	19.6%	24.3%	13.7%	16.1%	53.7%	9.2%	19.5%
Operating EPS	149.0%	45.0%	62.6%	6.8%	(1.8%)	8.5%	8.3%	19.7%	19.7%	22.7%	19.6%	24.3%	13.6%	88.2%	50.1%	8.9%	19.5%
EBITDA	102.1%	60.1%	43.4%	35.5%	19.4%	17.1%	10.8%	8.6%	8.6%	14.7%	12.0%	14.9%	9.8%	49.7%	54.9%	13.6%	12.7%
Adjusted EBITDA	93.1%	28.1%	32.3%	7.9%	4.5%	7.0%	10.3%	12.5%	12.5%	12.0%	11.5%	8.8%	8.4%	63.9%	33.7%	8.7%	10.1%



# Commodity Cost Trends Moderating

## Thoughts on Commodities

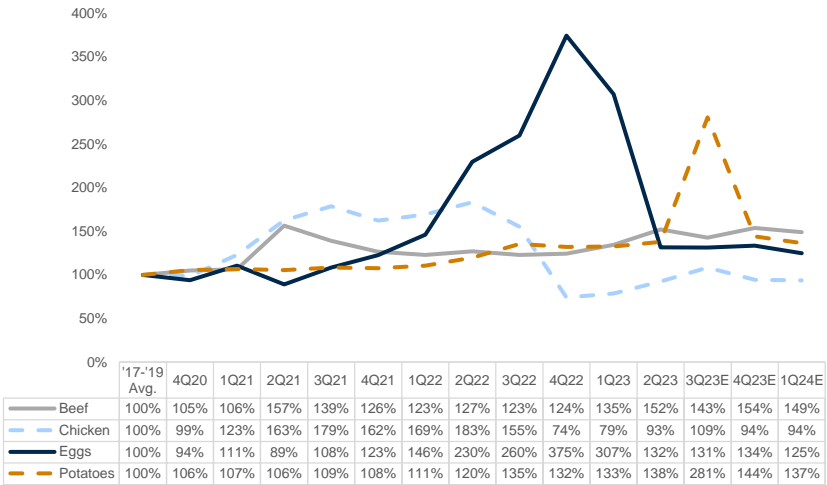
**Chicken Breast Prices Favorable:** Breast meat is in a relatively favorable position from the perspective of many of our covered companies. NDLS, WEN, and CHUY are arguably better examples of operators across our coverage list positioned to benefit from more favorable chicken breast pricing.

**Chicken Wings Moving Back to Average:** Spot wing prices have moved higher off of the recent lows back towards the longer-term average of ~\$1.50/lb. The upward trajectory is catching some attention; however, we understand that additional chicken capacity could be coming on-line driven by lower feed costs, which could help soften pricing levels.

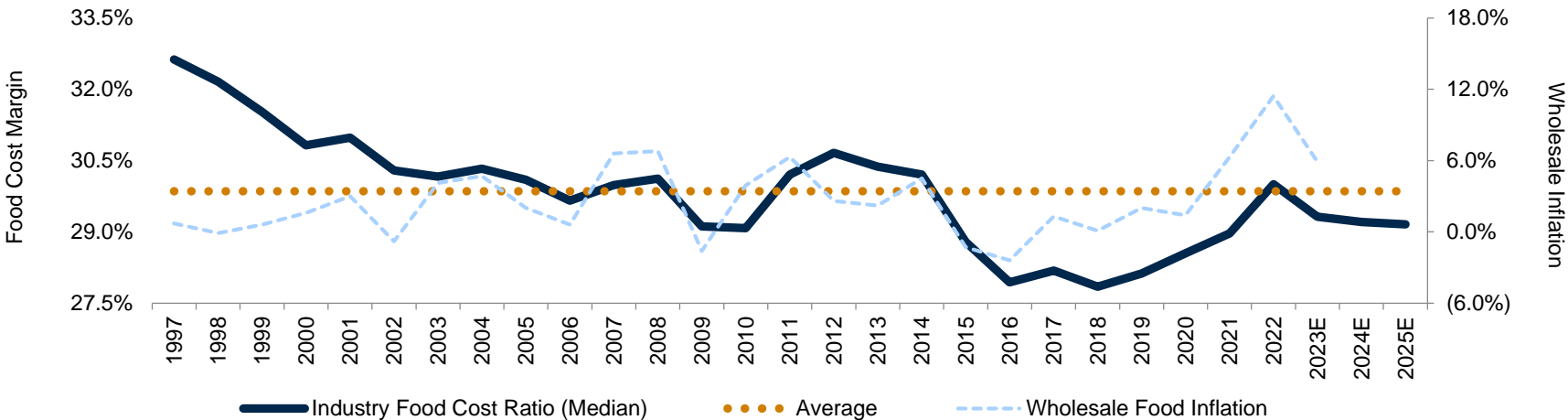
**Beef Still Inflationary:** Prices in 3Q23 remained inflationary driven by a continuation in the overarching, multiyear supply/demand backdrop. We continue to expect beef prices to experience steady upward price pressure, which is a net negative for TXRH, STKS, and limited service hamburger QSR names. Percent inflation estimates vary by company and cut/spec of product but seem to generally coalesce around the +MSD% to +HSD% (or higher) inflation range.

**Egg Prices Look Steady:** Eggs generally represent a small piece of the overall basket but remain key inputs for breakfast-focused concepts/dayparts. Prices of late have come back in line with the longer-term average, which is a net positive for the space.

## Commodity Prices Indexed to Pre-COVID Trend



## Industry Food Cost Margins & Inflation



For added perspective, the heat map below illustrates YoY changes in commodity prices through 2Q24 (assuming current spot rates hold). This is admittedly not a realistic assumption but rather a tool for sizing up the relative size of potential relief/pressure points on a YoY basis.

		4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	3Q23	4Q23E*	1Q24E*	2Q24E*
Beef	Primal Rib (wholesale)	6%	11%	24%	43%	15%	5%	(18%)	(20%)	(2%)	19%	15%	19%	4%	4%	3%
	Primal Loin (wholesale)	(2%)	10%	22%	32%	22%	16%	(17%)	(8%)	(4%)	9%	20%	15%	27%	7%	(7%)
	Primal Flank (wholesale)	(8%)	(9%)	15%	33%	51%	43%	1%	2%	(9%)	7%	33%	27%	44%	23%	(5%)
	Ground Beef 81% - Steer/Heifer	(10%)	(7%)	(5%)	45%	44%	51%	7%	3%	(11%)	(17%)	2%	12%	35%	21%	2%
	Rib, ribeye, lip-on, bn-in (wholesale)	13%	17%	31%	47%	11%	(4%)	(24%)	(27%)	(3%)	25%	15%	21%	(4%)	2%	2%
	Loin, strip, bnls, 0x1 (wholesale)	11%	29%	11%	17%	12%	1%	(17%)	3%	(8%)	10%	11%	1%	33%	(3%)	(10%)
	Loin, tndrloin, trmd, heavy (wholesale)	(13%)	10%	78%	68%	26%	21%	(19%)	(25%)	14%	22%	18%	21%	(7%)	(6%)	(8%)
Chicken	Boneless, Skinless Breast (wholesale)	1%	34%	87%	90%	109%	101%	68%	19%	(42%)	(50%)	(59%)	(37%)	33%	13%	8%
	Wing (wholesale)	27%	52%	131%	85%	38%	(1%)	(44%)	(61%)	(67%)	(62%)	(54%)	(5%)	27%	27%	55%
Pork	Derind Belly 13-17# (wholesale)	13%	55%	103%	66%	22%	11%	(15%)	(16%)	(37%)	(48%)	(49%)	(26%)	20%	39%	50%
	Bacon	4%	7%	17%	25%	26%	23%	15%	5%	0%	(7%)	(14%)	(14%)	(12%)	(5%)	(0%)
Other	Hass Avocados	(31%)	(26%)	(9%)	79%	96%	60%	92%	(28%)	(42%)	(50%)	(52%)	(1%)	48%	42%	16%
	Potatoes	(1%)	(3%)	(9%)	(5%)	2%	4%	4%	25%	23%	20%	15%	9%	12%	11%	7%
	Beans (price / lb)	1%	(1%)	(0%)	0%	6%	8%	8%	17%	14%	9%	3%	2%	2%	1%	2%
	Retail Milk (price / gal)	9%	5%	9%	7%	8%	14%	18%	16%	15%	8%	(2%)	(5%)	(6%)	(4%)	(2%)
	Shortening, Cooking Oil, & Margarine	7%	16%	36%	42%	41%	41%	35%	21%	13%	(2%)	(17%)	(11%)	(8%)	(3%)	2%
	Veggie/Fruit	3%	3%	3%	3%	4%	7%	8%	10%	9%	5%	2%	2%	1%	1%	2%
	Eggs	6%	9%	(18%)	41%	29%	32%	173%	139%	233%	183%	(54%)	(52%)	(69%)	(70%)	13%
	Block 40 lb Cheddar (price / lb)	7%	5%	(13%)	(18%)	(18%)	21%	26%	16%	14%	(6%)	(24%)	(11%)	(11%)	(6%)	16%
	Packing Materials	1%	4%	8%	16%	18%	16%	13%	7%	3%	3%	2%	0%	1%	1%	(0%)
	Soda	4%	4%	(3%)	2%	9%	6%	14%	20%	26%	28%	27%	12%	6%	0%	(4%)

\*2023 prices are not "forecasts". They are simply scenarios for Y/Y inflation if we assume the latest spot prices hold constant

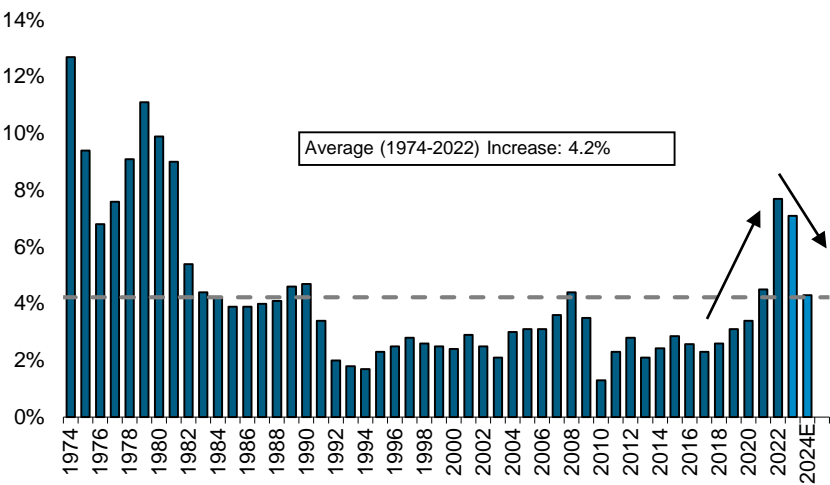
Note: all prices listed are per pound, unless otherwise noted

Thoughts on Restaurant Menu Pricing

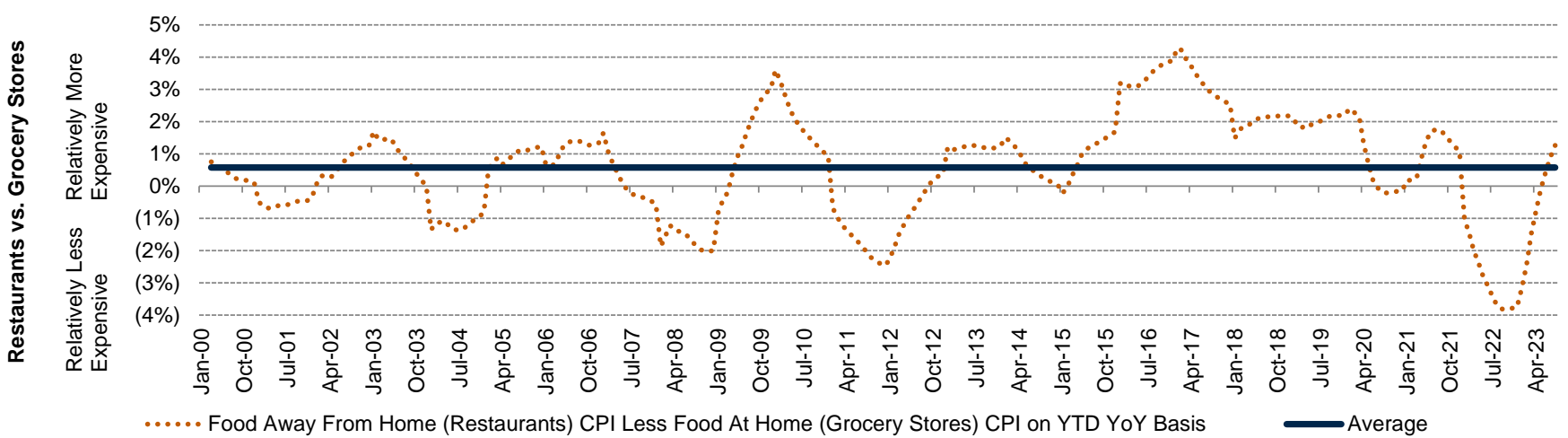
**Menu Prices Working Lower:** With food costs moderating and labor (both in terms of costs and availability) somewhat steady, we believe that operators are in a decent position to let menu pricing roll off on a go forward basis. This is in line with the current industry expectations and should create a set up for a return to more normalized menu pricing in 2024. As outlined in the chart to the right, we believe menu pricing for the industry has peaked and should be on the down swing with operators more likely to return to pricing the +LSD% range (similar to prior ranges). This, of course, assumes no major spikes in key input costs.

**Pace of Restaurant Pricing More Balanced vs. Grocery Channel:** From the perspective of the consumer, we believe this dynamic will be welcomed; however, we think it could take some time for it to be “felt” given the impact from compounded prices over the last few years. One additional net positive for restaurants (and secondarily foodservice distribution) is the relative affordability of the restaurant segment (outlined below). The recent datasets suggest the pace of pricing relative to the grocery channel has narrowed of late; however, we believe the convenience and experience offered by the restaurant category remain points of attraction for consumers.

Restaurant Industry Menu Pricing Peaking?



Grocery vs. Restaurant Price Differential Trend



## COMPANIES MENTIONED

US Foods (USFD - \$38.18)  
Edward Don & Company (Private)

## APPENDIX A

### ANALYST CERTIFICATION

The analyst primarily responsible for the preparation of the content of this report certifies that (i) all views expressed in this report accurately reflect the analyst's personal views about the subject company and securities, and (ii) no part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the analyst in this report.

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### Ratings Definitions

OVERWEIGHT (O) - The stock's total return is expected to be greater than the total return of the company's industry sector, on a risk-adjusted basis, over the next 12 months. EQUAL-WEIGHT (E) - The stock's total return is expected to be equivalent to the total return of the company's industry sector, on a risk-adjusted basis, over the next 12 months. UNDERWEIGHT (U) - The stock's total return is expected to be less than the total return of the company's industry sector, on a risk-adjusted basis, over the next 12 months. VOLATILE (V) - The stock's price volatility is potentially higher than that of the company's industry sector. The company stock ratings may reflect the analyst's subjective assessment of risk factors that could impact the company's business.

### Distribution of Stephens Inc. Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	249	56.59	26	10.44
HOLD [EW]	186	42.27	19	10.22
SELL [UW]	5	1.14	0	0.00

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