



## SYSCO CORP (SYY)

### Business Model

Sysco is the largest U.S. food-service distributor, boasting a 16% market share of the highly fragmented food-service distribution industry. Sysco distributes over 400,000 food and non-food products to restaurants (62% of revenue), healthcare facilities (9%), travel and leisure (7%), retail (5%), education and government buildings (8%), and other locations (9%) where individuals consume away-from-home meals. In fiscal 2021, 83% of the firm's revenue was U.S.-based, with 8% from Canada, 3% from the U.K., 2% from France, and 4% other.

### The Company in a Nutshell

- Sysco dominates the food distribution market on U.S. soil despite the industry being so highly fragmented.
- Management is investing in local markets to grow its business.
- Sysco has more than twice the sales of US Foods, who is the second-largest food distributor.

### Investment Thesis

Sysco is a dominant player in the highly repeatable-purchase business of food distribution. Even better, this market is fragmented in the U.S. with over 10,000 small food distributors across the country. This offers SYY a great opportunity to acquire and integrate smaller players. SYY is more than twice as large as its largest competitor, US Foods. The company offers a wide variety of products and its network's quality and reach is unmatched. We believe that Sysco's growth as it navigates the recovery period and exits the pandemic will be strong. SYY is also looking leaner, with \$350M of cost savings and \$3.4B of debt paydowns in FY 21. SYY offers restaurant-quality data as it compiles trends across the world. SYY is also well-diversified as none of its customers represent more than 10% of its sales.

## VALUATION

Dividend Growth Rate Years 1-10: 5.00%

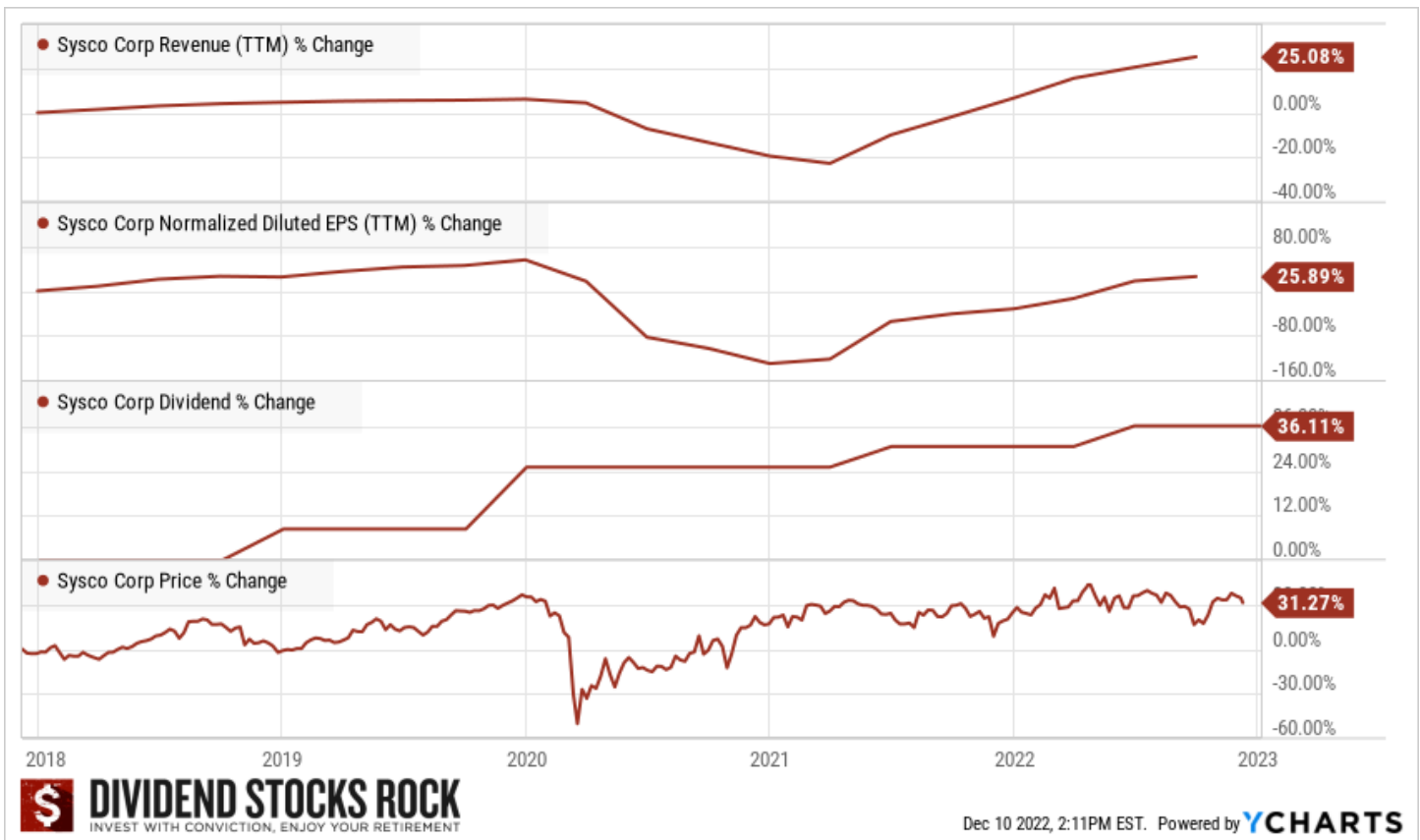
Terminal Dividend Growth Rate: 5.00%

	Discount Rate (Horizontal)		
Margin of Safety	8.00%	9.00%	10.00%
20% Premium	\$78.96	\$59.22	\$47.38
10% Premium	\$72.38	\$54.29	\$43.43
Intrinsic Value	\$65.80	<b>\$49.35</b>	\$39.48
10% Discount	\$59.22	\$44.42	\$35.53
20% Discount	\$52.64	\$39.48	\$31.58



# DSR STOCK CARD

12/10/2022



## Potential Risks

Sysco thrives in a challenging business environment as many restaurants have had a hard time growing their sales. Now with more and more restaurants open, Sysco can begin to take advantage of “relative” pricing power and maintain healthier margins. On the other hand, food distribution is treated as a commodity with little differentiation and SYU doesn’t enjoy much pricing power. Its recent efforts to manage costs failed to improve margins significantly. Therefore, inflationary pressures could compress margins further. Finally, the SYU stock price has fully recovered from the March 2020 market crash. It was then identified as a great opportunity at DSR, but today it seems to be overpriced.

## Dividend Growth Perspective

SUU exhibits 50 consecutive years of dividend increases. With such an impressive dividend growth history one can expect SUU to maintain that record. With the new business acquired and lower debt, SUU is in a better position to distribute dividends. The company has built a business capable of generating recurring sources of cash flow. Sysco resumed its dividend increases with an increase of 4% in 2021, which is closer to the previous dividend growth policy of approximately 5%. In 2022, the dividend increase was of another 4%. Investors should expect mid-single-digit growth moving forward.