Sysco 1Q16 Earnings Results

November 02, 2015

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Forward-Looking Statements

Statements made in this presentation or in our earnings call for the first quarter of fiscal 2016 that look forward in time or that express management's beliefs, expectations or hopes are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements reflect the views of management at the time such statements are made and are subject to a number of risks, uncertainties, estimates, and assumptions that may cause actual results to differ materially from current expectations. These statements include our plans and expectations related to our three-year financial goals, including targets for operating income and adjusted ROIC, and the key levers for realizing these goals, expectations regarding food cost inflation and deflation and currency translation, expectations regarding share repurchases, and expectations regarding earnings per share. The success of our plans and expectations regarding our operating performance, including expectations regarding our three-year financial goals and earnings per share, are subject to the general risks associated with our business, including the risks of interruption of supplies due to lack of long-term contracts, severe weather, crop conditions, work stoppages, intense competition, technology disruptions, dependence on large regional and national customers, inflation risks, the impact of fuel prices, adverse publicity, and labor issues. Risks and uncertainties also include risks impacting the economy generally, including the risks that the current general economic conditions will deteriorate, or consumer confidence in the economy or consumer spending, particularly on food-away-from-home, may decline. Market conditions may not improve. If sales from our locally managed customers do not grow at the same rate as sales from regional and national customers, our gross margins may decline. Our ability to meet our long-term strategic objectives depends largely on the success of our various business initiatives. There are various risks related to these efforts, including the risk that these efforts may not provide the expected benefits in our anticipated time frame, if at all, and may prove costlier than expected; the risk that the actual costs of any initiatives may be greater or less than currently expected; and the risk of adverse effects to our business, results of operations and liquidity if past and future undertakings, and the associated changes to our business, do not prove to be cost effective or do not result in the cost savings and other benefits at the levels that we anticipate. Our plans related to and the timing of any initiatives are subject to change at any time based on management's subjective evaluation of our overall business needs. If we are unable to realize the anticipated benefits from our efforts, we could become cost disadvantaged in the marketplace, and our competitiveness and our profitability could decrease. Capital expenditures may vary based on changes in business plans and other factors, including risks related to the implementation of various initiatives, the timing and successful completion of acquisitions, construction schedules and the possibility that other cash requirements could result in delays or cancellations of capital spending. Periods of high inflation, either overall or in certain product categories, can have a negative impact on us and our customers, as high food costs can reduce consumer spending in the food-away-from-home market, and may negatively impact our sales, gross profit, operating income and earnings, and periods of deflation can be difficult to manage effectively. Fluctuations in inflation and deflation, as well as fluctuations in the value of foreign currencies, are beyond our control and subject to broader market forces. Expanding into international markets presents unique challenges and risks, including compliance with local laws, regulations and customs and the impact of local political and economic conditions, and such expansion efforts may not be successful. Any business that we acquire may not perform as expected, and we may not realize the anticipated benefits of our acquisitions. Expectations regarding the accounting treatment of any acquisitions may change based on management's subjective evaluation. Expectations regarding share repurchases are subject to various factors beyond management's control, including fluctuations in the stock market, and decisions regarding share repurchases are subject to change based on management's subjective evaluation of the Company's needs. For a discussion of additional factors impacting Sysco's business, see the Company's Annual Report on Form 10-K for the year ended June 27, 2015, as filed with the Securities and Exchange Commission, and the Company's subsequent filings with the SEC. Sysco does not undertake to update its forward-looking statements.

Bill DeLaney
President and CEO

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3-Year Financial Target Review

Accelerating local case growth

Improving gross margins

Leveraging supply chain costs

Reducing administrative costs

Operating income growth[1]:

At least $400 million

Fiscal 2018

ROIC[1]:

15%

[1] Future calculations of operating income growth and ROIC may be on an adjusted basis, excluding certain items, if any. See Non-GAAP reconciliations at the end of this presentation.

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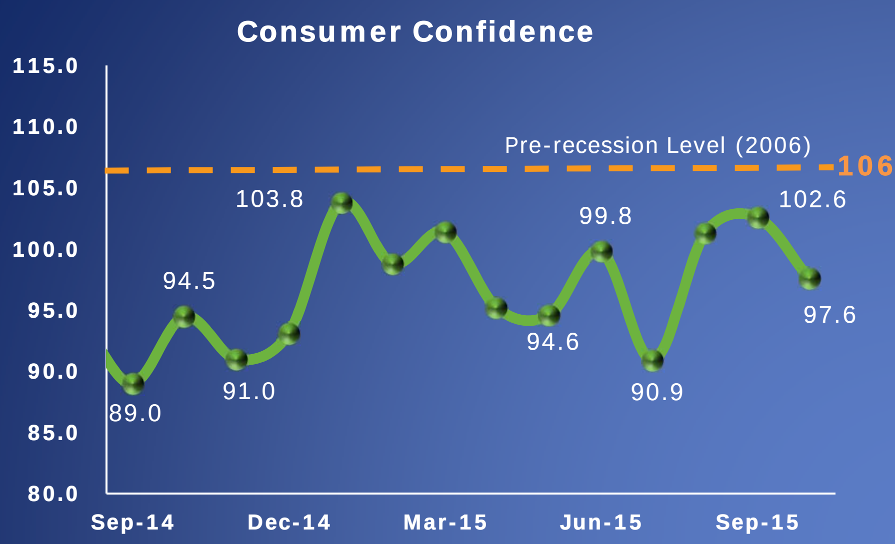
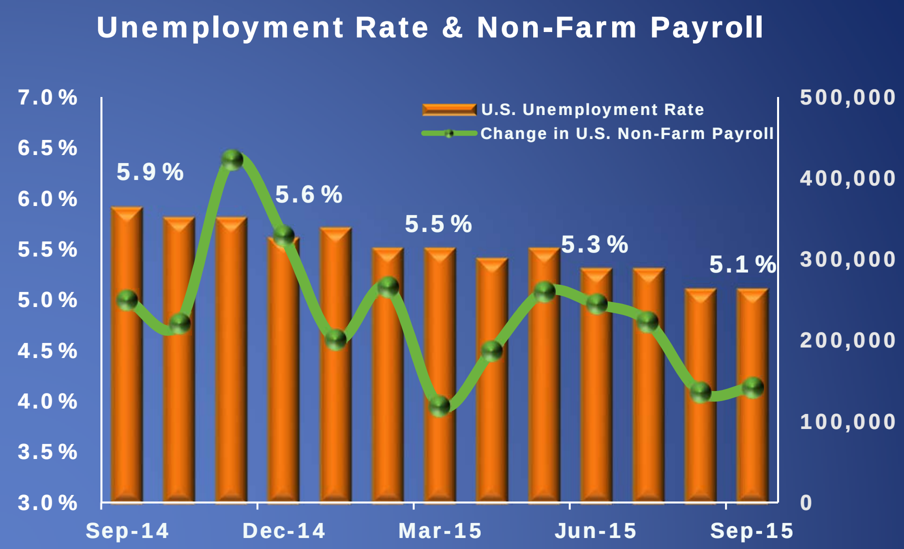
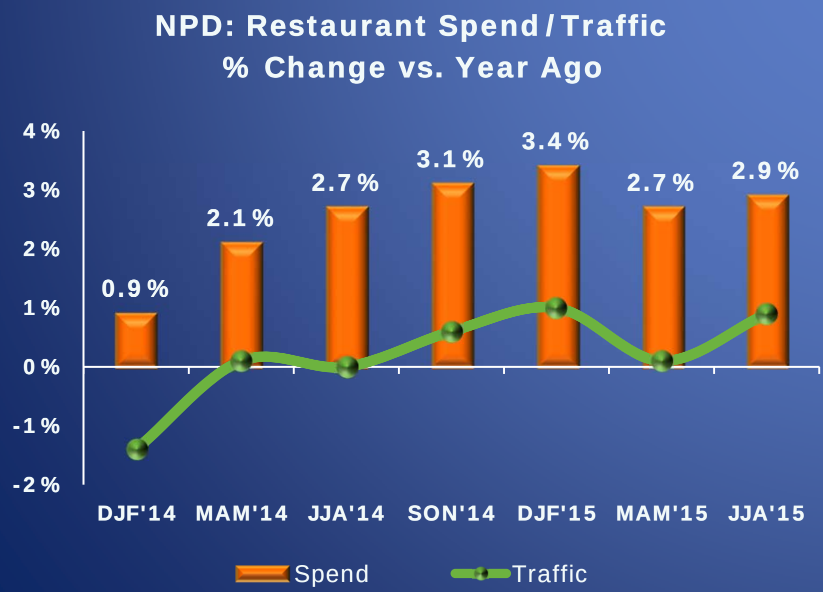
1Q16 Overview

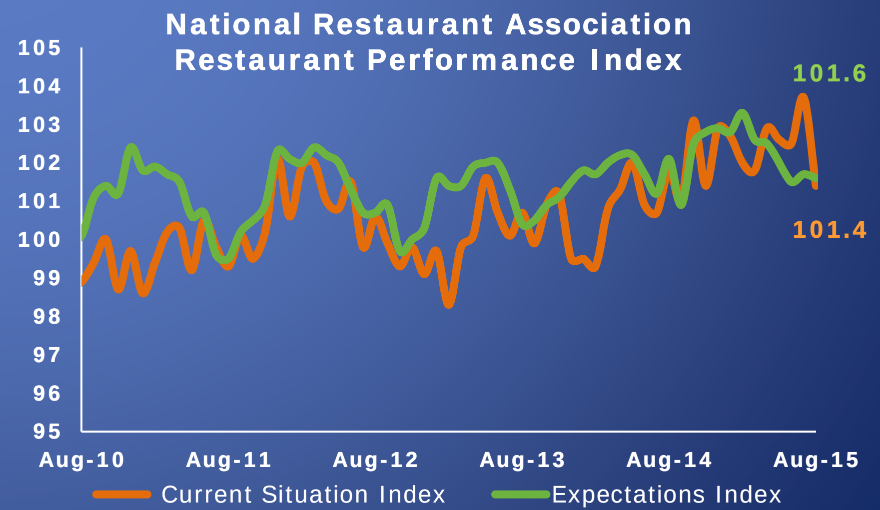
- Good quality of business results
- Strong locally and corporate-managed case growth
- Sound gross margin management
- Deflation and foreign exchange restrained sales, gross profit and earnings growth

Industry & Economic Trends Are Mixed









1Q16 Financial Highlights

	Adjusted[1]		Reported	
$MM, except per share data	1Q16	YOY % Change	1Q16	YOY % Change
Sales	$12,563	0.9%	$12,563	0.9%
Gross Profit	$2,238	2.3%	$2,238	2.3%
Operating Expense	$1,732	3.1%	$1,745	1.2%
Operating Income	$506	-0.5%	$493	6.0%
Net Earnings	$312	0.9%	$244	-12.3%
Diluted EPS	$0.52	flat	$0.41	-12.8%

[1] See Non-GAAP reconciliations at the end of this presentation.

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US Broadline Performance

- US Broadline performance was the key driver of overall results
  - 2.0% local case growth
  - 1.1% deflation in US Broadline
  - 4.6% gross profit growth
  - 2.7% operating expense growth
  - 6.4% operating income growth

Business Driver Highlights

- Category management continues to drive benefits
- Sysco brand penetration continues to improve
- Revenue management pilots promising

Underlying business has good momentum and we are on-track to deliver on our long-term objectives

Joel Grade
EVP and CFO

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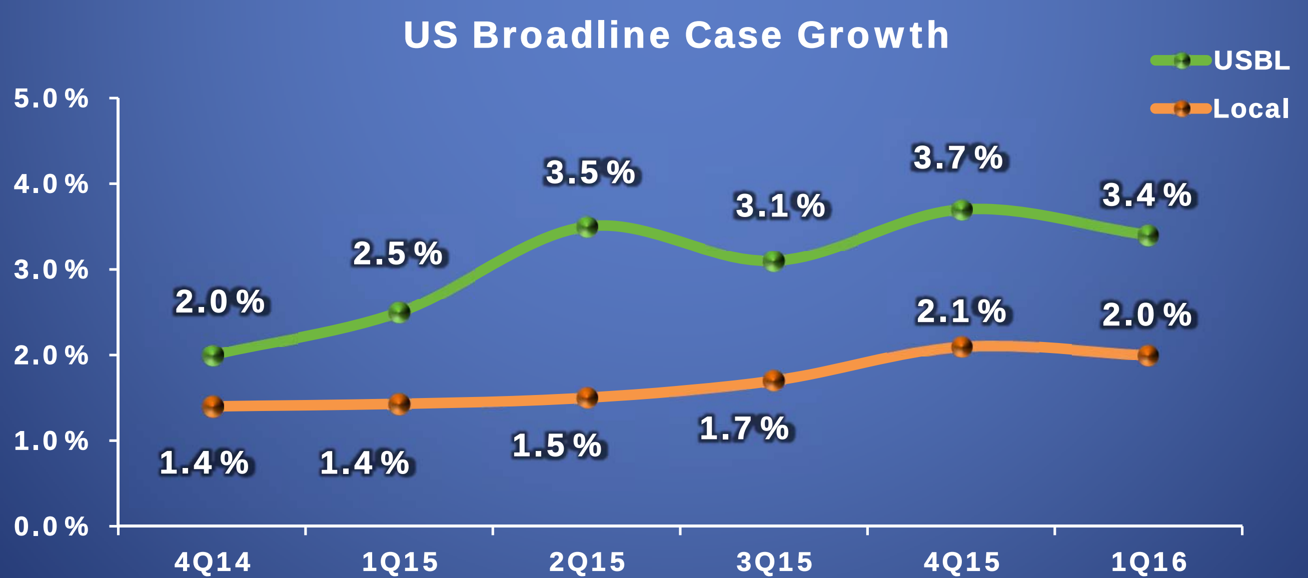
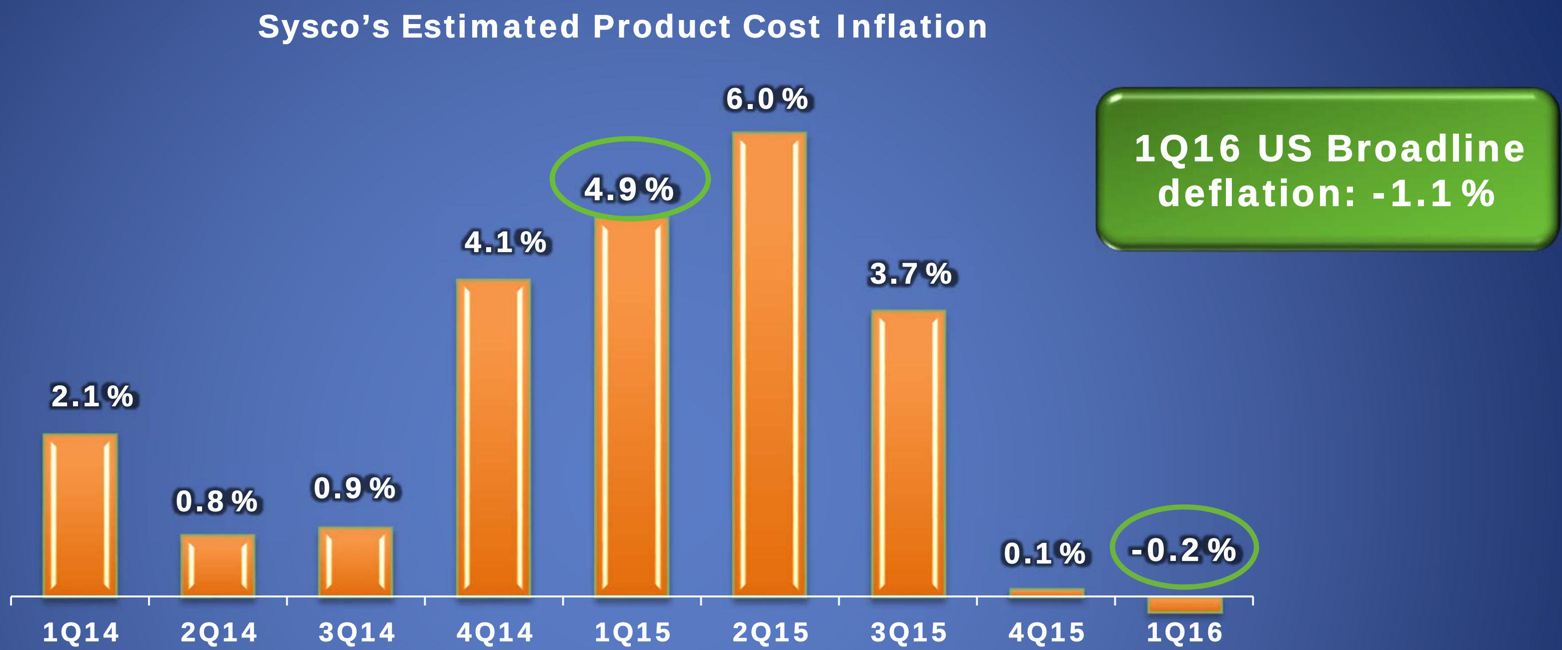
1Q16 Sales

- Sales increased approximately 1% compared to the prior year
  - Deflation of 0.2% vs. inflation of 4.9% in prior year
  - FX Impact was -2.0%
    - Strong USD vs. CND
  - Total Broadline Case Growth: +3.3%
    - US Broadline remains strong
    - Corporate-managed remains healthy

Sales were +3.0% on a constant currency basis

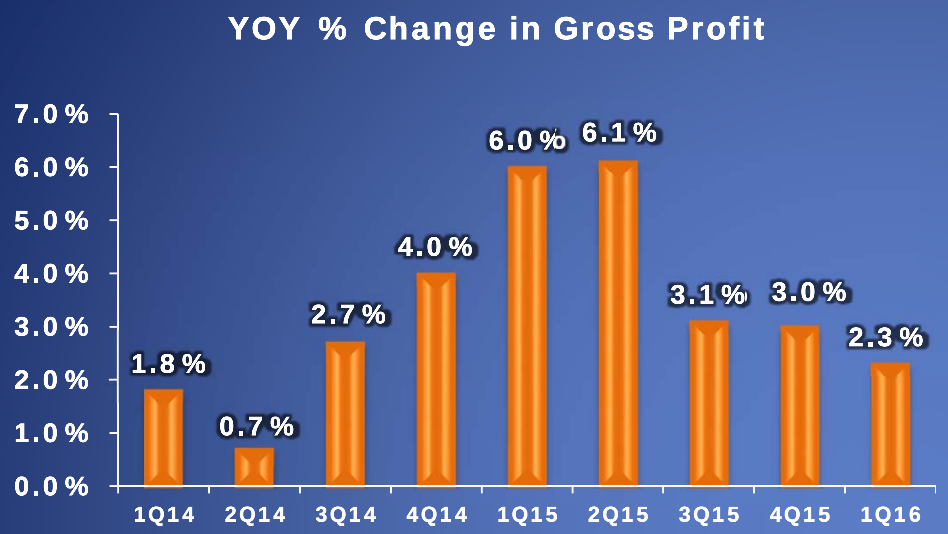


Impact of Inflation on Sales Growth



- Sales growth moderated in 1Q16 due to modest deflation
- Dairy, meat, seafood and poultry categories experienced deflation; while other categories experienced disinflation

Improved Gross Margin Performance in 1Q16



Gross profits were +4.3% on a constant currency basis

Gross margin improvement driven mainly by U.S. Broadline performance

- Stronger relative mix of locally-managed sales
- Ongoing category management benefits
- Improved mix of Sysco-brand
- Deflation

Expenses Related To Certain Items

($ in millions)	1Q16
Certain Items:	
Operating Expense:	
Severance and Restructuring	$3.2
US Foods Merger Termination Costs	$9.8
Interest Expense:	
US Foods Merger Termination Costs	$94.8
Total Certain Items	**$107.8**

1Q16 Adjusted Operating Expense[1]

- Adjusted operating expense +$52 million, or 3.1%
  - Mainly due to higher payroll, driven by increased case volume and long-term incentive accruals
  - Adjusted operating expense +5.2% on a constant currency basis
- Early signs of productivity improvement and cost reduction in supply chain
  - Cost per case in US Broadline down approximately $0.01
- $9 million expense related to long-term incentive accrual
  - Incentive tied to total shareholder return vs. S&P 500
  - Accrual increased due to significant improvement in stock price relative to index starting in mid-August

[1] See Non-GAAP reconciliations at the end of this presentation

1Q16 Operating Income, Net Income, EPS[1]

- Adjusted operating income -0.5%
- Adjusted net earnings +0.9%
  - Increase in other income due to the elimination of the non-Sysco portion of the results associated with our Joint Ventures
- Adjusted EPS flat at $0.52
  - Increase in diluted shares negatively impacted EPS by $0.01

Adjusted operating income was +1.2% on a constant currency basis

Adjusted EPS was $0.53 on a constant currency basis

[1] See Non-GAAP reconciliations at the end of this presentation

Constant Currency Comparisons

	Adjusted[1]		Constant Currency	
$M, except per share data	1Q16	YOY % Change	1Q16	YOY % Change
Sales	$12,563	0.9%	$12,819	3.0%
Gross Profit	$2,238	2.3%	$2,282	4.3%
Operating Expense	$1,732	3.1%	$1,767	5.2%
Operating Income	$506	-0.5%	$515	1.2%
Net Earnings	$312	0.9%	$317	2.8%
Diluted EPS	$0.52	flat	$0.53	1.8%

[1] See Non-GAAP reconciliations at the end of this presentation.

Cash Flow Performance

($MM)	1Q16	1Q15	$ Chg.
Cash Flow from Operations	($261)	$ 63	($324)
Capital Expenditures, net[1]	($120)	($ 118)	$2
Free Cash Flow	($381)	($ 55)	($326)
Cash Impact of Certain Items	($260)	($41)	($219)
Dividends Paid	$179	$ 170	$9

The negative cash impact of certain items on both cash flow from operations and free cash flow was $260 million

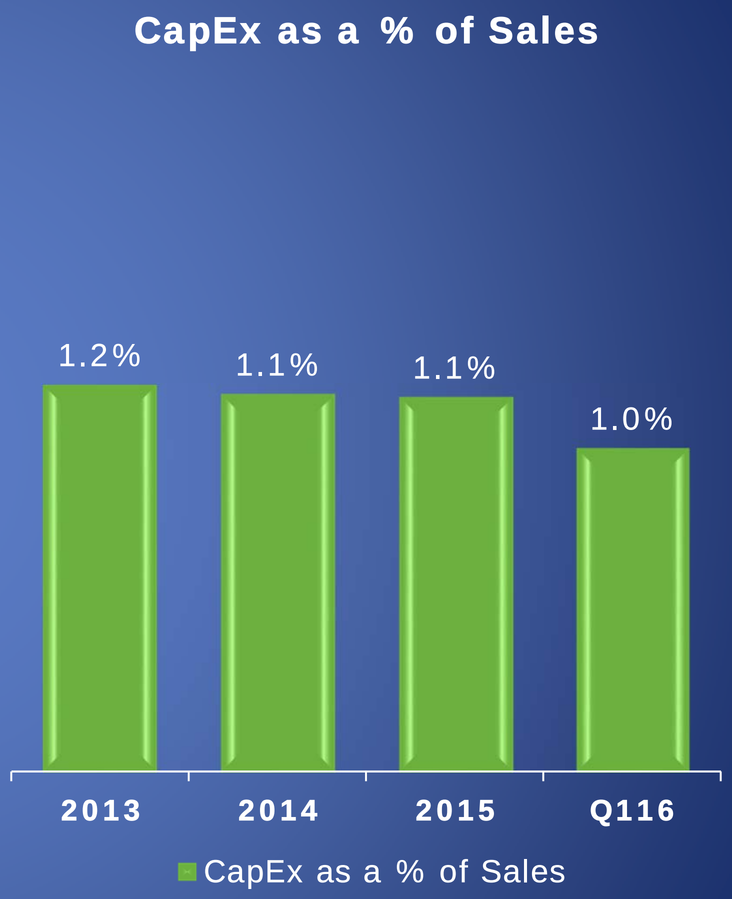
1) Capital expenditures are net of proceeds from sales of plant and equipment

Free Cash Flow

Free Cash Flow is seasonal, increasing Sequentially each quarter throughout the fiscal year

[1] See Non-GAAP reconciliations at the end of this presentation.

Strategic Investments in Capital Expenditures



Bill DeLaney
President and CEO

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Pleased With Our Progress … More Work To Do

- Encouraged by quality of business performance
- Ramping 3-year plan initiatives – commercial initiatives already seeing traction
- Making strides in developing and refining cost reduction plans
- Remain confident that we have the right strategy and people to achieve our 3-year targets

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Non-GAAP Reconciliations

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Impact of Certain Items

Sysco Corporation and its Consolidated Subsidiaries
Non-GAAP Reconciliation (Unaudited)
Impact of Certain Items
(In Thousands, Except for Share and Per Share Data)

Sysco's results of operations are impacted by certain items which include severance charges, merger and integration planning, litigation costs and termination costs in connection with the merger that had been proposed with US Foods, Inc. (US Foods), facility closure charges and US Foods related financing costs. These fiscal 2016 and fiscal 2015 items are collectively referred to as "Certain Items". Management believes that adjusting its operating expenses, operating income, operating margin as a percentage of sales, interest expense, net earnings and diluted earnings per share to remove these Certain Items provides an important perspective with respect to our results and provides meaningful supplemental information to both management and investors that removes these items which are difficult to predict and are often unanticipated, and which, as a result are difficult to include in analyst's financial models and our investors' expectations with any degree of specificity. Sysco believes the adjusted totals facilitate comparison on a year-over-year basis.

The company uses these non-GAAP measures when evaluating its financial results as well as for internal planning and forecasting purposes. These financial measures should not be used as a substitute for GAAP measures in assessing the company's results of operations for the periods presented. An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP. As a result, in the tables that follow, each period presented is adjusted to remove the Certain Items noted above.

	13-Week Period Ended Sep. 26, 2015	13-Week Period Ended Sep. 27, 2014	13-Week Period Change in Dollars	13-Week Period % Change
Sales	$ 12,562,611	$ 12,445,081	$ 117,530	0.9 %
Operating expenses (GAAP)	$ 1,744,521	$ 1,723,104	$ 21,417	1.2 %
Impact of severance charges	(3,189)	(1,804)	(1,385)	76.8
Impact of US Foods merger and integration planning costs	(9,816)	(40,481)	30,665	-75.8
Impact of facility closure charges	-	(1,150)	1,150	NM
subtotal - Impact of Certain Items on operating expenses	(13,005)	(43,435)	30,430	-70.1
Operating expenses adjusted for certain items (Non-GAAP)	$ 1,731,516	$ 1,679,669	$ 51,847	3.1 %
Operating income (GAAP)	$ 493,474	$ 465,613	$ 27,861	6.0 %
Impact of Certain Items on operating income	13,005	43,435	(30,430)	-70.1
Operating income adjusted for certain items (Non-GAAP)	$ 506,479	$ 509,048	$ (2,569)	-0.5 %
Operating margin (GAAP)	3.93%	3.74%	0.19%	5.0 %
Operating margin (Non-GAAP)	4.03%	4.09%	-0.06%	-1.4 %
Interest expense (GAAP)	$ 126,907	$ 30,934	$ 95,973	NM %
Impact of US Foods financing costs	(94,835)	(3,703)	(91,132)	NM
Adjusted interest expense (Non-GAAP)	$ 32,072	$ 27,231	$ 4,841	17.8 %
Net earnings (GAAP) (1)	$ 244,420	$ 278,813	$ (34,393)	-12.3 %
Impact of severance charge (net of tax)	1,991	1,151	840	73.0
Impact of US Foods merger and integration planning costs (net of tax)	6,128	25,835	(19,707)	-76.3
Impact of facility closure charges (net of tax)	-	734	(734)	NM
Impact of US Foods Financing Costs (net of tax)	59,203	2,363	56,840	NM
Net earnings adjusted for certain items (Non-GAAP) (1)	$ 311,742	$ 308,896	$ 2,846	0.9 %
Diluted earnings per share (GAAP) (1)	$ 0.41	$ 0.47	$ (0.06)	-12.8 %
Impact of US Foods merger and integration planning costs	0.01	0.04	(0.03)	-75.0
Impact of US Foods Financing Costs	0.10	-	0.10	NM
Diluted EPS adjusted for certain items (Non-GAAP) (1) (2)	$ 0.52	$ 0.52	$ -	0.0 %
Diluted shares outstanding	600,789,913	593,309,750		

[1] The net earnings and diluted earnings per share impacts are shown net of tax. The tax impact of adjustments for Certain Items was $40,518 and $17,054 for the 13-week periods ended September 26, 2015 and September 27, 2014, respectively. Amounts are calculated by multiplying the pretax impact of each Certain Item by the statutory rates in effect for each jurisdiction.
[2] Individual components of diluted earnings per share may not add to the total presented due to rounding. Total diluted earnings per share is calculated using adjusted net earnings for certain items divided by diluted shares outstanding.
NM represents that the percentage change is not meaningful

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Free Cash Flow and Adjusted Free Cash Flow

Sysco Corporation and its Consolidated Subsidiaries
Non-GAAP Reconciliation (Unaudited)
Free Cash Flow and Adjusted Free Cash Flow
(In Thousands)

Free cash flow represents net cash provided from operating activities less purchases of plant and equipment and includes proceeds from sales of plant and equipment. Adjusted free cash flow adjusts out the cash impact of our Certain Items representing primarily payments for integration planning, litigation and termination costs in connection with the merger that had been proposed with US Foods, interest payments on debt we had issued in connection with the proposed merger and a payment for a contingency accrual that arose in fiscal 2014. Sysco considers free cash flow and adjusted free cash flow to be liquidity measures that provide useful information to management and investors about the amount of cash generated by the business after the purchases and sales of buildings, fleet, equipment and technology, which may potentially be used to pay for, among other things, strategic uses of cash including dividend payments, share repurchases and acquisitions. Adjusted free cash flow further provides the amount of cash generated excluding larger payments sometimes incurred with our Certain Items. However, free cash flow may not be available for discretionary expenditures, as it may be necessary that we use it to make mandatory debt service or other payments. Free cash flow and adjusted free cash flow should not be used as a substitute for the most comparable GAAP measure in assessing the company's liquidity for the periods presented. An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP. In the table that follows, free cash flow and adjusted free cash flow for each period presented are reconciled to net cash provided by operating activities.

	13-Week Period Ended Sep. 26, 2015	13-Week Period Ended Sep. 27, 2014	13-Week Period Change in Dollars	13-Week Period % Change
Net cash provided by operating activities (GAAP)	$ (261,482)	$ 62,618	$ (324,100)	-517.6 %
Additions to plant and equipment	(121,243)	(118,821)	(2,422)	-2.0
Proceeds from sales of plant and equipment	1,506	1,126	380	33.7
Free Cash Flow (Non-GAAP)	$ (381,219)	$ (55,077)	$ (326,142)	592.2 %
Cash impact of Certain Items	259,952	41,338	218,614	NM
Adjusted Free Cash Flow (Non-GAAP)	$ (121,267)	$ (13,739)	$ (107,528)	782.6 %

Adjustments represent the cash impact of Certain Items. Adjustments for the first quarter of fiscal 2016 include $207.1 million related to integration planning, litigation costs and termination costs in connection with the merger that had been proposed with US Foods, interest payments of $52.6 million related to the debt that had been issued for the proposed merger. Adjustments for the first quarter of fiscal 2015 include $22.4 million related to US Foods merger integration planning costs, $17.2 million related to the payment of a contingency accrual that arose in fiscal 2014 that was considered a Certain Item in fiscal 2014 and $1.7 million for all remaining applicable Certain Items. These amounts will differ from the earnings impact of Certain Items; as the timing of payments for these items may occur in a different period from the period in which the Certain Item charges were recognized in the Statement of Consolidated Results of Operations. The amounts also reflect the impact of the cash impact of these payments being tax deductible.

NM represents that the percentage change is not meaningful

ROIC

Return on Invested Capital (ROIC) Target

We have an ROIC target of 15% that we expect to achieve by fiscal 2018. We cannot predict with certainty when we will achieve these results or whether the calculation of our ROIC in such future period will be on an adjusted basis due to the effect of certain items, which would be excluded from such calculation. Due to these uncertainties, to the extent our future calculation of ROIC is on an adjusted basis excluding certain items, we cannot provide a quantitative reconciliation of this non-GAAP measure to the most directly comparable GAAP measure without unreasonable effort. However, we would expect to calculate adjusted ROIC, if applicable, in the same manner as we have calculated this historically. All components of our adjusted ROIC calculation would be impacted by Certain Items. We calculate adjusted ROIC as adjusted net earnings divided by (i) stockholders' equity, computed as the average of adjusted stockholders' equity at the beginning of the year and at the end of each fiscal quarter during the year; and (ii) long-term debt, computed as the average of the long-term debt at the beginning of the year and at the end of each fiscal quarter during the year. Adjusted total invested capital is computed as the sum of (i) adjusted stockholders' equity, computed as the average of adjusted stockholders' equity at the beginning of the year and at the end of each fiscal quarter during the year; and (ii) long-term debt, computed as the average of the long-term debt at the beginning of the year and at the end of each fiscal quarter during the year.

Form of calculation:
Net earnings (GAAP)
Impact of Certain Items on net earnings
Adjusted net earnings (Non-GAAP)

Invested Capital (GAAP)
Adjustments to invested capital
Adjusted Invested capital (GAAP)

Return on investment capital (GAAP)
Return on investment capital (Non-GAAP)

Constant Currency Impact

Sysco Corporation and its Consolidated Subsidiaries
Non-GAAP Reconciliation (Unaudited)
Impact of Foreign Currency on Results of Operations Metrics
(In Thousands, Except for Share and Per Share Data)

Sysco's results of operations are impacted by the strengthening U.S. dollar in translating our foreign operations' results into U.S. dollars. This has resulted in a reduction in growth percentages on a year over year basis. Management believes that adjusting its sales, gross profits, operating expenses, operating income, net earnings and diluted earnings per share to remove the impact in changes in foreign currency translation rates provides an important perspective with respect to our results and provides meaningful supplemental information to both management and investors to view our results on a constant currency basis. Sysco believes the adjusted growth rates faciliate comparison on a year-over-year basis. The company uses these non-GAAP measures when evaluating its financial results as well as for internal planning and forecasting purposes. These financial measures should not be used as a substitute for GAAP measures in assessing the company's results of operations for the periods presented. An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP. As a result, in the table that follows, the fiscal 2016 period is adjusted to translate results using the same exchange rates as the comparable prior period. Adjusted measures for operating expense, operating income, net earnings and diluted earnings per share are reconciled to GAAP amounts in a separate reconciliation.

			Impact on a Constant Currency Basis			
	13-Week Period Ended Sep. 26, 2015	Foreign Currency Translation Impact	13-Week Period Ended Sep. 26, 2015 at a Constant Currency	13-Week Period Ended Sep. 27, 2014	13-Week Period Change in Dollars	13-Week Period % Change
Sales	$ 12,562,611	$ 256,370	$ 12,818,981	$ 12,445,081	$ 373,900	3.0 %
Gross profit	2,237,995	44,478	2,282,473	2,188,717	93,756	4.3
Adjusted operating expense	1,731,516	35,556	1,767,072	1,679,669	87,403	5.2
Adjusted operating income	506,479	8,922	515,401	509,048	6,353	1.2
Adjusted net earnings	311,742	5,682	317,424	308,896	8,528	2.8
Adjusted diluted earnings per share	0.52	0.01	0.53	0.52	0.01	1.8
Diluted shares outstanding	600,789,913	600,789,913	600,789,913	593,309,750		
GAAP Amounts						
Operating expense	$ 1,744,521			$ 1,723,104	$ 21,417	1.2 %
Operating income	493,474			465,613	27,861	6.0
Net earnings	244,420			278,813	(34,393)	-12.3
Diluted earnings per share	0.52			0.52	-	0.0

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