

# Sysco Corp

**S&P Recommendation** **HOLD** ★★☆☆☆

**Price**  
\$34.98 (as of Aug 2, 2013)

**12-Mo. Target Price**  
\$37.00

**Investment Style**  
Large-Cap Blend

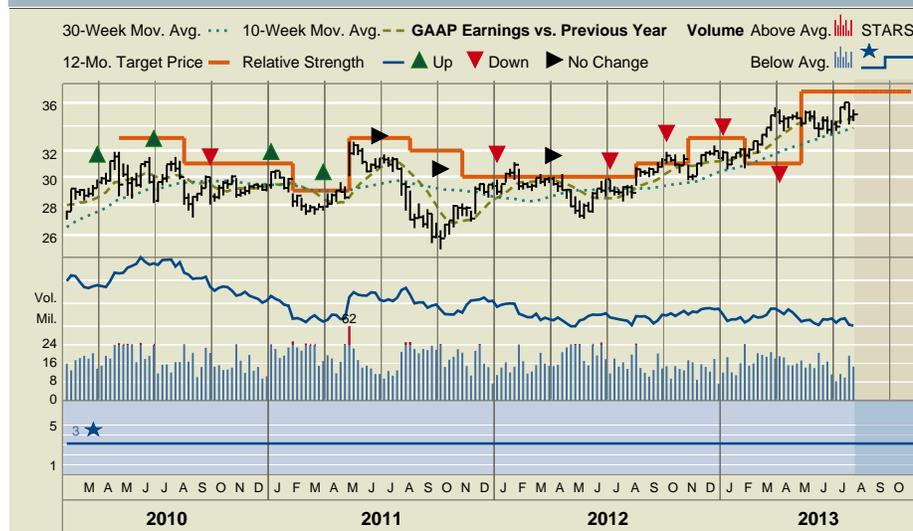
**GICS Sector** Consumer Staples  
**Sub-Industry** Food Distributors

**Summary** Sysco is a large distributor of food and related products, primarily to the foodservice or food-away-from-home industry.

**Key Stock Statistics** (Source S&P, Vickers, company reports)

52-Wk Range	<b>\$36.05–28.44</b>	S&P Oper. EPS 2013E	<b>1.84</b>	Market Capitalization(B)	<b>\$20.760</b>	Beta	<b>0.66</b>
Trailing 12-Month EPS	<b>\$1.72</b>	S&P Oper. EPS 2014E	<b>2.11</b>	Yield (%)	<b>3.20</b>	S&P 3-Yr. Proj. EPS CAGR(%)	<b>14</b>
Trailing 12-Month P/E	<b>20.3</b>	P/E on S&P Oper. EPS 2013E	<b>19.0</b>	Dividend Rate/Share	<b>\$1.12</b>		
\$10K Invested 5 Yrs Ago	<b>\$14,737</b>	Common Shares Outstg. (M)	<b>593.5</b>	Institutional Ownership (%)	<b>83</b>		

**Price Performance**



Analysis prepared by Equity Analyst **Joseph Agnese** on Jul 26, 2013, when the stock traded at **\$34.54**.

**Highlights**

- We see FY 14 (Jun.) sales growth of 5.0%, up from our estimate of 4.7% in FY 13. We are cautious on underlying demand due to economic weakness. We see growth in case volume restricted in calendar 2013 as a weak macroeconomic environment and historically low level of consumer confidence results in diminished food service demand as food inflation likely accelerates in the second half. Our FY 14 estimate assumes 2.5% growth in food inflation and a 1.5% benefit from acquisitions.
- We look for operating margins to widen in FY 14, reflecting improved sourcing and increased cost reduction results stemming from its multi-year business transformation initiatives, partially offset by increased pricing competition and an unfavorable shift in mix toward larger customers. We also see pressure from increased fuel costs and higher technology costs associated with the ongoing implementation of initiatives.
- For FY 14, we estimate EPS of \$2.11, up from our estimate of operating EPS of \$1.84 in FY 13 (excluding multi-employer pension plan and restructuring costs). Both estimates include costs related to business transformation expenses.

**Investment Rationale/Risk**

- We would hold the shares. Much of SY's sales are for restaurants, and we think relatively high levels of unemployment in the U.S. are likely to limit year-ahead growth in what consumers spend at restaurants. Over time, we look for SY's profitability to benefit from more consolidated purchasing, the addition of regional distribution centers, and management of freight costs and inventory.
- Risks to our recommendation and target price include a slowing of growth rates given SY's significant size and reach, sharp increases in gasoline prices, and a potential prolonged slowdown in restaurant sales.
- Applying a 15.5X P/E multiple, in line with its five-year historical premium of 3% to the forward P/E on the S&P 500, to our FY 15 EPS estimate of \$2.40 results in a \$37 value, which is our 12-month target price. We believe the shares should trade in line with historical premiums to the S&P 500, reflecting our expectation for acceleration in cost savings from the implementation of transformation initiatives, despite a slowly growing macro-economic environment in 2013 with persistent consumer pressures. SY recently yielded nearly 3.2%.

**Qualitative Risk Assessment**

**LOW**    **MEDIUM**    **HIGH**

Our risk assessment reflects SY's operations in a relatively stable industry, in which we believe it has the largest market share.

**Quantitative Evaluations**

**S&P Quality Ranking** **A+**

D    C    B-    B    B+    A-    A    **A+**

**Relative Strength Rank** **MODERATE**

**51**  
LOWEST = 1    HIGHEST = 99

**Revenue/Earnings Data**

Revenue (Million \$)	1Q	2Q	3Q	4Q	Year
2013	11,087	10,797	10,926	--	--
2012	10,586	10,244	10,505	11,045	42,381
2011	9,751	9,385	9,762	10,426	39,323
2010	9,081	8,869	8,945	10,348	37,244
2009	9,877	9,150	8,739	9,087	36,853
2008	9,406	9,240	9,147	9,730	37,522

Earnings Per Share (\$)	2013	2012	2011	2010	2009	2008
	0.49	0.38	0.34	0.55	0.53	1.90
	0.51	0.43	0.44	0.57	1.96	1.99
	0.55	0.41	0.42	0.57	1.99	1.99
	0.46	0.40	0.38	0.53	1.77	1.81
	0.43	0.43	0.40	0.55	1.81	1.81

Fiscal year ended Jun. 30. Next earnings report expected: Mid August. EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

**Dividend Data** (Dates: mm/dd Payment Date: mm/dd/yy)

Amount (\$)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.270	08/24	10/03	10/05	10/26/12
0.280	11/14	01/02	01/04	01/25/13
0.280	02/13	04/03	04/05	04/26/13
0.280	05/17	07/02	07/05	07/26/13

Dividends have been paid since 1970. Source: Company reports.

**Sysco Corp****Business Summary July 26, 2013**

**CORPORATE OVERVIEW.** Sysco Corp. is a large distributor of food and related products, primarily to the foodservice or food-away-from-home industry. As of June 2012, SY Y operated 185 distribution facilities serving about 400,000 customers. In FY 12, U.S. sales represented 89% of SY Y's total, Canada sales represented 10%, and other geographic locations 1.3%.

Sysco distributes food products, including frozen foods such as meats, fully prepared entrees, fruits, vegetables and desserts; canned and dry foods; fresh meats; dairy and beverage products; imported specialties; and fresh produce. The company also distributes non-food products. These include paper products, tableware such as china and silverware, cookware, restaurant and kitchen equipment and supplies, and cleaning supplies. The company stresses prompt and accurate delivery of orders, and close contact with customers, and also provides customers with ancillary services, such as providing product usage reports, menu-planning advice, food safety training, and assistance in inventory control. No single customer accounted for 10% or more of sales in FY 12. The company owns about 92% of its 9,100 delivery vehicle operating fleet.

**CORPORATE STRATEGY.** SY Y seeks to expand its business by garnering an increased share of products purchased by existing customers, the development of new customers, the use of foldouts (new facilities built in established markets), and an acquisition program. SY Y distributes nationally branded merchandise, as well as products packaged under SY Y private brands. We believe that Sysco-branded products typically carry wider profit margins than other branded products distributed by the company. From its inception through the end of FY 12, the company had acquired roughly 150 companies or divisions of companies. At June 30, 2012, SY Y's balance sheet included \$1.6 billion of goodwill.

Over time, we look for SY Y's profitability to benefit from an increased amount of consolidated purchasing, the addition of regional distribution centers, and management of freight costs and inventory. Among SY Y's supply chain initiatives are (1) the construction of regional distribution centers (RDCs), with two operational as of July 2012; and (2) improving the capability to view and manage all of SY Y's inbound freight, both to RDCs and the operating companies, as a network and not as individual locations.

In April 2009, SY Y made its first broadlines acquisition outside North America, with the purchase of Ireland-based Pallas Foods. Pallas has annual sales of about \$200 million.

**MARKET PROFILE.** The company distributes food and related products to restaurants (63% of FY 12 (Jun.) sales), hospitals and nursing homes (10%), hotel and motels (5%), schools and colleges (6%), and others (16%). The company estimates it serves approximately 18% of the \$235 billion U.S., Canadian and Ireland foodservice markets. Foodservice industry real sales growth declined approximately 0.4% in calendar year 2011. SY Y reported real sales growth of 1.6%, excluding a 0.7% benefit from acquisitions, in FY 12.

**IMPACT OF MAJOR DEVELOPMENTS.** SY Y is in the midst of a Business Transformation Project, under which it expects to develop and implement an integrated software (ERP) system to support a majority of its business processes and help streamline operations. We think management views adopting an SAP platform as the foundation of the project and expects long-term benefits to include improved execution, reduction in complexity and increased transparency.

The company's cost transformation initiative looks to lower its cost structure by \$300 million to \$350 million annually by FY 15. These include initiatives to increase productivity in the warehouse and delivery activities while improving sales productivity and reducing general and administrative expense, partially through aligning compensation and benefit plans. Its product cost reduction initiative, utilizing market data and customer insights to customize product pricing and assortment, is designed to lower product costs by \$250 million to \$300 million by the same time. Expenses related to the Business Transformation Project were \$0.21 per share in FY 12, \$0.11 in FY 11, and \$0.09 in FY 10. The company expects costs to exceed the benefits in FY 13.

**FINANCIAL TRENDS.** In FY 12, EPS was hurt by \$0.03 in charges related to the early withdrawal from a multi-employer pension plan (MEPP; \$0.02 per share) and \$6.4 million in restructuring charges (\$0.01 per share). In FY 11, EPS was hurt by a \$41.5 million (\$0.04 per share) charge related to MEPP, which was partially offset by an unrelated \$0.02 tax benefit. In FY 10, EPS benefited by \$0.09 from the one-time reversal of interest accruals for a tax contingency related to an IRS settlement, and gains recorded on the adjustment of the carrying value of corporate-owned life insurance (COLI) policies to their cash surrender values. This compares to a \$0.07 per share negative impact to EPS in FY 09 from losses recorded on COLI carrying value adjustment.

**Corporate Information****Office**

1390 Enclave Parkway, Houston, TX 77077-2099.

**Telephone**

281-584-1390.

**Fax**

281-584-1737.

**Website**<http://www.sysco.com>**Officers****Chrmn**

M.A. Fernandez

**EVP & CTO**

W.R. Shurts

**CEO & Pres**

W.J. DeLaney, III

**SVP, Chief Acctg****Officer & Cntrl**

G.M. Elmer

**EVP & CFO**

R.C. Kreidler

**Board Members**J. M. Cassaday  
W. J. DeLaney, III  
L. C. Glasscock  
J. A. Hafner, Jr.  
N. S. Newcomb  
R. G. TilghmanJ. B. Craven  
M. A. Fernandez  
J. Golden  
H. Koerber  
P. S. Sewell  
J. M. Ward**Domicile**

Delaware

**Founded**

1969

**Employees**

47,800

**Stockholders**

13,529

# Sysco Corp



## Quantitative Evaluations

<b>S&amp;P Fair Value Rank</b>	1-	<b>1</b>	2	3	4	5
		LOWEST				HIGHEST

Based on S&P's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

<b>Fair Value Calculation</b>	<b>\$28.90</b>	Analysis of the stock's current worth, based on S&P's proprietary quantitative model suggests that SY is overvalued by \$6.08 or 17.4%.
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<b>Investability Quotient Percentile</b>	<b>99</b>
	LOWEST = 1 HIGHEST = 100

SY scored higher than 99% of all companies for which an S&P Report is available.

<b>Volatility</b>	<b>LOW</b>	AVERAGE	HIGH
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<b>Technical Evaluation</b>	<b>BULLISH</b>	Since July, 2013, the technical indicators for SY have been BULLISH.
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<b>Insider Activity</b>	<b>UNFAVORABLE</b>	NEUTRAL	FAVORABLE
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## Expanded Ratio Analysis

	2012	2011	2010	2009
Price/Sales	0.44	0.44	0.47	0.45
Price/EBITDA	7.44	7.40	7.38	7.39
Price/Pretax Income	10.45	9.45	9.44	9.40
P/E Ratio	16.63	14.99	14.79	15.77
Avg. Diluted Shares Outstg (M)	589.0	588.7	593.6	596.1

Figures based on calendar year-end price

## Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	7.78	4.85	3.20	4.88
Net Income	-2.64	1.58	2.32	4.18

Ratio Analysis (Annual Avg.)	2012	2011	2010	2009
Net Margin (%)	2.65	2.91	2.91	2.92
% LT Debt to Capitalization	35.62	35.50	35.63	32.46
Return on Equity (%)	23.89	27.77	29.44	31.35

## Company Financials Fiscal Year Ended Jun. 30

Per Share Data (\$)	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Tangible Book Value	4.96	5.01	3.69	3.08	3.17	2.99	2.67	2.35	2.11	1.68
Cash Flow	2.61	2.64	2.64	2.41	2.41	2.23	1.89	1.96	1.80	1.59
Earnings	1.90	1.96	1.99	1.77	1.81	1.60	1.35	1.47	1.37	1.18
S&P Core Earnings	1.83	2.06	2.06	1.65	1.68	1.59	1.38	1.39	1.31	1.08
Dividends	0.80	1.03	0.99	1.16	0.82	0.72	0.64	0.56	0.48	0.40
Payout Ratio	42%	53%	50%	66%	45%	45%	47%	38%	35%	34%
Prices:High	32.40	32.76	31.99	29.48	35.00	36.74	37.04	38.04	41.27	37.57
Prices:Low	27.05	25.09	26.99	19.39	20.74	29.90	26.50	29.98	29.48	22.90
P/E Ratio:High	17	17	16	17	19	23	27	26	30	32
P/E Ratio:Low	14	13	14	11	11	19	20	20	22	19

Income Statement Analysis (Million \$)	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenue	42,381	39,323	37,244	36,853	37,522	35,042	32,628	30,282	29,335	26,140
Operating Income	2,507	2,334	2,366	2,255	2,246	2,071	1,840	1,906	1,816	1,597
Depreciation	417	403	390	382	366	363	345	317	284	273
Interest Expense	113	118	125	116	118	105	109	75.0	69.9	72.2
Pretax Income	1,784	1,827	1,850	1,771	1,791	1,621	1,395	1,525	1,475	1,260
Effective Tax Rate	37.1%	37.0%	36.2%	40.4%	38.3%	38.3%	39.3%	37.0%	38.5%	38.3%
Net Income	1,122	1,152	1,180	1,056	1,106	1,001	846	961	907	778
S&P Core Earnings	1,079	1,209	1,219	987	1,022	995	866	890	868	710

Balance Sheet & Other Financial Data (Million \$)	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Cash	691	640	609	1,087	552	208	202	192	200	421
Current Assets	6,085	5,733	5,076	5,271	5,175	4,676	4,400	4,002	3,851	3,630
Total Assets	12,095	11,386	10,314	10,322	10,082	9,519	8,992	8,268	7,848	6,937
Current Liabilities	3,424	3,575	3,009	3,150	3,499	3,415	3,226	3,458	3,127	2,701
Long Term Debt	2,730	2,280	2,473	2,467	1,975	1,758	1,627	956	1,231	1,249
Common Equity	4,685	4,705	3,828	3,450	3,409	3,278	3,052	2,759	2,565	2,198
Total Capital	7,665	7,192	6,308	6,444	5,925	5,037	5,403	4,440	4,483	3,945
Capital Expenditures	784	636	595	465	516	603	515	390	530	436
Cash Flow	1,539	1,555	1,570	1,438	1,473	1,364	1,191	1,278	1,191	1,051
Current Ratio	1.8	1.6	1.7	1.7	1.5	1.4	1.4	1.2	1.2	1.3
% Long Term Debt of Capitalization	35.6	31.7	39.2	38.3	33.3	34.9	30.1	21.5	27.4	31.7
% Net Income of Revenue	2.7	2.9	3.2	2.9	3.0	2.9	2.6	3.2	3.1	3.0
% Return on Assets	9.6	10.6	11.5	10.4	11.3	10.8	9.8	11.9	12.3	12.0
% Return on Equity	23.9	27.0	32.4	30.8	33.1	31.6	29.1	36.1	38.1	35.9

**Sub-Industry Outlook**

Our fundamental outlook for the Food Distributors sub-industry for the next 12 months is neutral. We anticipate relatively modest growth in U.S. food expenditures, and look for distributor profits to be helped by realization of consolidation synergies and technology-driven productivity improvements. We have a cautious view of near-term consumer spending, reflecting reduced take home pay due to the expiration of payroll tax benefits, historically high unemployment levels and what we think is a heightened sense of job insecurity among a portion of those who are employed. We expect that this will limit the amount of travel that people do, and the extent to which they eat out at restaurants.

Over the longer term, there has been a trend toward an increased portion of food spending going toward meals prepared outside the home (e.g., at restaurants). In our view, the growth of food service sales has resulted, in part, from many families having at least two income earners outside the home, and a shortage of time for food preparation in the home. We think this trend toward out-of-home spending on food resumed in 2010, after at least modestly reversing in recent years when economic conditions were relatively weak.

Looking ahead, as more members of the "baby boom" generation retire from the workforce, this may contribute to at least modest future shifts toward eating more at home.

We believe that whether serving restaurants or customers such as supermarkets, significant factors for food distributors include their ability to leverage effectively fixed costs or investments (e.g., warehouse space) into profitable sales, effectively manage inventory, and respond to customers in a timely, efficient manner. Furthermore, we see food distributors having opportunities to boost gross

profit margins through an increased emphasis on providing their own private-label products to customers. We expect food distributors that cater to the foodservice group to benefit from acquisitions of smaller, complementary distributors.

Food distributors should continue to benefit from an increased focus on non-traditional retailers, such as mass merchandisers (other than Wal-Mart) and convenience stores. In addition, we expect distributor focus on natural or organic foods to present long-term opportunities, as we look for this segment to become increasingly popular with consumers.

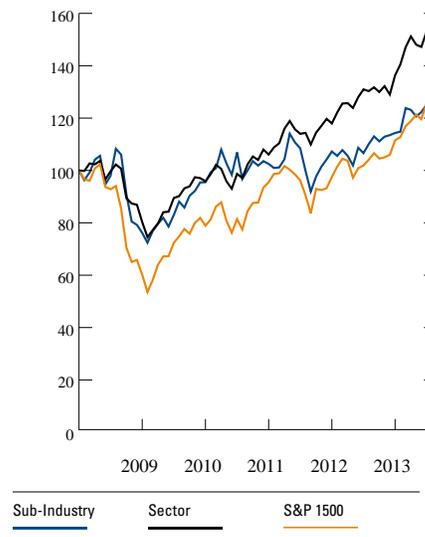
Year to date to July 19, the S&P Food Distributors Index increased 14.4%, versus a 19.0% rise in S&P 1500. For all of 2012, the S&P Food Distributors Index rose 8.9%, versus a 13.7% increase for the S&P 1500 Index.

--Joseph Agnese

**Stock Performance**

**GICS Sector: Consumer Staples**  
**Sub-Industry: Food Distributors**

Based on S&P 1500 Indexes  
Month-end Price Performance as of 7/31/13



**NOTE:** All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

**Sub-Industry : Food Distributors Peer Group\*: Food & Health Distributors**

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price(\$)	52 Week High/Low(\$)	Beta	Yield (%)	P/E Ratio	Fair Value Calc.(\$)	Quality Ranking	S&P IQ %ile	Return on Revenue (%)	LTD to Cap (%)
<b>Sysco Corp</b>	<b>SY</b>	<b>20,760</b>	<b>34.98</b>	<b>36.05/28.44</b>	<b>0.66</b>	<b>3.2</b>	<b>20</b>	<b>28.90</b>	<b>A+</b>	<b>99</b>	<b>2.6</b>	<b>35.6</b>
G.Willi-Food Intl	WILC	93	7.17	7.25/3.90	1.28	Nil	13	NA	NR	41	8.4	NA
Nash Finch Co	NAFC	289	23.56	29.50/18.64	0.53	3.1	NM	NA	B-	87	NM	54.6
Pizza Inn Hldgs	PZZI	57	7.14	9.18/2.28	0.85	Nil	NM	NA	B-	39	NM	12.1
Spartan Stores	SPTN	431	19.83	24.40/13.62	0.48	1.8	17	NA	B	89	1.1	22.6
United Natural Foods	UNFI	29,733	60.31	61.26/47.20	0.55	Nil	30	54.60	B+	93	1.7	10.6

NA-Not Available NM-Not Meaningful NR-Not Rated. \*For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

**S&P Analyst Research Notes and other Company News****July 15, 2013**

Sysco Corporation announced that it has appointed Scott Charlton as the new senior vice president, or SVP, for distribution services, effective July 15, 2013. He replaces Fred Lankford, who is retiring after 41 years with Sysco. Charlton joins Sysco after serving the past six years as executive vice president at C&S Wholesale Grocers. Previously, he spent more than two decades at Publix Super Markets Inc., in roles of increasing leadership responsibility in the areas of distribution, manufacturing, general management and quality assurance. He served as Publix's senior vice president of Manufacturing and Distribution before moving to C&S.

**June 21, 2013**

On June 14, 2013, Larry G. Pulliam, Executive Vice President and Group President for Sysco Corporation, informed the company of his intent to retire from the company effective July 1, 2013.

**May 6, 2013**

DOWN 0.22 to 34.44... SYY posts \$0.49 vs. \$0.50 Q3 adj. EPS despite 4.0% sales rise.

**May 6, 2013**

01:34 pm ET ... S&P REITERATES HOLD RECOMMENDATION ON SHARES OF SYSCO CORPORATION (SYY 34.005\*\*\*): We are raising our 12-month target price by \$6 to \$37, based on our updated P/E analysis, but decreasing our FY 13 (Jun.) and FY 14 EPS estimates \$0.11 and \$0.04, to \$1.85 and \$2.11, respectively. Mar-Q adjusted EPS of \$0.40, vs. \$0.44, was \$0.07 below our estimate. We believe results will continue to be negatively impacted as soft consumer demand hurts both product volume growth and demand for wider margin services. We believe valuation will benefit, however, and we initiate our FY 15 EPS estimate of \$2.40 reflecting accelerated business transformation benefits we see. /J. Agnese

**March 20, 2013**

Sysco Corporation announced that Tom Bene will join the company, effective April 15, 2013 in the newly created role of executive vice president and chief merchandising officer. In addition to overseeing merchandising, Bene also will have direct responsibility for supply chain and quality assurance activities, while working closely with senior leaders on Sysco's sales, marketing and operations teams. Prior to joining Sysco, Bene was president of PepsiCo Foodservice.

**February 4, 2013**

SYY posts \$0.38 vs. \$0.43 Q2 EPS as higher operating expenses offset 5.4% higher sales

**February 4, 2013**

12:50 pm ET ... S&P REITERATES HOLD RECOMMENDATION ON SHARES OF SYSCO (SYY 31.27\*\*\*): We are lowering our FY 13 (Jun) EPS estimate \$0.19 to \$1.95 and reducing our 12-month target price by \$2 to \$31, based on our P/E analysis. Dec-Q operating EPS of \$0.40, vs. \$0.43, is, \$0.04 below our estimate. Sales growth of 5.4% was in line with our estimate, but margins narrowed more than we expected reflecting increases in labor costs, fuel and cost saving initiative expenses, despite easing food cost inflation. With case volumes slowing and based on our expectation for an acceleration in food cost inflation, we expect margin pressures to persist through FY 13 year end. /J. Agnese

**November 14, 2012**

SYY says its Board of Directors has approved a 3.7% increase in the quarterly cash dividend to \$0.28 per share from current \$0.27 per share.

**November 5, 2012**

SYY posts \$0.49 vs. \$0.51 as higher costs, op. expenses offset 4.7% revenue rise. Capital IQ consensus forecast was \$0.51.

**November 5, 2012**

02:00 pm ET ... S&P REITERATES HOLD RECOMMENDATION ON SHARES OF SYSCO (SYY 30.65\*\*\*): We are raising our FY 13 (Jun.) EPS estimate \$0.10 to \$2.14 and our 12-month target price by \$2 to \$33, based on our P/E and EV/EBITDA analysis. SYY reports Sep-Q operating EPS of \$0.58, vs. \$0.56, \$0.06 above our estimate. Real sales grew 2.3%, excluding acquisitions and forex, in line with our

estimate. Margins widened more than we expected as increased case volume contributed to improved leverage. We look for long term benefits from an improved cost structure and lower product costs as the company plans an acceleration of business transformation strategy in FY 14. /J. Agnese

**October 4, 2012**

Sysco Corporation announced that Wayne Shurts has joined the company in the newly created role of Executive Vice President and Chief Technology Officer. Prior to joining Sysco, Shurts was executive vice president and chief information officer at SUPERVALU Inc.

**September 24, 2012**

Sysco Corporation has named Ajoy Karna as senior vice president of finance for the corporation. For the past 11 years, Karna served in various financial leadership positions at PepsiCo and its Frito Lay subsidiary. He also was senior vice president- Mergers and Acquisitions, in PepsiCo's corporate group between 2006 and 2009. Prior to that, he served in numerous roles of increasing responsibility for nine years at The Quaker Oats Company until it merged with PepsiCo in 2001.

**August 13, 2012**

UP 1.46 to 30.30... SYY posts \$0.62 vs. \$0.60 Q4 non-GAAP adj. EPS on 5.9% sales rise.

**August 13, 2012**

11:53 am ET ... S&P MAINTAINS HOLD RECOMMENDATION ON SHARES OF SYSCO CORP. (SYY 29.82\*\*\*): On higher costs, we cut our FY 13 (Jun.) EPS estimate \$0.11 to \$2.04 but up our target price by \$1 to \$31 as we roll forward to our FY 13 EBITDA estimate. Adjusted Jun-Q EPS of \$0.55, vs. \$0.57, misses our estimate and consensus from Capital IQ by \$0.01. Sales growth of 5.9% was above our forecast, boosted 0.6% by acquisitions, but operating profits fell short on gross margin pressure. With restaurant traffic slowing and high input costs persisting, we see continued challenges but think business transformation and pension restructuring will help expense growth. /J. Agnese, E. Kwon, CFA

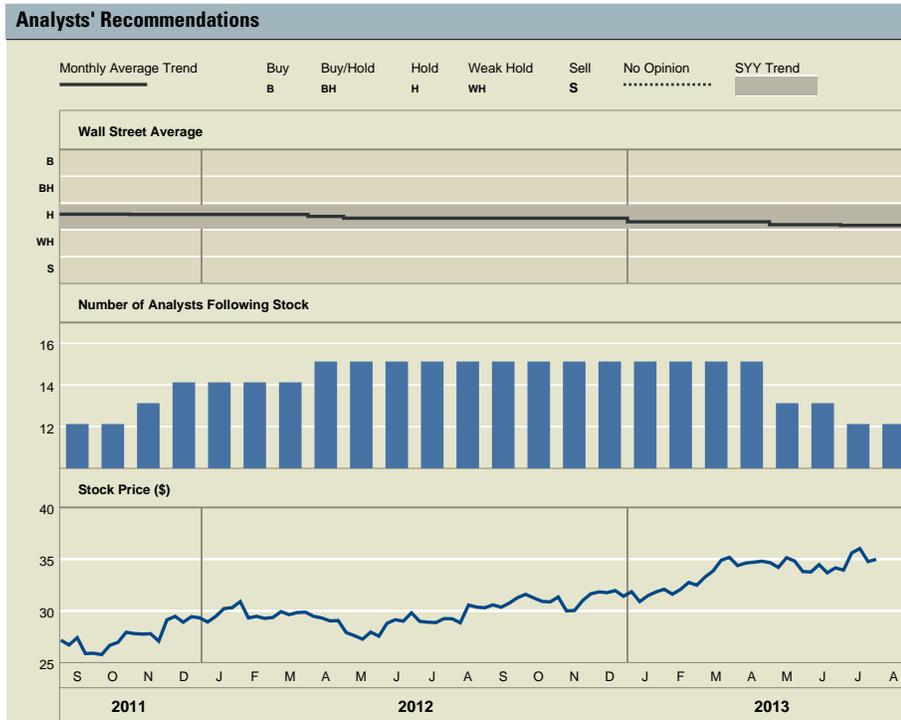
**July 19, 2012**

Sysco Corp. announced that Ajoy H. Karna has been named senior vice president of Finance for the corporation, effective immediately. For the past 11 years, Karna served in various financial leadership positions at PepsiCo and its Frito Lay subsidiary. At Frito Lay, he was senior vice president and vice president of Finance and was responsible for field finance, national customer finance, foodservice finance, brand finance, pricing and selling/G&A. He also was senior vice president-Mergers and Acquisitions, in PepsiCo's corporate group between 2006 and 2009. Prior to that, he served in numerous roles of increasing responsibility for nine years at The Quaker Oats Company until it merged with PepsiCo in 2001.

**May 7, 2012**

09:49 am ET ... S&P REITERATES HOLD RECOMMENDATION ON SHARES OF SYSCO (SYY 27.49\*\*\*): Mar-Q EPS of \$0.44, vs. \$0.44, is \$0.01 below our estimate. Organic sales growth of 7.1% was above our expectations as case volume, excluding acquisitions, grew by 2.3%. However, margins were pressured by food inflation, increased employee related costs and technology upgrade costs. While we expect food cost inflation pressures to persist through FY 12 (Jun.), we expect margins to benefit from more moderate levels of inflation in FY 13. With stronger than expected organic sales growth offsetting inflationary pressures, we are keeping our FY 12 EPS estimate of \$1.99. /J. Agnese

# Sysco Corp



Of the total 18 companies following SYY, 12 analysts currently publish recommendations.

	No. of Ratings	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	0	0	0	0
Buy/Hold	1	8	1	1
Hold	7	58	7	8
Weak Hold	3	25	3	3
Sell	1	8	1	1
No Opinion	0	0	0	0
<b>Total</b>	<b>12</b>	<b>100</b>	<b>12</b>	<b>13</b>



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2014	2.04	2.20	1.93	11	17.1
2013	1.83	1.87	1.82	9	19.1
<b>2014 vs. 2013</b>	<b>▲ 11%</b>	<b>▲ 18%</b>	<b>▲ 6%</b>	<b>▲ 22%</b>	<b>▼ -10%</b>
Q4'14	0.63	0.65	0.61	3	55.5
Q4'13	0.55	0.58	0.53	8	63.6
<b>Q4'14 vs. Q4'13</b>	<b>▲ 15%</b>	<b>▲ 12%</b>	<b>▲ 15%</b>	<b>▼ -62%</b>	<b>▼ -13%</b>

A company's earnings outlook plays a major part in any investment decision. Standard & Poor's organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

### Wall Street Consensus Opinion

**HOLD**

### Companies Offering Coverage

- Argus Research Company
- BB&T Capital Markets
- BMO Capital Markets, U.S. Equity Research
- Barclays
- Cantor Fitzgerald & Co.
- Citigroup Inc
- Cowen Securities LLC, Research Division
- Cowen and Company, LLC
- Daewoo Securities Co. Ltd.
- Goldman Sachs
- Guggenheim Securities, LLC
- JP Morgan
- Morgan Stanley
- Morningstar Inc.
- Pali Capital
- S&P Capital IQ Equity Research
- Susquehanna Financial Group, LLLP
- UBS Investment Bank

### Wall Street Consensus vs. Performance

For fiscal year 2013, analysts estimate that SYY will earn \$1.83. For the 3rd quarter of fiscal year 2013, SYY announced earnings per share of \$0.34, representing 19% of the total annual estimate. For fiscal year 2014, analysts estimate that SYY's earnings per share will grow by 11% to \$2.04.

## Glossary

### S&P STARS

Since January 1, 1987, S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, S&P Capital IQ Equity Research has used STARS® methodology to rank Asian and European equities since June 30, 2002. Under proprietary STARS (STock Appreciation Ranking System), S&P equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

### S&P 12 Month Target Price

The S&P Capital IQ equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including S&P Fair Value.

### Investment Style Classification

Characterizes the stock as Growth or Value, and indicates its capitalization level. Growth is evaluated along three dimensions (earnings, sales and internal growth), while Value is evaluated along four dimensions (book-to-price, cash flow-to-price, dividend yield and sale-to-price). Growth stocks score higher than the market average on growth dimensions and lower on value dimensions. The reverse is true for Value stocks. Certain stocks are classified as Blend, indicating a mixture of growth and value characteristics and cannot be classified as purely growth or value.

### S&P Capital IQ EPS Estimates

S&P Capital IQ earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, S&P Capital IQ EPS estimates reflect either forecasts of S&P Capital IQ equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by Capital IQ, a data provider to S&P Capital IQ Equity Research. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

### S&P Core Earnings

S&P Capital IQ Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company's after-tax earnings generated from its principal businesses. Included in the S&P Capital IQ definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

### Qualitative Risk Assessment

The S&P Capital IQ equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the S&P Capital IQ U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices.

### Quantitative Evaluations

In contrast to our qualitative STARS recommendations, which are assigned by S&P Capital IQ analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P Capital IQ analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

### S&P Quality Ranking (also known as S&P Earnings & Dividend Rankings)

Growth and stability of earnings and dividends are deemed key elements in establishing S&P Capital IQ's Earnings and Dividend Rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest	B- Below Average
A High	C Lower
A- Above Average	D Lowest
B+ Average	NR In Reorganization
B Below Average	

### S&P Fair Value Rank

Using S&P Capital IQ's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

### S&P Fair Value Calculation

The price at which a stock should trade at, according to S&P Capital IQ's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Quality Ranking). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

### Insider Activity

Gives an insight as to insider sentiment by showing whether directors, officers and key employees who have proprietary information not available to the general public, are buying or selling the company's stock during the most recent six months.

### Funds From Operations FFO

FFO is Funds from Operations and equal to a REIT's net income, excluding gains or losses from sales of property, plus real estate depreciation.

### Investability Quotient (IQ)

The IQ is a measure of investment desirability. It serves as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P Capital IQ proprietary measures.

### S&P's IQ Rationale

#### Sysco Corp

	Raw Score	Max Value
Proprietary S&P Measures	52	115
Technical Indicators	28	40
Liquidity/Volatility Measures	15	20
Quantitative Measures	59	75
<b>IQ Total</b>	<b>154</b>	<b>250</b>

### Volatility

Rates the volatility of the stock's price over the past year.

### Technical Evaluation

In researching the past market history of prices and trading volume for each company, S&P Capital IQ's computer models apply special technical methods and formulas to identify and project price trends for the stock.

### Relative Strength Rank

# Sysco Corp

Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P Capital IQ's universe on a rolling 13-week basis.

## Global Industry Classification Standard (GICS)

An industry classification standard, developed by S&P Capital IQ in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 68 Industries, and 154 Sub-Industries.

## S&P Issuer Credit Rating

A Standard & Poor's Issuer Credit Rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation. The Issuer Credit Rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor. Issuer Credit Ratings are based on current information furnished by obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any Issuer Credit Rating and may, on occasion, rely on unaudited financial information. Issuer Credit Ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

## Exchange Type

ASE - American Stock Exchange; AU - Australia Stock Exchange; BB - Bulletin Board; NGM - Nasdaq Global Market; NNM - Nasdaq Global Select Market; NSC - Nasdaq Capital Market; NYS - New York Stock Exchange; OTN - Other OTC (Over the Counter); OTC - Over the Counter; QB - OTCQB; QX - OTCQX; TS - Toronto Stock Exchange; TXV - TSX Venture Exchange; NEX - NEX Exchange.

## S&P Capital IQ Equity Research

S&P Capital IQ Equity Research U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes McGraw-Hill Financial Research Europe Limited trading as Standard & Poor's; Standard & Poor's Equity Research Services Asia includes McGraw-Hill Financial Singapore Pte. Limited's offices in Singapore, Standard & Poor's Investment Advisory Services (HK) Limited in Hong Kong, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

## Abbreviations Used in S&P Capital IQ Equity Research Reports

CAGR - Compound Annual Growth Rate  
CAPEX - Capital Expenditures  
CY - Calendar Year  
DCF - Discounted Cash Flow  
DDM - Dividend Discount Model  
EBIT - Earnings Before Interest and Taxes  
EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization  
EPS - Earnings Per Share  
EV - Enterprise Value  
FCF - Free Cash Flow  
FFO - Funds From Operations  
FY - Fiscal Year  
P/E - Price/Earnings  
P/NAV - Price to Net Asset Value  
PEG Ratio - P/E-to-Growth Ratio  
PV - Present Value  
R&D - Research & Development  
ROCE - Return on Capital Employed  
ROE - Return on Equity  
ROI - Return on Investment  
ROIC - Return on Invested Capital  
ROA - Return on Assets  
SG&A - Selling, General & Administrative Expenses  
SOTP - Sum-of-The-Parts  
WACC - Weighted Average Cost of Capital

**Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).**

## Required Disclosures

In contrast to the qualitative STARS recommendations covered in this report, which are determined and assigned by S&P Capital IQ equity analysts, S&P Capital IQ ranks stocks in accordance with three other ranking methodologies: (a) S&P's Capital IQ's quantitative evaluations are derived from S&P Capital IQ's proprietary Fair Value quantitative ranking model. The Fair Value Ranking methodology is a relative ranking methodology. As a quantitative model, Fair Value relies on history and consensus estimates and does not introduce an element of subjectivity. (b) Global Markets Intelligence uses two different quantitative methodologies to determine recommendations for the Trade Detector research report. One methodology is based on a target price model, while the other methodology is based on four separate quantitative strategies. The STARS, quantitative evaluations and Trade Detector methodologies reflect different criteria, assumptions and analytical methods and may have differing recommendations.

### S&P Capital IQ Global STARS Distribution as of June 30, 2013

Ranking	North America	Europe	Asia	Global
Buy	34.6%	31.8%	36.5%	34.3%
Hold	57.6%	44.1%	59.6%	55.7%
Sell	7.8%	24.1%	3.9%	10.0%
Total	100%	100%	100%	100%

**5-STARS (Strong Buy):** Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

**4-STARS (Buy):** Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

**3-STARS (Hold):** Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

**2-STARS (Sell):** Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

**1-STARS (Strong Sell):** Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks: In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

#### For All Regions:

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### S&P Capital IQ Global Quantitative Model Recommendations Distribution as of June 30, 2013

Ranking	North America	Europe	Asia	Global
Buy	40.0%	40.9%	56.1%	47.3%
Hold	20.0%	19.6%	18.2%	19.1%
Sell	40.0%	39.5%	25.7%	33.6%
Total	100%	100%	100%	100%

#### Trade Detector Recommendations Distribution as of March 31, 2013

The Trade Detector research report was published after March 31, 2013. Ranking distributions will be provided as of June 30, 2013.

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