S&P Lowers **Sysco** Outlook To Negative On Higher Costs, Competition

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Standard & Poor's Ratings Services lowered its outlook on Sysco Corp. (SYY) to negative from stable, citing expectations that the foodservice supplier's profitability and credit ratios will weaken over the next year due to increasing business transformation costs, high input prices and intense competition. S&P affirmed Sysco's corporate credit rating at A-plus, six notches into investment grade. The ratings firm said its negative outlook reflects the potential that Sysco may not be able to restore free cash flow and the ratio of funds from operations to total debt to the high-end of the range for issuers with "modest" financial risk. However, S&P believes Sysco should be able to improve credit rations and maintain its "modest" financial risk profile if food costs begin to stabilize, fuel costs don't spike considerably and if the company's transformation project is implemented over the next few years without meaningful disruption. Though the ratings firm expect Sysco's profitability and credit measures to weaken modestly this year, S&P forecast overall stability for Sysco's underlying business. S&P expects competition in Sysco's low-value-added industry to remain intense due in part to low customer switching costs. Sysco, which derives most of its sales from the restaurant industry, has seen rising food and overhead costs hurt its bottom line of late. The company has also warned that competitive conditions remain at high levels among foodservice suppliers and it had to offer either discounts or other promotions to achieve some of its sales growth. Last week, Sysco reported its fiscal second-quarter earnings fell 3.1% as higher costs masked the company's stronger-than-expected sales growth. Shares slipped by a penny to $29.29 in recent after hours trading. The stock is up 6% in the past three months. -By Nathalie Tadena, Dow Jones Newswires; 212-416-3287;