

Sysco Corporation (SY)

Key statistics				FYE 30 Jun	2015	2016	2017	2018E	2019E	2020E	17-20 CAGR
Price	63.00	Mkt Cap (\$M)	34,558	Revenue	48,681	50,367	55,371	57,823	60,352	62,881	4.3%
52 Wk High	64.27	Net Debt (\$M)	7,226	Growth	4.7%	3.5%	9.9%	4.4%	4.4%	4.2%	
52 Wk Low	48.85	Pref stock (\$M)	83	Total case growth (US)	3.1%	5.0%	(1.0%)	2.9%	3.2%	3.2%	
Price / TBV	nm	Ent. Val (\$M)	41,867	Local case growth (US)	-	4.7%	(0.1%)	2.8%	3.3%	3.3%	
FD CSO	542			Gross profit	8,552	9,040	10,558	11,098	11,735	12,396	5.5%
Free float	91.2%			Margin%	17.6%	17.9%	19.1%	19.2%	19.4%	19.7%	
Daily Vol (\$M)	130			EPS (adj)	1.84	2.10	2.48	3.35	4.24	4.89	25.4%
Short interest	3.0%	Debt / EBITDA	3.0x	Consensus				2.94	3.51	3.89	16.2%
Dividend yield	2.3%	Net Debt / EBITDA	2.6x	P/E				18.78	14.87	12.89	

Recommendation

I recommend a LONG for Sysco (SY) with a 2019 target price of \$83/share, 32% above the current price (IRR of ~15%). SY is the clear leader in the Foodservice Distribution industry and has a strong competitive moat resulting from relative scale advantages (2x the size of its nearest competitor in a highly fragmented market), best in-class supply chain density and high switching costs. SY also continues to have several earnings growth levers that are currently underappreciated by the market, name from: 1) Gross margin potential from an acceleration in Sysco Branded product penetration 2) Continued mix shift to independent restaurants 3) Improvements in operating efficiencies.

Company Overview

Sysco (SY) is the largest player in the \$290B foodservice distribution industry, with a market share of ~17%. The company distributes food and related products to foodservice operators such as restaurants, hospitals, schools and other foodservice operations. In 2017, 68% its sales and 88% of its operating profit, respectively, came from its US business; 19% and 10% from its International Business; 13% and 2% from its SYGMA business, which services quick-service restaurants.

SY underwent an operationally challenging period between 2011 through to 2015. In late 2013, SY announced a merger with US Foods (USFD), the second largest distributor in the US. The deal was blocked by a federal judge in 2015 on antitrust concerns, resulting in a costly and distracting period for both companies. In addition, continued execution missteps rolling-out its ERP system and successive periods of declining gross margin percentage (18.8% in 2011 to 17.6% in 2015) weighed on its stock price performance, underperforming the market during that same period (SY 41% gain over 5 years vs S&P500 of 63%).

SY's margin decline stabilized in 2016 and the company has since regained momentum, with gross margin percentage improving 50bp in 2017¹. This was a result of tailwinds from a moderately deflationary food environment and a renewed focus on the strengthening and comparatively high margin independent restaurant customers - which generate more than double the gross margins per case versus large multi-unit customers.

There has also been a recent CEO change at SY. Bill DeLaney served as CEO from 2009 and announced he was stepping down in July 2017. DeLaney will be replaced by Tom Bené effective January 1st, 2018. Bené is a highly regarded operator and was quickly seen as a potential successor shortly after he joined in 2013. Interestingly, Bené came from the CPG and foodservice industry after 23 years at PepsiCo. This could signal a subtle but important shift in how SY is positioning itself for the future, as a food company rather than a pure play distributor.

Industry Overview

The foodservice industry is mature, growing at a 4% CAGR between 2010-2017, and forecast to grow between 1% to 2% in the next five years². The \$290B foodservice distribution sector is fragmented, with the top three players collectively accounting for a third of the market. SY's relative market share and scale is considerable, being as

¹ Excluding Brakes acquisition and one-off adjustments

² 5Y real CAGR forecast 2017-2022 of various subgroups in the foodservice industry (Source: Technomic)

large as its three closest competitors and nearly double its nearest competitor USFD. This difference in scale allows SY to command structurally higher margins than the rest of the industry as shown in the table below:

Market share	2012	2013	2014	2015	2016	2017	As % of SLS	GP	Opex	EBIT
Market size (\$B)	239	247	256	268	278	289	SY (US)	18.4%	14.0%	4.4%
SY sales (\$B)	40	41	43	45	46	46	USFD	17.6%	15.3%	2.3%
% share	16.8%	16.6%	16.8%	16.7%	16.5%	15.9%	PFGC	12.7%	11.4%	1.3%
USFD sales (\$B)	22	22	23	23	23	24				
% share	9.1%	9.0%	9.0%	8.6%	8.2%	8.2%				
PFGC sales (\$B)	10	11	11	13	13	14				
% share	4.0%	4.3%	4.5%	4.8%	4.8%	4.7%				
Big 3 share (%)	29.9%	30.0%	30.2%	30.1%	29.6%	28.9%				

Source: Market size US foodservice - Technomic

Notes:

- 1) SY sales includes SYGMA, excludes international
- 2) SY, PFGC YE 30-Jun; USFD YE 31-Dec
- 3) PFGC excludes Vistar

Source: Company reports

Notes:

- 1) SY excludes Brakes acquisition
- 2) SY, PFGC YE Jun 17; USFD YE Dec 16

Sysco's Competitive Advantage

SY reports a ROIC of 13% in 2017. However, management's ROIC calculation is incorrect as it uses a net income value in the numerator (earnings to equity holders), yet includes the total capital invested (including debt) in the denominator. SY's true ROIC is closer to 16% in 2017 and has averaged ~20% in the last 10 years. This suggests SY does enjoy some durable competitive advantages.

Observing market share in the industry points to the presence of barriers to entry. Market share among the top 3 have steadily held at around 30% in the last 6 years. Individual market shares have also remained relatively steady. SY's relative scale plays a part in its ability to earn high ROICs and the scale advantage starts with their negotiating power with their vendor. According to my primary research, SY enjoys a 2-3% cost advantage because of its procurement scale. The relative scale of their warehouses also improves their competitive position. Larger players can operate larger and more efficient warehouses, according to one of their major competitors: *"They [SY] operate \$350M-\$750M DCs whereas we operate at a lower rate. They are able to get more efficient at the DC and get full-truck loads to get the lowest cost advantage"*

The density and breadth of their supply chain network also provides a competitive moat. Greater density means trucks can run on shorter more optimized routes. This ultimately improves their delivery performance, which is at a very high bar in the industry (99.5% on-time delivery requirement).

The breadth of the network is also a key differentiator. My primary research discussions with Restaurant entrepreneurs looking to expand regionally, point to SY's nationwide coverage as a key reason to why they chose it over smaller rivals.

My discussions with customers, ranging from independent restaurants, hospitals and universities suggest perceived switching costs away from food distributors are very high. All my contacts said they would not switch suppliers unless something extreme happened in terms of service and reliability, particularly the large-scale hospitality and healthcare customers. Setting up with a new distributor was considered tedious and costly. Switching costs are lower for independent restaurant operators however, as they typically employ several vendors (with one main broadline distributor) and react to pricing differences by purchasing from other vendors. Further penetration of Sysco Brand products and greater e-commerce adoption will improve stickiness with independent customers.

Thesis 1: Gross margin expansion potential from private label expansion

Sysco is undergoing a transformation from a distribution company to a food company. This is a natural transition for SY as it looks to leverage its scale to improve its margins. The CEO of a major private competitor explains:

"Sysco is heading down that path, they want to be a food company first. Because the way the margins are structured in this business, all the margin is in the manufacturing side. There's no doubt that they will be going to market with those products. But you need scale to do this. The other guys have good products and are good distributors, but private label will drive a gap in gross margin between #1 and #2 and the rest of us"

Several factors have come together that sets the company up to accelerate the development and penetration of the higher margin Sysco Brand products. First, the new CEO's extensive experience at PepsiCo suggests he will have the requisite skills and experience to drive such a strategy. Unlike his predecessor he was not a veteran of the foodservice distribution industry. Second, Triun Partners' track record as successful investors in the CPG industry should bring about Board support (where they have two seats out of twelve seats) for a food centered strategy. Third, SY's category management efforts and food innovation have led to products that are perceived to be comparable to branded alternatives, which due to its scale, makes it one of the few broadline distributors to be able to do this successfully. A respected industry consultant explained that there is a surprisingly high acceptance rate of private label products among operators:

"From my research I've found approval rates, or acceptance rates of private label products among operators to be 87%-90%. In other words, the beaches are softened for more private label products. And in fact, some Sysco sales guys won't even bother to sell to customers who don't accept a bundled product [including Sysco Brand products]."

SY's strategic alignment with food service providers also act as effective channels for Sysco Branded products. An industry executive explains:

"What you need to know are the industry alignments. Sysco is very aligned with contract operators such as Sodexo, Aramark and Compass. This provides a lot of capacity for them. And those entities are very open to Sysco private label brands which are generally very profitable"

My research suggests SY's private label penetration could accelerate in the near term, improving gross margins. I estimate that each percentage point penetration of private label results in a gross margin percentage uplift of ~10bp in the US Foodservice segment, based on estimated margin differentials and penetration assumptions. Industry experts also almost unanimously agreed that private label penetration had significant runway, with one expert suggesting 70% penetration is possible, and many noting major retailers have made similar shifts (Aldi, Trader Joe's have an almost full private label model).

SY's shift toward focusing on higher value clients will also support gross margin growth. The company has recently streamlined its multi-line customers and is focusing on profitability rather than growth. Industry experts suggest that SY has switched toward a profitability model rather than a growth model; focusing on controlling customer relationships and driving adoption of their private label brands.

	Q2 16	Q1 17	Q1 18	FY18e	FY19e	FY20e
PL penetration in local	43.5%	44.0%	45.8%	47.0%	49.0%	52.0%
Delta (bp)	n/a	50	180	120	200	300
US Foodservice GM%	19.3%	20.2%	20.2%	20.3%	20.5%	20.8%

Estimates only - consistent data not provided

Thesis 2: Mix shift to independent restaurants continue to be an opportunity

All major broadline distributors have recently renewed their focus on targeting "independent" operators, loosely defined as operators not part of large, multi-chained enterprises. Although the definition of what constitutes "independent" operators likely varies between companies (from single store operators to regional chains), directionally, the motivation for each company is the same. From a top-line perspective, independents have performed better than their chained counterparts which have seen consistent SSSG declines for at least 6 years³, caused by a broad range of factors such as an over-stored industry, changing tastes toward healthier / trendier alternatives and urbanization trends favoring independent inner-city operators. Sales to independent operators also generate significantly higher margins; as much as double or more the gross margins per case based on my contact interviews and almost four times the contribution margin per case as per USFD management's earnings calls. Between 2010 to 2015, SY's independent case mix declined by 6 points based on my estimates (exact numbers

³ Source: US Restaurants: The rise and fall of the restaurant chain; are independents winning?, Bernstein Research

are not reported), and at the same time gross margin percentage declined by almost 200bp. The improving independent mix starting from 2016 has been a major driver of SY's stabilizing and improving gross margins.

My conversations within the industry suggest that independent restaurant operators will continue to be a source of profitable growth for SY. Although pressures exist in the industry, mostly from labor price increases, the industry appears robust, as observed by a Sysco competitor:

"When we talk about independents, we mean pure play independent restaurants, and from what we've seen its growing in the 4-5% range, which makes me believe that its market growth [not only market share transfers]"

As cost pressures impact restaurant operators, the relative value of SY's private label products should increase. Based on my conversations, customers appear to recognize the value of SY's private label products, with some suggesting cost savings of 5-10% depending on the product. This relative value should help SY gain market share as operators try to offset growth in labor expenses.

Thesis 3: Room for further operational efficiencies remain

SY's cost structure is highly dependent on labor costs. The high proportion of labor costs for SY mean that technological investments, both at the sales end and across the supply chain, could yield significant cost efficiencies. From a marketing associate (MA) perspective, SY has already streamlined its sales force by almost 1,000, down to 6,000. Although it is unlikely further cuts would be made to the MA count, increasing adoption of e-commerce and sales technologies will allow the existing sales force to be more productive – allowing operational leverage benefits as productivity improves.

My primary research suggests that SY is behind the curve in investing in its supply chain to lower operating expenses. A representative from a foodservice distribution trade association commented on the general state of the industry:

"Warehouse technology, warehouse automation it isn't that widespread yet. It's definitely brewing, but I wouldn't say our guys are on the bleeding edge of technology. This industry doesn't tend to be leaders in warehouse technology, but it's something they are continuing to explore"

Overall, it does not appear that Sysco's opportunities to improve efficiencies within the business and limit operating expense growth has petered out. Based on my research, I believe operating expense CAGR between 2017-2020 could be limited to 2.0% p.a. (vs management guidance of 2.5%), resulting in a 90bp margin expansion by 2020, driven by operating leverage. Operating expenses as a percentage of sales would improve to 13.9% vs management guidance of 14.0%.

Valuation

SY's P/E multiple has historically traded at a ~23% premium to the market multiple, with the gap in the last year closing to ~10.5%. Although the stock is trading at close to historic prices, it is in-line with how it has traded with the broader market. I use a 17x forward P/E for my base case, which conservatively assumes the stock trades in-line with the current market multiple (historically has been above).

The key assumptions for my Base, Bear and Bull cases are shown in the table below as are the management guidance numbers released at the December 7 analyst day. My base case is more aggressive than management forecasts, however as this is the first set of forecasts released by the new CEO, it is likely he and his team would err on the side of conservatism in their projections in order to under promise and over deliver. My Base case projections include better than expected gross margin growth and operating expense efficiencies. This leads to a 2020 EPS of \$4.86, above the management guidance mid-point by 20% and above sell-side consensus by 26%. **I have a target price of \$83 / share which is 32% above the current price.**

Sysco has paid an average effective tax rate of 37% historically. I have modelled a drop in the tax rate to 21% as per management guidance regarding the expected statutory tax rate in 2019.

Scenarios	Bear	Base	Bull	Mgt Guide	SY historical fwd P/E
3Y local case CAGR%	1.9%	3.1%	3.5%	3.0%	Max 35.4
3Y total case CAGR%	1.7%	3.1%	3.3%	3.5%	Min 10.6
F20 PL as % of local	46.0%	52.0%	53.0%	n/a	Mean 20.2
F20 gross margin %	18.5%	19.7%	20.0%	18.8%	
3Y gross profit CAGR%	2.3%	5.5%	6.1%	4.0%	
F20 opex as % SLS	14.1%	13.9%	13.7%	14.0%	
3Y opex CAGR%	1.6%	2.0%	1.8%	2.5%	
F20 EBIT margin %	4.4%	5.9%	6.3%	4.8%	
F20 EBIT CAGR %	4.5%	16.1%	18.9%	9.0%	
F20 EPS	3.43	4.89	5.29	3.40-3.50	
F20 Fw d P/E	16x	17x	19x	n/a	
Up / Dow nside	(13%)	32.0%	60%	n/a	

SY vs S&P500 (Fwd P/E)	
1Y Prem / (Disc)	10.40%
2Y Prem / (Disc)	19.30%
5Y Prem / (Disc)	19.90%
10Y Prem / (Disc)	14.90%
Historic Prem / (Disc)	22.73%
S&P500 Fw d P/E	16.71
Curr SY P/E	19.50
% prem / (disc)	16.70%

SY is a stable operating business and is expected to trade above its reproduction value. Based on my analysis in the previous sections, I believe SY has durable competitive advantages and that its growth creates value in the long-run.

The analysis to the right shows that at the current share price, a margin of safety of ~2% p.a. (representing the return above the equity cost of capital) exists.

Enterprise value (\$M)	
Share price	63.00
CSO diluted	549
Market cap	34,558
Minority interest	83
Net Debt	7,226
Enterprise value	41,867

Sustainable earnings (\$M)	
Revenue	57,000 2018 expected
Sustainable EBIT %	4.50%
Sustainable EBIT	2,565
Tax rate	21.0% New 2019 statutory rate
NOPAT	2,026

Cash return	
Earnings return	4.8% At current price
Payout	90.0% Based on historical pay-outs
Cash return	4.4%

Triangulate	
Dividend yield	2.30%
Buyback	1.20%
Cash return estimate	3.50%

Total return	
Cash return	4.4%
Comp growth est.	4.0% Case growth 2% + Inflation of 2% (Food)
Total return	8.4%

Equity return	
Equity return	6.50%

Margin of safety	
Margin of safety	1.9% Assumes ~35Y half-life as fade rate

Key risks

Risks	Mitigants
Pockets of the end-markets have experienced challenging trading conditions as well as significant disruption from changing tastes and technology	Independent restaurants remain a growth area for SY and are less impacted by the secular trends affecting the Casual Dining sector
Mature end-market with limited top-line growth potential	Consistently growing with US GDP and discretionary spend
Generally low margin industry	Shift to private label should improve gross margins
Amazon threat	Research suggests AMZN focused on B2C market and Fresh food supply chain behind that of SY.
Large portion of cost base is labor	Improvements in automation and productivity
Despite high ROIC, limited new incremental investment opportunities domestically	Recognized in current valuation. Organic growth creates sufficient margin of safety to make compelling investment

Appendices

Primary Research Contacts

Company	Title
Sysco	Former C-level executive
Reinhart Food Service	C-level executive
Consultancy Group	Founder
Consultancy Group	Senior Partner
Sysco / USFD	Former Marketing Associate
Independent Restaurant (4 stores)	Manager
Columbia Dining Services	Executive Director
NY Presbyterian	Director of Procurement
Independent Restaurant Group	Founder
Industry trade association	Director of Research
Amazon	Snr. Product Manager – Supply Chain
Major listed competitor	Board member
Independent Restaurant (1 store)	Manager

Historical case mix

Case Mix	2010	2011	2012	2013	2014	2015	2016	2017
US Broadline cases (M)	869	868	901	917	933	962	1,010	1,000
Multi-unit cases (M) ¹	324	323	351	372	388	417	439	430
% share	37%	37%	39%	41%	42%	43%	44%	43%
Independent cases (M)	545	545	550	545	545	545	571	570
% share	63%	63%	61%	59%	58%	57%	56%	57%
Gross margin ²	19.3%	18.8%	18.4%	18.0%	17.6%	17.6%	17.9%	18.4%

1) Exact case mix estimates only - not reported

2) Excludes Brakes acquisition

Operating expenses assumptions

Operating expenses	2010	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
Operating expenses (\$M)	5,150	5,347	5,671	6,243	6,451	6,760	7,032	8,206	8,247	8,416	8,713
% yoy growth	(0.3%)	3.8%	6.1%	10.1%	3.3%	4.8%	4.0%	16.7%	0.5%	2.1%	3.5%
as % of sales	13.8%	13.6%	13.4%	14.1%	13.9%	13.9%	14.0%	14.8%	14.3%	13.9%	13.9%

Base Case Financials

Sysco Foods NYSE:SY	Units	30-Jun-14 FY2014	30-Jun-15 FY2015	30-Jun-16 FY2016	30-Jun-17 FY2017	30-Jun-18 FY2018	30-Jun-19 FY2019	30-Jun-20 FY2020
Summary financials								
Capitalization								
Share price	\$				63.0			
CSO diluted	M				549			
Market cap	\$M				34,558			
Minority interest	\$M				83			
Net Debt	\$M	2,383	2,121	3,427	7,226			
Enterprise value	\$M				41,867			
Valuation								
Fwd EV / EBIT	x					14.7x	12.6x	11.4x
Fwd EV / EBITDA	x					12.0x	10.5x	9.6x
Fwd P / E	x					18.8x	14.9x	12.9x
Fwd P / FCFF	x					18.9x	14.8x	13.4x
FCF yield (levered)	%					5.3%	6.7%	7.5%
Free cash flow								
Levered FCF (Op CF - Capex)	\$M	970	1,013	1,448	1,601	1,791	2,232	2,416
Cash realization (Lev. FCF / NI)	x	1.04	1.47	1.53	1.40	1.00	1.00	0.96
FCF / share	\$	1.64	1.70	2.51	2.92	3.34	4.25	4.71
ROIC								
Capital employed								
Total Debt	\$M	2,796	7,251	7,346	8,096	7,896	7,596	7,296
Equity + minority interest	\$M	5,267	5,302	3,555	2,464	2,956	3,817	4,679
Less: Cash	\$M	(413)	(5,130)	(3,919)	(870)	(1,070)	(1,541)	(2,112)
Total capital employed	\$M	7,649	7,423	6,982	9,690	9,782	9,872	10,062
EBIT*(1-tax) (NOPAT)	\$M	1,125	1,165	1,306	1,529	1,854	2,156	2,391
ROIC	%	14.7%	15.7%	18.7%	15.8%	19.0%	21.8%	23.8%
SY calculated	%	11.6%	5.5%	8.7%	10.8%	16.5%	19.5%	20.6%
Income statement								
Sales								
<i>Segments Post FY17</i>								
US Food service	\$M		36,099	37,776	37,605	39,254	41,088	43,007
yoy %	%		n/a	4.6%	(0.5%)	4.4%	4.7%	4.7%
% of total sales	%		74.2%	75.0%	67.9%	67.9%	68.1%	68.4%
<i>Total US sales growth</i>								
Case volume	%	2.2%	3.0%	3.1%	1.0%	2.9%	3.2%	3.2%
Inflation / (Deflation)	%	2.0%	3.7%	(0.9%)	(0.4%)	1.5%	1.5%	1.5%
Acquisitions	%	1.7%	0.4%	0.3%	0.3%	-	-	-
Extra wk in 16	%	-	-	1.9%	(0.8%)	-	-	-
Other	%	(0.8%)	(0.4%)	0.2%	(0.6%)	-	-	-
Net change in sales	%	5.1%	6.7%	4.6%	(0.5%)	4.4%	4.7%	4.7%
<i>Volume growth</i>								
Total US Broadline cases	M	933	962	1,010	1,000	1,029	1,061	1,095
% growth cases	%	1.7%	3.1%	5.0%	(1.0%)	2.9%	3.2%	3.2%
Multi-unit cases	M	388	417	439	430	443	456	470
% growth	%	4.3%	7.5%	5.4%	(2.2%)	3.0%	3.0%	3.0%
% mix	%	41.6%	43.3%	43.5%	43.0%	43.0%	43.0%	42.9%
Local cases	M	545	545	571	570	586	605	625
% growth	%	-	-	4.7%	(0.1%)	2.8%	3.3%	3.3%
% mix	%	58.4%	56.7%	56.5%	57.0%	57.0%	57.0%	57.1%
Weighted avg rev / case	\$		37.5	37.4	37.6	38.2	38.7	39.3
% growth	%		n/a	(0.3%)	0.6%	1.5%	1.5%	1.5%
Case growth								
Total broadline	%			3.0%	0.9%			
Local broadline	%			2.7%	2.4%			
Implied multi-unit	%			3.4%	(1.3%)			
Local share %	%			58.3%	59.0%			
International								
International	\$M		5,592	5,436	10,613	11,130	11,686	12,154
yoy %	%		n/a	(2.8%)	95.2%	4.9%	5.0%	4.0%
% of total sales	%		11.5%	10.8%	19.2%	19.2%	19.4%	19.3%
SYGMA								
SYGMA	\$M		6,076	6,102	6,179	6,455	6,584	6,716
yoy %	%		n/a	0.4%	1.3%	4.5%	2.0%	2.0%
% of total sales	%		12.5%	12.1%	11.2%	11.2%	10.9%	10.7%
Other								
Other	\$M		913	1,052	974	985	995	1,005
yoy %	%		n/a	15.2%	(7.4%)	1.1%	1.0%	1.0%
% of total sales	%		1.9%	2.1%	1.8%	1.7%	1.6%	1.6%
<i>Segments Pre FY17</i>								
Broadline	\$M	36,795	38,653	39,891				
yoy %	%	4.3%	5.0%	3.2%				
% of total sales	%	79.1%	79.4%	79.2%				
SYGMA	\$M	6,187	6,076	6,102				
yoy %	%	7.2%	(1.8%)	0.4%				
% of total sales	%	13.3%	12.5%	12.1%				
Other	\$M	4,698	5,258	5,943				
yoy %	%	6.9%	11.9%	13.0%				
% of total sales	%	10.1%	10.8%	11.8%				
Intersegment	\$M	(1,163)	(1,306)	(1,569)				
yoy %	%	13.8%	12.3%	20.2%				
% of total sales	%	(2.5%)	(2.7%)	(3.1%)				
Total Revenue	\$M	46,517	48,681	50,367	55,371	57,823	60,352	62,881
yoy growth	%	4.7%	4.7%	3.5%	9.9%	4.4%	4.4%	4.2%
yoy organic growth	%	4.7%	4.7%	1.5%	1.6%			

Gross Margins									
US Food Service	\$M		6,934	7,413	7,556	7,962	8,418	8,950	
%			19.2%	19.6%	20.1%	20.3%	20.5%	20.8%	
Growth			n/a	6.9%	1.9%	5.4%	5.7%	6.3%	
% of total GM			81.1%	82.0%	71.6%	71.7%	71.7%	72.2%	
<i>Unit economics for US</i>									
Implied GM per case multi			13.1%	13.2%	13.3%	13.3%	13.5%	13.5%	
Implied GM per case indp			24.0%	24.6%	25.3%	25.6%	25.8%	26.3%	
Weighted average GM			19.2%	19.7%	20.1%	20.3%	20.5%	20.8%	
GP per case total (calculated)	\$		7.21	7.34	7.56	7.74	7.93	8.17	
Multi-line GP per case (assumed)	\$		4.90	4.95	5.00	5.07	5.23	5.30	
% growth			1.0%	1.0%	1.0%	1.5%	3.0%	1.5%	
Independent GP per case (assumed)	\$		9.00	9.20	9.50	9.75	9.97	10.33	
% growth			2.2%	3.3%	3.3%	2.6%	2.2%	3.6%	
Implied weighted avg GP / case	\$		7.22	7.35	7.57	7.74	7.93	8.17	
% growth			1.8%	2.9%	2.9%	2.3%	2.5%	3.1%	
<i>Private label penetration</i>									
Multi-unit	%								
Total	%		35.0%	36.0%	37.0%	38.0%			
Local	%		42.0%	43.0%	45.8%	47.0%	49.0%	52.0%	
PL margin	%		29.5%	30.0%	30.7%	30.7%	30.7%	31.2%	
Branded margin	%		20.0%	20.5%	20.8%	21.0%	21.0%	21.0%	
Weighted average Indp. Margin	%		24.0%	24.6%	25.3%	25.6%	25.8%	26.3%	
International	\$M		969	939	2,276	2,393	2,559	2,674	
%			17.3%	17.3%	21.4%	21.5%	21.9%	22.0%	
Growth			n/a	(3.1%)	142.4%	5.1%	7.0%	4.5%	
% of total GM			11.3%	10.4%	21.6%	21.6%	21.8%	21.6%	
SYGMA and Other	\$M		648	688	725	744	758	772	
%			9.3%	9.6%	10.1%	10.0%	10.0%	10.0%	
Growth			n/a	6.2%	5.4%	2.6%	1.9%	1.9%	
% of total GM			7.6%	7.6%	6.9%	6.7%	6.5%	6.2%	
Total Gross Profit	\$M	8,181	8,552	9,040	10,558	11,098	11,735	12,396	
Gross margin	%		17.6%	17.6%	17.9%	19.1%	19.2%	19.4%	19.7%
Adj. Gross margin (ex. Brakes)	%		17.6%	17.6%	17.9%	18.4%	19.2%	19.4%	19.7%
yoY %			2.3%	4.5%	5.7%	16.8%	5.1%	5.7%	5.6%
Operating expenses (ex certain item)									
US Food service	\$M		4,438	4,638	4,629	4,708	4,816	5,011	
% margin			12.3%	12.3%	12.3%	12.0%	11.7%	11.7%	
Variable costs (mostly labor)	\$M	80.0%			3,703	3,768	3,862	4,043	
As % of sales	%				9.8%	9.6%	9.4%	9.4%	
Fixed costs	\$M	20.0%			926	940	954	968	
% growth						1.5%	1.5%	1.5%	
International	\$M		794	753	1,929	1,892	1,928	2,005	
% margin			14.2%	13.8%	18.2%	17.0%	16.5%	16.5%	
SYGMA and other	\$M		604	632	685	670	682	695	
% margin			8.6%	8.8%	9.6%	9.0%	9.0%	9.0%	
Corporate expenses	\$M		924	1,009	962	977	992	1,006	
% growth			n/a	9.2%	(4.6%)	1.5%	1.5%	1.5%	
% margin vs total sales			1.9%	2.0%	1.7%	1.7%	1.6%	1.6%	
Operating expenses	\$M	6,451	6,760	7,032	8,206	8,247	8,418	8,717	
% margin			13.9%	13.9%	14.0%	14.8%	14.3%	13.9%	13.9%
yoY%			3.3%	4.8%	4.0%	16.7%	0.5%	2.1%	3.6%
Operating income (ex certain item)									
US Food service	\$M		2,496	2,775	2,928	3,254	3,602	3,939	
% margin			6.9%	7.3%	7.8%	8.3%	8.8%	9.2%	
% of op income (ex corp)			91.9%	92.0%	88.3%	85.0%	83.6%	84.1%	
<i>Unit economics</i>									
Opex per case	\$		4.61	4.59	4.63	4.58	4.54	4.58	
Contribution margin / case	\$		2.59	2.75	2.93	3.16	3.39	3.60	
Multi-line GP per case (assumed)	\$		0.29	0.36	0.37	0.50	0.69	0.73	
Independent GP per case (assumed)	\$		4.39	4.61	4.87	5.18	5.43	5.75	
Implied weighted avg GP / case	\$		2.61	2.76	2.94	3.16	3.39	3.60	
International	\$M		175	186	346	501	631	668	
% margin			3.1%	3.4%	3.3%	4.5%	5.4%	5.5%	
% of op income (ex corp)			6.5%	6.2%	10.5%	13.1%	14.6%	14.3%	
SYGMA and other	\$M		44	56	40	74	76	77	
% margin			0.6%	0.8%	0.6%	1.0%	1.0%	1.0%	
% of op income (ex corp)			1.6%	1.9%	1.2%	1.9%	1.8%	1.6%	
Corporate expenses (ex certain items)	\$M		(924)	(1,009)	(962)	(977)	(992)	(1,006)	
Adjusted EBIT	\$M	1,730	1,792	2,009	2,352	2,852	3,317	3,679	
% margin			3.7%	3.7%	4.0%	4.2%	4.9%	5.6%	5.9%
Adjusted EBITDA	\$M	2,278	2,345	2,671	3,254	3,488	3,981	4,370	
% margin			4.9%	4.8%	5.3%	5.9%	6.0%	6.6%	7.0%
Cap IQ consensus adj EBIT						2,535	2,715	2,915	
Implied margin						4.4%	4.5%	4.7%	
% delta						12.5%	22.2%	26.2%	
Certain items:									
In US Food service	\$M		3	3	36	0			
Corp expenses	\$M		555	146	159	20			
In International	\$M		5	9	103	18			
Total certain items	\$M	143	562	158	298	39			
EBIT (reported)	\$M	1,587	1,230	1,850	2,054	2,813	3,317	3,679	
% margin			3.4%	2.8%	3.7%	3.7%	4.9%	5.3%	5.9%
Interest expense	\$M		124	255	306	332	355	342	
Net other expense	\$M		(12)	(34)	111	(16)	(4)	(4)	
Earnings before tax	\$M	1,476	1,008	1,433	1,767	2,485	2,966	3,341	
Income tax	\$M		544	321	483	624	696	741	
Net Earnings	\$M	932	687	949	1,143	1,789	2,224	2,506	
EPS GAAP	\$ / sh		1.58	1.15	1.64	2.08	3.33	4.24	4.89
EPS adj	\$ / sh		1.76	1.84	2.10	2.48	3.35	4.24	4.89
Cap IQ consensus adj EPS					2.48	2.94	3.51	3.89	
% delta						14.1%	20.7%	25.7%	
Diluted CSO	M		590	597	577	549	537	525	513
Tax rate	%		36.9%	31.9%	33.7%	35.3%	28.0%	25.0%	25.0%

Balance Sheet

Assets							
Cash and equivalents	413	5,130	3,919	870	1,070	1,541	2,112
AR	3,399	3,353	3,381	4,012	3,961	4,134	4,307
Inventories	2,602	2,692	2,639	2,996	2,944	2,930	3,043
Prepaid expenses and other CA	84	93	114	138	138	138	138
Other	184	226	0	18	18	18	18
Current assets	6,682	11,494	10,054	8,033	8,131	8,761	9,618
PPE	3,986	3,982	3,880	4,377	4,441	4,527	4,586
Goodwill and intangibles	2,128	2,115	2,329	4,954	4,954	4,954	4,954
Deferred income tax	0	0	207	142	142	142	142
Other assets	346	398	251	250	250	250	250
Total assets	13,141	17,989	16,722	17,757	17,918	18,634	19,550
Liabilities and shareholder equity							
Accounts payable	2,831	2,882	2,936	3,971	3,840	3,996	4,149
Accrued expenses	1,027	1,468	1,289	1,576	1,576	1,576	1,576
Current LT debt	438	4,979	9	502	0	0	0
Other current liabilities	71	71	200	47	47	47	47
Total Current liabilities	4,368	9,400	4,434	6,096	5,463	5,619	5,773
LT debt	2,357	2,272	7,337	7,594	7,896	7,596	7,296
Pensions	708	648	1,140	1,006	1,006	1,006	1,006
Deferred tax liability	122	82	27	162	162	162	162
Other liabilities	319	287	228	435	435	435	435
Total Liabilities	7,874	12,688	13,167	15,292	14,962	14,817	14,671
Minority interest	0	41	75	83	83	83	83
Equity	5,267	5,260	3,480	2,382	2,874	3,734	4,796
Check	<i>TRUE</i>	<i>TRUE</i>	<i>TRUE</i>	<i>TRUE</i>	<i>TRUE</i>	<i>TRUE</i>	<i>TRUE</i>

Cash Flow

Net income	932	687	949	1,143	1,789	2,224	2,506
SBC	74	74	79	84	93	97	101
D&A	548	553	663	902	636	664	692
Change in rec	(236)	(12)	(27)	20	52	(173)	(173)
Change in inventory	(196)	(125)	67	(114)	51	14	(113)
Change in payables	393	73	24	323	(131)	156	153
Other non-cash and change in WC	(21)	306	220	(71)	0	0	0
Cash from operations	1,493	1,555	1,975	2,288	2,491	2,982	3,166
PPE	(523)	(543)	(527)	(686)	(700)	(750)	(750)
Acquisitions	(79)	(116)	(219)	(2,922)	0	0	0
Disposals	26	24	24	24	0	0	0
Other	(0)	(20)	122	0	0	0	0
Cash from investing	(577)	(654)	(601)	(3,584)	(700)	(750)	(750)
Debt repayment	(230)	(484)	(5,177)	(144)	(200)	(300)	(300)
Debt issue	71	5,041	5,135	874	0	0	0
Repurchase	(332)	0	(1,949)	(1,886)	(650)	(700)	(750)
Dividends	(667)	(695)	(699)	(699)	(741)	(761)	(794)
Other	242	36	286	235	0	0	0
Cash from financing	(916)	3,898	(2,405)	(1,620)	(1,591)	(1,761)	(1,844)
Net cash	0	4,799	(1,031)	(2,916)	201	470	572