

Ticker: SY
Sector: Consumer Defensive
Industry: Food Distribution

Intrinsic Value: \$85.04
Current Price: \$77.01
Stop Loss: \$67.77 (12%)

TTM P/E: 19.34x
Forward P/E: 16.34x
Beta: 1.20

Market Cap: 38.016B
Dividend Yield: 2.64%
52 Week Range: 66.87 – 82.89

Sysco Corporation

Business Summary:

Founded in 1969, Sysco is the largest global distributor of food and related products providing services to ~730,000 customer locations. Sysco serves as a “one-stop-shop” for customers reliably offering a wide variety of quality products and integrated services. Sysco acts as the middleman between suppliers and “food-away-from-home” establishments including restaurants, healthcare and educational facilities, & lodging establishments.

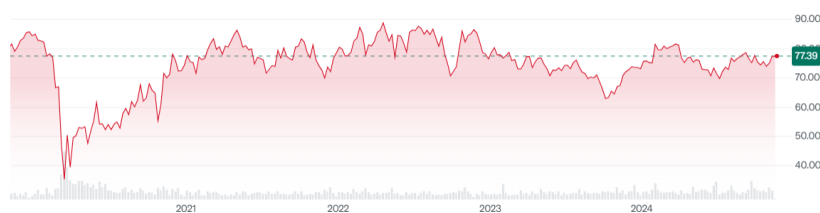
Industry Trends:

Companies within the food distribution industry are becoming increasingly focused on keeping up with evolving consumer preferences as well as the integration of technology to provide more holistic services to customers. Distributors have focused on expanding their product offerings to include more fresh produce and culturally specific foods as consumers become more health conscious and seek to diversify their diets. Additionally, food distributors are integrating AI into their systems so they can provide useful insights to customers to help them better manage their inventory and understand their customers’ needs.

Investment Thesis:

Sysco is a leader in their industry. The company has shown consistent, stable performance and demonstrates the opportunity to improve margins and grow by taking market share.

Five Year Historic Stock Performance:



Competitive Analysis:

Relative to competitors, Sysco has the largest market share and is most capable of produce specialty products (fresh produce, culturally specific offerings, etc.) as they have the strongest ability to acquire specialty distributors and have successfully built out this segment of their business over many years.

Pros:

- Intrinsic valuation shows current price is undervalued
- The food distribution industry is expected to grow at an 7.3% CAGR over the next 9 years
- Specialty food distribution is associated with higher margins and Sysco has the strongest ability to win in this segment
- Recent improvements to Sysco’s sales team (improved training materials, performance incentivized compensation structure) will stimulate sales

Risk Factors:

- The restaurant industry has experienced a recent slowdown in terms of foot traffic – Sysco has grown by taking market share and this may not be sustainable
- Sysco’s success relies on their ability to effectively pass price increases onto their customers, they’ve successfully been able to do this in the past but persistent inflation may hurt customer retention
- Sysco operates in a highly regulated industry and must stay up to date with increasingly restrictive guidelines

DCF Analysis

Implied Equity Value and Share Price	
PV of Cash Flows	\$ 11,836.4
PV Terminal Value	\$ 42,211.9
Enterprise Value	\$ 54,048.3
Plus: Cash and Cash Equivalents	696.0
Less: Total Debt	12,946.0
Implied Equity Value	\$ 41,798.3
Fully Diluted Shares Outstanding	492
Implied Share Price	\$ 85.04
Current Stock Price	\$ 77.39
Margin of Safety	9.89%

Sensitivity Analysis of Implied Price						
		WACC				
		8.5%	8.8%	9.0%	9.3%	9.5%
PCR	\$ -	86.96	82.33	78.05	74.09	70.42
	2.50%	90.98	85.99	81.41	77.17	73.25
	2.75%	95.37	89.98	85.04	80.50	76.30
	3.00%	100.18	94.33	88.99	84.10	79.60
	3.25%	105.47	99.10	93.30	88.02	83.17
	3.50%					

Comparative Analysis

	EV/LTM EBITDA	P/E	Forward P/E	EPS	ROA	Debt/EBITDA	EBITDA/Interest Expense
SY	10.48	19.34	16.34	3.89	8.90%	2.8x	7.5x
USFD	12.64	29.27	18.03	2.10	4.90%	3.2x	4.8x
PFCC	10.94	29.02	16.49	2.79	4.00%	3.1x	6.9x

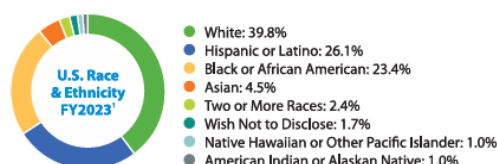
ESG Analysis

Environmental

- Identifying suppliers that are contributing the most emissions and engaging them to set emissions reduction targets
- Optimizing shipping and delivery routes to reduce miles on the road

Social

- Commitment to diverse workforce



Governance

- Requiring Code of Business Conduct (COBC) training to educate colleagues on important COBC topics and behaviors
- Focusing on improving Board of Directors diversity with 27% female and 18% racially or ethnically diverse

