

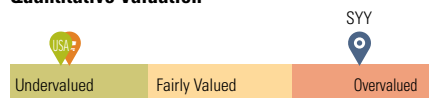
Sysco Corp SY (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★	78.12 USD	56.00 USD	1.40	2.41	2.30	39.79	Food Distribution	Standard
04 Dec 2020 22:20, UTC	04 Dec 2020	31 Aug 2020 22:12, UTC		04 Dec 2020	04 Dec 2020	04 Dec 2020		

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★	Overvalued
Uncertainty	Medium	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.20	1.08	0.84	0.83
Price/Earnings	—	28.4	19.6	20.1
Forward P/E	36.2	—	16.9	13.9
Price/Cash Flow	16.1	15.7	12.6	13.1
Price/Free Cash Flow	21.8	23.1	21.4	19.5
Trailing Dividend Yield%	2.41	2.29	2.28	2.35

Source: Morningstar

Bulls Say

- Given Sysco's competitive advantage centers on its position as the low-cost leader, we think Sysco should be able to increase market share in its home turf over time.
- The pandemic is likely to result in the permanent closure of smaller, less-well-capitalized distributors, resulting in additional share gains for Sysco.
- Sysco's overhead reduction programs should make it more efficient, enabling it to price business more competitively, helping it to win new business, and further leverage its scale.

Bears Say

- The food-service distribution industry is highly competitive, and the players do not have pricing power, making them subject to inflation risk, particularly as commodity prices move higher.
- COVID-19 will result in a dramatic reduction in food-service traffic, which will pressure Sysco's sales and profits for the next few years.
- Many restaurants are likely to close permanently during the pandemic, which should result in significant bad debt expense for Sysco.

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Narrow-Moat Sysco Should Emerge From the Pandemic a Stronger Competitor, but Shares Fairly Valued

Business Strategy and Outlook

Rebecca Scheuneman, CFA, Eq. Analyst, 31 August 2020

We believe Sysco possesses a narrow moat, rooted in its cost advantages. We surmise the firm benefits from lower distribution cost given its closer proximity to customers, complemented by scale-enabled cost advantages such as purchasing power and resources to provide value-added services to its customers. While COVID-19 creates a very challenging environment (we estimate up to 15% of restaurants may close permanently, an industry that accounts for 62% of Sysco's sales), we think the firm has sufficient liquidity to weather the storm, and we expect Sysco's diverse channel exposure, the vast adoption of carryout options, and the eventual containment of the virus, will allow Sysco to return to prepandemic sales levels in fiscal 2022, with Sysco's long-term opportunities remaining in tact. In fact, Sysco is reinforcing its cost advantage during the crisis by permanently removing \$350 million in annual costs, which should hasten its return to prepandemic profit margins.

Even before the pandemic, operational execution began to slip in calendar 2019, when the firm failed to leverage its scale advantages, resulting in share losses in the coveted high-margin local restaurant market. Furthermore, cost inflation and unexpected expenses caused the firm to lower its three-year (2018-2020) operating income growth target from \$650 million to \$500-\$525 million. But we think change is afoot, with the appointment of Kevin Hourican as CEO in early 2020. We surmise his retail experience (centered in supply chain and logistics) should help Sysco weather the pandemic and facilitate enhanced focus on scale longer term.

Sysco is tackling the \$5 billion it spends on selling, general, and administrative expenses in order to make the organization more profitable. The firm is offshoring transactional work, centralizing and standardizing finance processes, restructuring the Canadian and hotel-supply businesses, increasing efficiencies in shared services, and reducing salaried corporate support positions by 10%. We expect these initiatives to increase operating margins from the 4.1% five-year average to nearly 5% longer term, helping to solidify the firm's cost-advantaged position.

Analyst Note

Rebecca Scheuneman, CFA, Eq. Analyst, 03 November 2020

Nine months into Kevin Hourican's tenure as CEO of narrow-moat Sysco, we are seeing his strategy play out, which we think will allow the firm to more consistently leverage its scale-based cost advantage, translating into more steady share gains. Sysco is improving its selling tools, such as online ordering, with 60% of orders now placed online, up from 50% just 18 months ago, allowing the salesforce to spend time on value-added activities such as winning new business. Sysco has also improved its CRM tool, which now uses data analytics to enhance prospecting, and a new pricing tool. Sysco rolled out new sales incentives and sales leadership, and this fall will test a program to better serve restaurant segments (Italian, Mexican, Asian, etc.) by offering specialized products, promotions, and sales associates with specialized expertise. Fruit of these efforts is demonstrated in the \$1.3 billion in new national restaurant and healthcare contracts won since the beginning of the pandemic (2.2% of fiscal 2019 sales), in addition to share gains with local restaurants.

In Sysco's fiscal-year 2021 first quarter, organic sales fell 23%, a bit worse than the 21% drop we expected. Gross margins of 18.9% were better than the 18.2% we modeled, as high margin independent restaurants outperformed Sysco's overall business. But operating expenses came in higher than we expected, resulting in a 3.1% operating margin versus our 4.1% estimate. Second-quarter sales are holding at a 20% decline, which we expect to persist through the winter as outdoor dining will be limited and select European markets reintroduce restrictions. But unlike Europe's first wave of closures, this time restaurants will be allowed to prepare food for carryout. We expect to modestly lower our \$56 fair value estimate to account for higher operating expenses. With shares trading above this level given the mid-single-digit pop in the stock, we suggest investors await a more attractive entry point.

Economic Moat

Rebecca Scheuneman, Eq. Analyst, 31 August 2020

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We believe that Sysco possesses a narrow moat anchored in its cost advantages, underpinned by both its closer proximity to customers, which lowers distribution cost, and its scale, which provides the firm with superior purchasing power as well as resources to provide clients value-added benefits such as technology tools, consultancy, and a high level of service.

In our view, Sysco's vast and unmatched distribution network of 172 U.S. distribution facilities places it in closer proximity to its customers, providing it with a distribution cost advantage. This compares with 72 facilities for US Foods, Sysco's nearest competitor. Supporting our contention, over the past three years, Sysco's distribution expense averaged 5.9% of revenue compared with 6.9% for US Foods.

We believe Sysco's purchasing power also provides an advantage, as Sysco's fiscal 2020 U.S. revenue was \$42.8 billion (16% market share), nearly twice that of US Foods' \$24.4 billion (9% share) over the same period. Even the largest restaurants can't match this purchasing power; only the top U.S. restaurant, McDonald's, is in the ballpark, with \$40 billion in 2019 U.S. systemwide sales. Thereafter, revenue falls off steeply, with number 2 Starbucks reporting \$20 billion and number 3 Subway booking \$10 billion. While Sysco hasn't always leveraged its purchasing power scale (historically, each distribution center operated independently), in 2014 it began an effort to consolidate purchases, which drove a 200-basis-point improvement to gross margins. While we acknowledge that US Foods has also realized margin improvement from consolidating purchases, we do not believe it realized the same degree of benefits as Sysco, given its smaller size and as evidenced by gross margins that lag Sysco by about 100 basis points.

Sysco also uses its scale to differentiate itself from smaller regional and local players by offering clients products and services that smaller distributors cannot offer, such as technology tools that help their customers better manage their businesses. These systems provide restaurateurs with integrated systems that help them manage their point-of-sale transactions, control inventory, calculate menu profitability, facilitate online orders and reservations, and schedule employees. In addition, these systems allow clients to input their own orders, freeing up about 50% of Sysco's salesforce's time so they can engage in more value-added activities, such

as consultative selling to increase penetration of existing accounts or following leads to secure new business. Sysco's clients have embraced online ordering, as more than 50% of the firm's orders are placed online. Sysco has said that for clients who use these tools, the distributor gains a higher share of wallet and it also improves client retention (without quantifying), which in our view, suggests that these tools offer a competitive advantage.

Sysco also seeks to differentiate itself from smaller distributors by offering independent restaurants consultancy services. Sysco offers operations consultants that advise clients on improving operations and profitability, chefs that advise on menu selections, and graphic designers to design menus and marketing campaigns. The team offers clients a complete review of their operations and makes personalized recommendations to the entrepreneur. Sysco completes 50,000 such reviews each year, which it reports are in high demand. These services are provided free of charge, as a benefit of partnering with the firm. Smaller distributors have not been able to replicate this specialized service, and as such, we think it contributes toward Sysco's competitive edge. Even though UniPro Foodservice, a distributor cooperative with 850 members that collectively generate \$60 billion in revenue, does offer its members information on consumer and menu trends, as well as tips to help restaurateurs improve their marketing, in our view, this does not compare with Sysco's thorough and personalized business review services.

We think Sysco's scale also provides the firm with the resources to invest in its business to ensure that it is able to deliver a very high level of service. This includes forecasting tools to ensure that the right product is on hand, the fleet to ensure the trucks are running on time, technology to efficiently route the fleet, and financial systems to ensure orders are processed and billed correctly. As a result, Sysco averages a 98.5% service level, the percent of orders delivered with the requested product (no substitutions), within the designated delivery window, and billed accurately. From our vantage point, these service levels are likely aiding the firm's ability to gain market share over time. While others, including US Foods, have failed to disclose this metric, we doubt competitors are able to match these high service levels, given their relative lack of resources.

Sysco also uses its scale to offer clients their own lines

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of private label products. While there is evidence that these products enhance distributor margins, we do not contend that these offerings enhance the distributors' competitive advantage, as they are ultimately replicable. The most popular private label offerings are relatively easy to duplicate, as they are commodity-like items such as cuts of meat, minimally processed produce, and dairy products. We acknowledge that private label brands have become a significant portion of distributors' businesses, composing 47% of Sysco's local restaurant cases. However, we attribute that to a push from the distributor to enhance its margins, as opposed to gaining a competitive edge. Sysco prefers these products as they have twice the margin of nationally branded product, and the distributors incentivize their sales reps to promote these items to clients.

In addition to other distributors, food-service clients can also source their food and supply needs from cash and carry locations such as Costco, Sam's Club, and specialized restaurant supply stores such as Restaurant Depot. Technomic estimates that these stores combined maintain about 10% market share of the food-service supply industry. While these stores don't offer the convenience of delivery, do not have the same breadth of product, and may not consistently carry the same items, they offer appealing prices on many products that food-service operators regularly use. This channel is particularly compelling during recessionary periods, when food-service operators are most cost sensitive. For example, according to Sysco, during the 2008-09 recession, cash and carry share gains accelerated. While the distributor notes that the channel's market share has been stable recently, we believe the channel represents a viable competitive threat to distributors. Sysco is currently testing a cash and carry concept in Latin America, although it has not announced plans to open stores in the U.S.

There is ample quantitative evidence of Sysco's competitive edge. Sysco has reported organic market share gains, operating margins superior to its direct peers, and steady economic profits. Over the past five years (calendar 2015-19), Sysco's U.S. food-service segment average annual organic revenue growth rate was 3.3%, modestly ahead of the 3.1% average annual industry growth rate over the same period, according to Euromonitor. Together, we think the firm's cost advantages, underpinned by closer proximity to customers

and its scale, facilitate market share gains by allowing the firm to offer customers similar products and services at a lower price, or offer customers superior products and services at a comparable price. Sysco also maintains higher operating margins than its direct peers. For 2017-19, Sysco reported an average adjusted operating margin of 4.4%, compared with number 2 US Foods' 3.1% and number 3 Performance Food Group's 1.6%. Finally, Sysco consistently reports ROICs far in excess of our 8% estimate of the firm's cost of capital. Over the past 10 years, the firm's ROICs including goodwill have ranged from 11% (due to the pandemic) to 19%. Our forecast calls for continued economic profits, with ROICs ranging from 14% to 23%.

We assign the firm a narrow moat rating, as we believe the firm will maintain this advantage for at least the next 10 years. However, we do not have the visibility or conviction that Sysco can maintain its advantage for at least 20 years, required for a wide moat rating, due to the evolving competitive environment, with consolidating direct competitors, the firm's lack of pricing power and related gross margin volatility, the growth of restaurant group purchasing organizations (GPOs), and the growth of cash and carry alternatives, such as Costco, Sam's Club, and Restaurant Depot.

Fair Value & Profit Drivers

Rebecca Scheuneman, Eq. Analyst, 31 August 2020

We are increasing our fair value estimate for Sysco to \$56 from \$53 as our reduced estimate of the firm's weighted average cost of capital (to 7.7% from 8.0% due to a greater portion of capital stemming from lower-cost debt) increases the present value of the firm's discounted cash flows. Our valuation implies fiscal 2021 price/adjusted earnings of 27 times and enterprise value/adjusted EBITDA of 13 times.

We think Sysco's consolidated revenue will decline over the next year (until the June 2021 quarter), as COVID-19 concerns curtail away-from-home food consumption. For the U.S. food-service segment (70% of fiscal 2020 revenue), we expect sales to fall 3% in fiscal 2021, (after dipping 11% in fiscal 2020), grow 17% in 2022 as traffic patterns recover, and normalize to mid-single-digits annually thereafter. For Sysco's international business (18% of sales), we expect sales to decline 13% in fiscal 2021 (after falling 16% in 2020), given the COVID-19 disruption, followed by an 11% recovery in 2022,

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normalizing to mid-single-digit growth thereafter. For the Sygma segment (11% of sales), which provides customized product to large chains, after an 11% decline in 2020 due to COVID-19 and the cancelation of low-margin contracts, we expect 5% and 3% recoveries in fiscal 2021 and 2022, respectively due to contract wins and more resilient sales in this quick-serve-restaurant heavy segment, and 1.5% long-term growth. In aggregate, after a 12% sales dip in fiscal 2020, we forecast an additional 5% contraction in 2021, a 15% recovery in 2022, and 5% long-term annual revenue growth.

Given the highly competitive nature of the food-service distribution industry combined with the fact that we don't posit Sysco (or its peers) possess much in the way of pricing power, we expect Sysco's gross margins will continue to hover around 19% each year over the course of our explicit forecast. However, outside of deleveraging fixed costs in 2020 and 2021 due to COVID-19-related sales weakness, we believe Sysco will be able to leverage its overhead expenses as it grows its sales base. Further, we surmise actions it is taking to reduce its cost structure (by reorganizing its Canadian operations and Guest Supply hotel business, eliminating around 10% of its salaried corporate support functions, and overhauling its financial operations) stand to aid its margin profile. The combination of this underlays our forecast for operating margins to improve to nearly 5% by 2030 from 3.2% in 2020.

Risk & Uncertainty

Rebecca Scheuneman, Eq. Analyst, 31 August 2020

The most pressing risk Sysco faces is the COVID-19 pandemic, which we expect to result in a 16% sales drop from fiscal 2019 to fiscal 2021, depressed adjusted operating margins in fiscals 2020 and 2021 of 3.2% and 3.9%, respectively from 4.5% in 2019, and over \$520 million in bad debt expenses through fiscal 2021. However, we think Sysco's solid balance sheet, with \$8 billion of cash and available liquidity as of June, positions the firm well to endure the current environment. We think Sysco's channel diversity, its customers' widespread adoption of carryout, and the eventual containment of the coronavirus (most likely after a 2021 vaccine), will return Sysco's revenue to the prepandemic level by fiscal 2023.

Sysco operates in a highly competitive market. Although we believe Sysco has cost advantages compared with its smaller peers, pricing power remains elusive, given the

vast number of alternatives through which they can purchase supplies. Sysco estimates independent operators use five to six food-service delivery services, with the leading service averaging 30% to 40% of wallet share, so it is typical for customers to shift purchases to another distributor if a lower price is found. Promotional pressures can arise, and Sysco has shown a willingness to respond in the past as a means to forgo the more material cost of winning back customers.

Sysco also faces erratic changes in food inflation. While about 50% of Sysco's business operates under a cost-plus contract, and therefore faces no margin risk, the remaining 50% uses negotiated spot prices. Sysco can generally pass through food inflation that ranges from 1% to 3%, but when inflation exceeds this level, Sysco can typically not pass it through all at once and will likely take a loss on the item. Prices are typically reset every two weeks, and depending on the magnitude of the inflation, it can take several weeks to fully pass the inflation through, which can lead to prolonged periods of margin compression.

Stewardship

Rebecca Scheuneman, Eq. Analyst, 31 August 2020

We rate Sysco as a standard steward of shareholder capital. In February 2020, Kevin Hourican stepped in as CEO, replacing Tom Bené, who had been at the helm since 2017. Hourican most recently served as president of CVS' \$85 billion retail division and prior to that held various roles in supply chain and logistics at Macy's and Sears. We expect this relevant experience will serve Sysco shareholders well. Former lead independent director Ed Shirley replaced Bené as executive chairman. Shirley has retained a seat on Sysco's board since 2016 and has a long, distinguished career in the consumer products industry, holding executive roles at Bacardi and wide-moat Procter & Gamble. Brad Halverson, Sysco director since 2016 and former CFO at Caterpillar, will serve as new lead independent director. We applaud the decision to separate the roles of CEO and chairman, which we think enhances independence.

Overall, we think the board is represented by seasoned professionals with diverse, beneficial experience across fields (finance, mergers and acquisitions, technology, risk management, sales) and relevant industries (distribution and logistics, food, consumer products, retail, data analytics). However, we think it would be beneficial to have representation from the restaurant industry as well.

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In 2015, activist investor Nelson Peltz gained two board seats after disclosing a 7.1% stake in the firm. He retains the two seats although his stake now stands at 4.5%.

We believe Sysco has been a disciplined acquirer, as the firm continues to report robust ROICs including goodwill and the firm has refrained from engaging in transactions at times management believed valuations were not attractive. In general, we think the firm has been a good steward of capital, appropriately investing in growing the business and building the firm's capabilities, despite not always capitalizing on the benefits of its scale. Prior to 2014, Sysco operated as a decentralized organization, with each distribution center essentially operating independently. But over the past few years, the firm centralized purchasing (and realized 200 basis points in gross margin improvements as a result), and we think this newly found purchasing power is one of the major facets of Sysco's cost-advantaged moat.

We think the firm's compensation structure is well aligned with shareholder interest, with company leadership's incentives tied to case growth, gross profit, operating profit, EPS, and ROIC metrics. Another compelling feature of the program is that 80% to 90% of management's annual pay is contingent on the firm's performance.

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Analyst Notes Archive

U.S. Food-Service Distributors Should Navigate the Pandemic Successfully; Shares Compelling

Rebecca Scheuneman, Eq. Analyst, 31 July 2020

We think the sharp year-to-date declines in the shares of the U.S. food-service distributors (down 36%, 52%, and 46% for narrow-moat Sysco, and no-moat US Foods and Performance Food Group, respectively) overstates the impact the pandemic will have on their intrinsic values. We acknowledge that the crisis is the most significant challenge ever faced by the group and will likely lead to a mid- to high-teens drop in organic sales in calendar 2020, margin compression from expense deleveraging and negative customer mix, and the permanent closure of up to 15% of restaurants, resulting in material bad debt expenses. Factoring these assumptions into our models results in a high-teens drop in our fair value estimates on average, significantly less than the declines the shares have experienced. Specifically, US Foods and PFG trade at 32% and 13% discounts, respectively, to our \$30 and \$32 fair value estimates, while Sysco trades in line.

We also think the market underappreciates the firms' channel diversity, as restaurants represent just over half of sales, and several other channels have demonstrated resilience during the pandemic, such as hospitals, senior living communities, grocery stores, military bases, and correctional facilities. We think this diversity, along with the restaurants' vast adoption of carryout, and the eventual containment of the coronavirus (Morningstar expects a vaccine to be widely available in 2021) will return the distributors to prepandemic sales in 2022. Our long-term assumptions of low- to mid-single-digit annual sales growth and low- to mid-single-digit operating margins, remain intact.

Furthermore, we believe the distributors have solid balance sheets and sufficient liquidity to navigate this challenging environment. Each firm has secured additional capital, suspended share repurchases, tightened working capital, eliminated nonessential capital expenditures, and cut operating expenses, which we view as prudent during this time of uncertainty.

COVID-19 Causes a Challenging Quarter for Sysco, but Recovery Playing Out as Expected; Shares Rich

Rebecca Scheuneman, Eq. Analyst, 11 August 2020

Sysco's recovery from the pandemic is playing out essentially as we expected. While fiscal 2020 fourth-quarter sales were much worse (down 43% versus our expectation of down 23%), its 17.7% gross margin topped our 17.5% forecast, and adjusted operating expenses were \$100 million lower than we expected. Sysco entered the new fiscal year with sales down 30% and positive adjusted operating margin, demonstrating the ongoing improvement that lends credence to our fiscal 2021 expectations for a 4% drop in sales and a 4% adjusted operating margin. As such, we do not expect to make a material revision to our \$53 fair value estimate. As shares trade modestly above this level, we suggest investors looking for food distributor exposure consider 4-star US Foods.

Management stated that restaurant sales are experiencing a near immediate lift when dine-in restrictions are eased, indicating consumers have a desire to return to restaurants. As constraints eased in May and June, sales trends improved steadily but stagnated in July as several regions paused reopenings. Sales improvement has resumed in August, as the easing of controls has continued. Sysco, though, is not beholden to industry trends. Since the beginning of the pandemic, Sysco has won over \$1 billion in new chain restaurant deals and is pursuing new business from independent restaurants, as well. We think Sysco will be successful in these efforts, as food-service operators seek suppliers with strong financial footing.

Sysco is capitalizing on the pandemic-inspired urgency for change among its workforce and announced it will centralize operations, converting from six markets with 76 operating companies to four markets with 30 regions. This more centralized structure will allow Sysco to be more consistent, agile, and lean. As a result, Sysco increased its fiscal 2021 cost savings target to \$350 million from \$300 million. This structure should reinforce Sysco's cost advantage, which underpins its narrow moat rating.

Narrow-Moat Sysco Should Emerge From the Pandemic a Stronger Competitor, but Shares Fairly Valued

Rebecca Scheuneman, Eq. Analyst, 03 November 2020

Nine months into Kevin Hourican's tenure as CEO of narrow-moat Sysco, we are seeing his strategy play out, which we think will allow the firm to more consistently leverage its scale-based cost advantage, translating into

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Sysco Corp SYY [★] ^Q 04 Dec 2020 02:00 UTC

Last Close

04 Dec 2020

78.12

Fair Value^Q

04 Dec 2020 02:00 UTC

62.29

Market Cap

04 Dec 2020

38,038.9 Mil

Sector

Consumer Defensive

Industry

Food Distribution

Country of Domicile

USA United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit <http://global.morningstar.com/equitydisclosures>

Company Profile

Sysco is the largest U.S. food-service distributor, boasting 16% market share of the highly fragmented food-service distribution industry. Sysco distributes over 400,000 food and nonfood 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 2020, 81% of the firm's revenue was U.S.-based, with 8% from Canada, 5% from the U.K., 2% from France, and 4%

Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Narrow	97	97	96
Valuation	Overvalued	3	3	5
Quantitative Uncertainty	Medium	99	99	97
Financial Health	Moderate	50	18	50



Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.20	1.08	0.84	0.83
Price/Earnings	—	28.4	19.6	20.1
Forward P/E	36.2	—	16.9	13.9
Price/Cash Flow	16.1	15.7	12.6	13.1
Price/Free Cash Flow	21.8	23.1	21.4	19.5
Trailing Dividend Yield %	2.41	2.29	2.28	2.35
Price/Book	29.3	10.7	2.0	2.4
Price/Sales	0.8	0.6	1.1	2.4

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	-1.1	39.6	12.1	12.9
Return on Assets %	-0.1	6.1	5.8	5.2
Revenue/Employee (K)	866.1	895.8	646.1	325.9

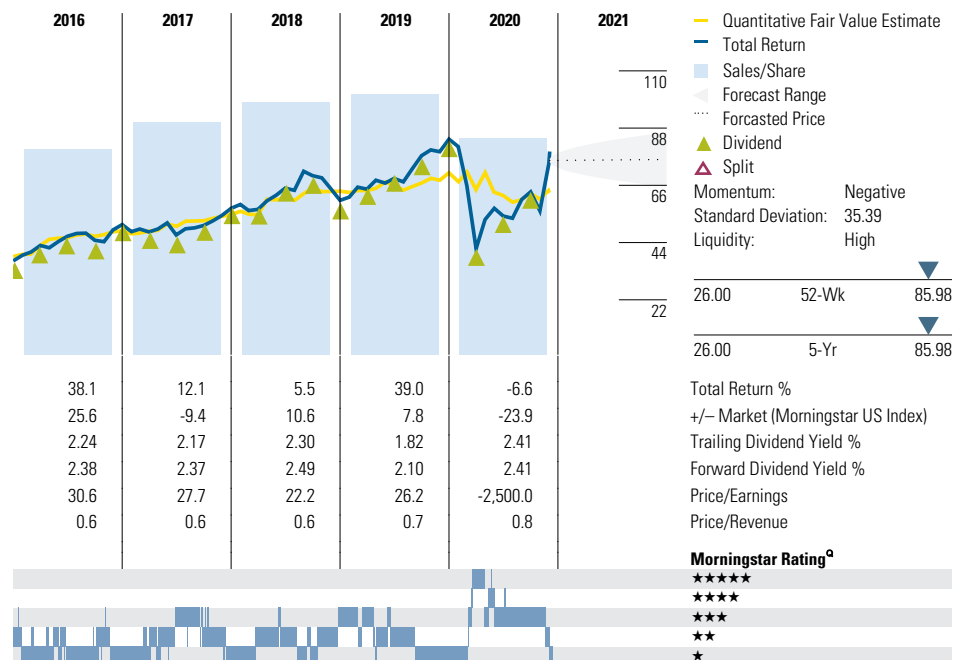
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.4	0.7	0.6	0.5
Solvency Score	776.9	—	467.9	552.4
Assets/Equity	19.5	8.3	1.8	1.7
Long-Term Debt/Equity	11.1	3.9	0.2	0.4

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	-12.0	-1.5	1.7	3.6
Operating Income %	-67.8	-28.6	-9.4	-9.2
Earnings %	-86.9	-41.3	-18.3	-14.4
Dividends %	13.7	10.2	7.9	5.8
Book Value %	-53.3	-20.2	-23.8	-10.0
Stock Total Return %	-2.5	11.7	15.8	12.0

Price vs. Quantitative Fair Value

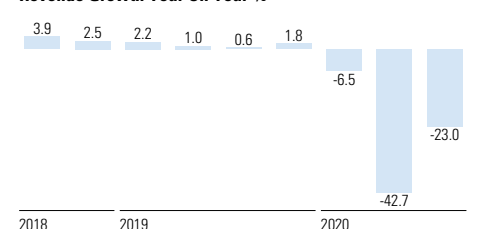


	2016	2017	2018	2019	2020	TTM	Financials (Fiscal Year in Mil)
Revenue	50,367	55,371	58,727	60,114	52,893	49,368	Revenue
% Change	3.5	9.9	6.1	2.4	-12.0	-6.7	% Change
Operating Income	1,851	2,053	2,329	2,330	750	501	Operating Income
% Change	50.5	11.0	13.4	0.1	-67.8	-33.2	% Change
Net Income	950	1,143	1,431	1,674	215	-21	Net Income
Operating Cash Flow	1,933	2,176	2,159	2,411	1,619	2,378	Operating Cash Flow
Capital Spending	-527	-686	-688	-692	-720	-620	Capital Spending
Free Cash Flow	1,406	1,490	1,471	1,719	898	1,758	Free Cash Flow
% Sales	2.8	2.7	2.5	2.9	1.7	3.6	% Sales
EPS	1.64	2.08	2.70	3.20	0.42	-0.03	EPS
% Change	42.6	26.8	29.8	18.5	-86.9	-107.1	% Change
Free Cash Flow/Share	2.08	2.50	2.96	3.24	2.34	3.43	Free Cash Flow/Share
Dividends/Share	1.23	1.30	1.41	1.53	1.74	1.80	Dividends/Share
Book Value/Share	7.04	4.35	4.52	4.61	3.99	2.55	Book Value/Share
Shares Outstanding (K)	566,622	540,383	521,410	513,516	508,843	509,359	Shares Outstanding (K)
Profitability	21.7	39.0	58.5	66.8	11.8	-1.1	Profitability
Return on Equity %	5.5	6.6	8.0	9.3	1.1	-0.1	Return on Equity %
Return on Assets %	1.9	2.1	2.4	2.8	0.4	0.0	Return on Assets %
Net Margin %	2.90	3.21	3.28	3.34	2.61	2.37	Net Margin %
Asset Turnover	4.8	7.5	7.2	7.2	19.5	17.5	Asset Turnover
Financial Leverage	18.0	19.1	18.9	19.0	18.7	18.6	Financial Leverage
Gross Margin %	3.7	3.7	4.0	3.9	1.4	1.0	Gross Margin %
Operating Margin %	7.337	7.661	7.541	8.122	12.902	12.423	Operating Margin %
Long-Term Debt	3,480	2,382	2,507	2,503	1,159	1,300	Long-Term Debt
Total Equity	12.8	13.4	13.2	13.3	11.1	9.7	Total Equity
Fixed Asset Turns							Fixed Asset Turns

Quarterly Revenue & EPS

	Sep	Dec	Mar	Jun	Total
Revenue (Mil)					
2020	15,303.0	15,025.0	13,698.7	8,866.6	52,893.3
2019	15,215.3	14,765.7	14,658.1	15,474.9	60,113.9
2018	14,650.4	14,411.5	14,349.5	15,315.9	58,727.3
2017	13,968.7	13,457.3	13,524.2	14,421.0	55,371.1
Earnings Per Share (I)					
2020	0.87	0.74	-0.01	-1.22	0.42
2019	0.81	0.51	0.85	1.03	3.20
2018	0.69	0.54	0.63	0.85	2.70
2017	0.58	0.50	0.44	0.57	2.08

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats:

intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar's equity research department.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBIT, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade

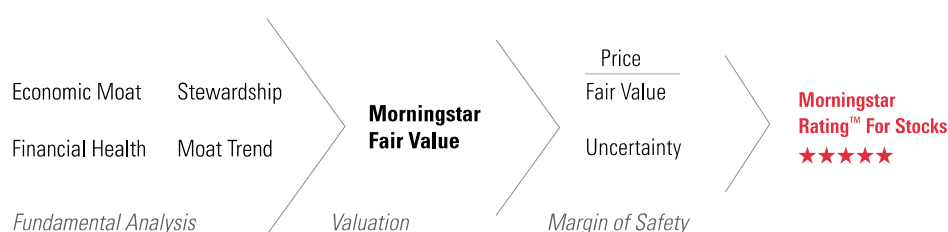
The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBIT over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

Morningstar Research Methodology for Valuing Companies



Research Methodology for Valuing Companies

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

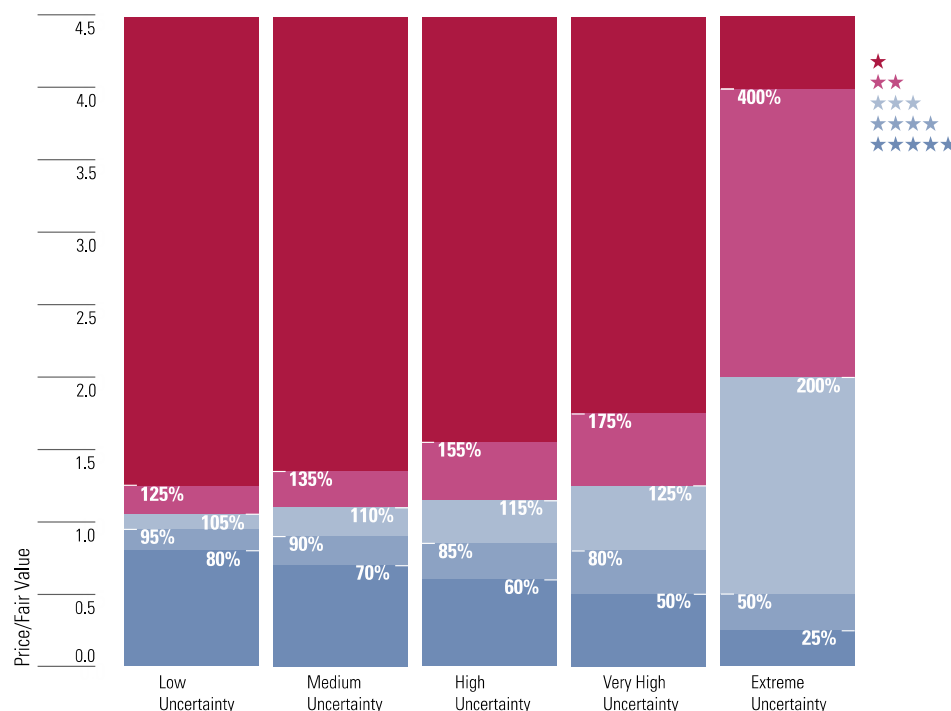
- ▶ Low—margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ▶ Medium—margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ▶ High—margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ▶ Very High—margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ▶ Extreme—margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to <https://shareholders.morningstar.com>.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview

The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the

quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings

Morningstar's quantitative equity ratings consist of:

- (i) Quantitative Fair Value Estimate
 - (ii) Quantitative Star Rating
 - (iii) Quantitative Uncertainty
 - (iv) Quantitative Economic Moat
 - (v) Quantitative Financial Health
- (collectively the "Quantitative Ratings").

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("Morningstar," "we," "our") calculates Quantitative Ratings for companies whether it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the quantitative fair value estimate using a statistical model derived from the fair value estimate Morningstar's equity analysts assign to companies. Please go to <https://shareholders.morningstar.com> for information about fair value estimates Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- Narrow: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- Wide: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- None: assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair

Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as 1-Star, 2-Star, 3-Star, 4-Star, and 5-Star.

★: the stock is overvalued with a reasonable margin of safety.

Log (Quant FVE/Price) < -1*Quantitative Uncertainty

★★: the stock is somewhat overvalued.

Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)

★★★: the stock is approximately fairly valued.

Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)

★★★★: the stock is somewhat undervalued.

Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)

★★★★★: the stock is undervalued with a reasonable margin of safety. Log (Quant FVE/Price) > 1*Quantitative Uncertainty

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the quantitative fair value estimate. Generally, the lower the quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.

- Low: the interquartile range for possible fair values is less than 10%.
- Medium: the interquartile range for possible fair values is less than 15% but greater than 10%.
- High: the interquartile range for possible fair values is less than 35% but greater than 15%.
- Very High: the interquartile range for possible fair values is less than 80% but greater than 35%.
- Extreme: the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- Weak: assigned when Quantitative Financial Health < 0.2
- Moderate: assigned when Quantitative Financial Health is between 0.2 and 0.7
- Strong: assigned when Quantitative Financial Health > 0.7

Research Methodology for Valuing Companies

Other Definitions

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- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report.

The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions.

A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit <http://global.morningstar.com/equitydisclosures>.

Sysco Corp SY (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★	78.12 USD	56.00 USD	1.40	2.41	2.30	39.79	Food Distribution	Standard
04 Dec 2020 22:20, UTC	04 Dec 2020	31 Aug 2020 22:12, UTC		04 Dec 2020	04 Dec 2020	04 Dec 2020		

investment decision and when deemed necessary, to seek the advice of a legal, tax, and/or accounting professional.

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- Neither Morningstar, Inc. or the Equity Research Group is a market maker or a liquidity provider of the security noted within this report.

- Neither Morningstar, Inc. or the Equity Research Group has been a lead manager or co-lead manager over the previous 12-months of any publicly disclosed offer of financial instruments of the issuer.

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Sysco Corp SY (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
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