



ANALYZING FINANCING OPTIONS FOR SYSCO CORPORATION WITH
FOCUS ON ALBANIAN MARKET

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Abstract

This paper analyzes the financing opportunities available to Sysco Corporation to undertake an investment in Albania. A recommendation is provided after conducting a thorough due diligence on the company's operations and financials, and examining the viability of funding options.

Key words: Sysco, financial data, Albania, financial analysis, funding options

I. METHODOLOGY

For the purpose of this research we have chosen a public company, 'Sysco Corporation', and have analyzed its operations and financial information to make an informed decision over its investment opportunities in Albania. Below we have presented a summary of the methods used to analyze Sysco and the Albanian market.

II. BACKGROUND

We picked a key player 'Sysco' in the international food and non-food distribution industry. We conducted research on the background of the company's operations using information on its official website and in the Financial Times.

Financials: We provide a description of the financial and accounting data of Sysco. The financial data (e.g. share price, market capitalization, dividends) were obtained from the New



York Stock Exchange and Financial Times. The accounting data including complete financial statements is accessed through SEC Filings, Yahoo Finance and Sysco's annual reports. Forecasts on the performance of financial indicators were obtained from financial analysts of the Financial Times premium service to subscribers.

The data on revenues, net income and net profit margins was then presented in tables produced in Excel to clearly show the progress of Sysco's financials. Further, we have also presented the data on share price, earnings per share and dividend forecasts. Lastly, we have provided the tables with their respective titles and sources.

Operations: The detailed information on Sysco's operations across different countries consists of revenue forecasts obtained through its affiliates in those locations where the firm engages in activities. The economic situation in each of these markets is covered using data on economic growth from the International Monetary Fund.

Albanian food distribution market: We provide a description of Albania's economy utilizing information from the IMF and the Bank of Albania and INSTAT.

Financing options: the information for bank loans is provided by researching loan data on the banks on their official websites. The data on bonds is arbitrary and serves as an illustration for our case study. The information on peer analysis is obtained through annual reports, the Financial Times, and the Four - Traders website. All the accounting definitions are found via Investopedia, and the financing recommendations are articulated by the authors.

Background

Sysco Corporation (Sysco; SYY) is a Fortune 500 company incorporated in 1969 and headquartered in Houston, United States. Sysco is a global leader in the food and drug retailing industry. The company distributes packaged, consumable products to the foodservice and food-away-from-home industries employing a staff 52,000 people and providing services to approximately 425,000 customers worldwide. Sysco's activities are segmented into three main lines of operation (Broadline, SYGMA and Other), scattered mostly across North America. ⁱ

Sysco's Broadline services expand into Canada, Mexico, Europe, the Bahamas and Costa Rica. SYGMA, a wholly owned subsidiary of Sysco, is one of the largest distributors of food and non-food products to restaurants, chain restaurants and other industries unrelated to the food industry like hospitals, schools, and working environments in the United States. In the US the food-away-from-home industry is responsible for 48 percent of the total expenditure of customers in the food industry. The last segment of operations is led by Sysco Ventures, which covers certain sectors of the hospitality industry like the lodging industry and is responsible for 12 percent of SYY revenues. It also distributes specialty imported products and processed meat.

Financial Information

Sysco Corporation (SYY: NYQ) is listed on the New York Stock Exchange. The company has a current Market Capitalization (share price times no. of shares) of USD 30.45bn and 546.93mm shares outstanding. It has earned Revenue of USD 50.39bn and USD 0.95bn in Net Income in



2016 as reported in its financial statements. Revenues have been steadily increasing since 2013, and are expected to reach USD 57.06bn by 2018. Net income has taken a hit in 2015 of USD 0.69bn, causing the Net profit margin (expressed as a ratio of Net Profit to Revenues) to fall to 1.4 percent. However both figures recuperated from their losses in 2016, registering USD 0.95bn and 1.9 percent respectively. ⁱⁱ

Sysco's shares were trading at an average share price of USD 55.32 on 11 January 2017, after a significant increase of 38.3 percent from the historical USD 40 in January the previous year. Sysco's share price is expected to hit a median target of USD 54.50 in the next twelve months. This represents a negative 1.50 percent decrease from the last price due to a deteriorating investment sentiment according to the Financial Times analysis. Earnings per share and Dividends have grown since 2013 and are expected to continue their upward trend until 2018.



Source: Financial Times



iiiiv Source: Financial Times

Share price forecast (USD)

Sysco			
Last price			55.32
Forecast (next 12 months)	High		60.00
	Median		54.50
	Low		47.00

Source: Financial Times

v

Earnings/share and Dividends (USD)

Sysco	2013a	2014a	2015e	2016e	2017e	2018e
EPS	1.83	1.76	1.82	2.03	2.45	2.71
Dividend	1.12	1.15	1.19	1.25	1.27	1.34

vi Source: Financial Times



Sysco's operations

Segments of operation	SYGMA	Broadline					Other operations
	USA	Canada	Mexico	Europe	Bahamas	Costa Rica	Multiple locations
Current share of revenue	68.0%			20.0%			12.0%
Revenue in billions (last 12 months)	50.37			14.81			8.88
Projected revenue in billions(next 12 months)	55.23	N/A	N/A	N/A	N/A	N/A	
Revenue growth (predicted)	9.6%	N/A	N/A	N/A	N/A	N/A	
Predicted Economic Growth 2016	1.6%	1.2%	2.1%	1.8%	0.3%	4.2%	
Predicted Economic Growth 2017	2.2%	1.9%	2.3%	1.9%	1.0%	4.3%	
Predicted Economic Growth 2021	1.6%	1.9%	2.9%	1.8%	1.3%	4.0%	
Market penetration	High	High	Medium	Medium	High	Medium	
Future revenue growth prospects	Good	Good	Good	Poor	Poor	Good	

Sources: International Monetary Fund, Financial Times

vii

SYGMA has a high penetration in the US market and is currently the most important source of revenues for Sysco with a share of revenues (LTM) of 68.0 percent, which consists of USD 50.37bn. Analysts have a bullish revenue growth forecast driven by sales and services in the US amounting to 9.6 percent, with projected revenue of \$55.23bn. The predicted economic growth of the US by the International Monetary Fund (IMF) is 2.2 percent this year and is expected to be positive in the five years to 2021. It can thus be concluded that the future revenue growth prospects of Sysco in the US are favorable. ^{viii}

Broad line activities are present in Canada, Mexico, Europe, the Bahamas and Costa Rica, operations of which are responsible for a 20% percent share of revenues or USD 14.81bn.

Canada: Sysco has a high penetration in the Canadian market similar that of the United States. The revenue prospects in Canada are good and are further aided by an increasing predicted economic growth of up to 1.9 percent for the years to come as stated by the IMF.

Mexico: Sysco enjoys a medium size penetration in this market as it enters into a partnership with a leader of food service industry in Mexico, Pacific Star Foodservice, by acquiring 50 percent of the company. In addition, the economic growth forecast for Mexico of 2.9 percent in five years' time is favorable for the company's operations in this market. ^{ix}

Europe: Following the acquisition of Brakes Group, which has a market share of 21 percent in the UK, 6 percent in France and 14 percent in Sweden; Sysco's Broadline operations in Europe have a significant impact in its growth strategy. The foodservice markets in the UK, France and Sweden have respective predicted growth of 3.2 percent, 2.4 percent and 4.7 percent. However, the predicted economic growth in Europe is a disappointing 1.8-1.9 percent. Following Brexit, the UK is forecasted by IMF to grow no more than 1.9 percent by 2021. France's GDP is expected to rise from 1.3 percent to 1.8 percent during the same period, while Sweden's GDP growth will tumble from 3.4 percent in 2016 to less than 1.8 percent in the medium term. Even though Sysco has a respectable market share in Europe and is a leader in its field of activity, the economic indicators in Europe do not seem to satisfy the growth drive of the company, whose 2016 profits nearly tripled to USD 215.7mm from the preceding year's profit of USD



73mm. It can be concluded that entering the foodservice industry in developing countries (Albania) would constitute a sound investment decision. ^x

Bahamas: By acquiring the importer Bahamas Food Services, Sysco expanded from serving to restaurants in New Providence Island restaurants to being the market leader in foodservice distribution. The Caribbean Basin Agricultural Trade Office reports that the Bahamas market fulfills its needs by importing at a 90 percent rate from the USA. The consumer oriented products expenditures have risen slowly, but the overall slow economic growth, which is expected to go from 0.3 percent in 2016 to 1.3 percent in 2021, makes it difficult to have sustainable growth prospects. ^{xi}

Costa Rica: In May, 2014, Sysco Corporation bought 50 percent of Mayco Distributores, SA, earning a medium size market penetration in Costa Rica. The economic growth prospects in this market are excellent, with a forecasted GDP of 4 percent in 2021, and no VAT increase is expected in the near future. ^{xii}

Other operations constitute 12 percent of the share of revenues for Sysco with USD 8.88bn revenue earned through importing specialty foods across the world and the lodging industry. As to importing, the recent USD strength makes it easier for Sysco to import and sell foods to its customers. ^{xiii}

The Albanian food distribution market

Albania's economy grew by 3.4 percent year-on-year in 2016 and is forecasted by the IMF to experience a significant GDP growth of 4.1 percent by 2021, thus making this developing economy an attractive destination to large distributors. INSTAT estimates of real consumption per household in 2012 in Albania conclude that 48 percent of total expenditures by the Albanian population were on food. ^{xiv} Currently, the minimum wage in Albania is USD 170.4 and the average wage stands at USD 418.33. There is no developed foodservice industry in Albania. Thus, the restaurant and hotel industries would likely be receptive to the products and services that Sysco can provide. Cooperating with an established organization specialized in food and non-food distribution in said sectors could greatly satisfy their needs in a timely manner. ^{xv}

Funding needs

Sysco is considering expanding its operations in the Albanian foodservice and food away-from-home market. Due to the company's needs to finance its existing operations from its recurring source of profit, Sysco has decided that it will resort to external financing to back its integration into the Albanian market.



Financing option – Bank Loans

Bank loans for Enterprises

Lender	Interest rate	Maturity (Yrs)	Min. Investment (USD)	Max. Investment (USD)
Raiffeissen Bank	Variable	Up to 20	7,747.0	108,457.2
NOA	13.2%	5	3,889.2	38,892.3
BKT	5.8%	Up to 20	1.0	386,923.8
Societe Generale	1.9% Y1; Libor(EUR) + 3.75% rest	Up to 15	-	528,600 (Real Estate)
	1.9% Y1; Libor(EUR) + 3.75% rest	Up to 15	-	264,400 (Land)
San Paolo Bank	Euribor + 4.75%	Up to 20	10,570.0	52,900 (PPE)

Source: Banks

As observed in the table above, bank loans for big businesses in the Albanian market are an affordable financing opportunity for Sysco. The main commercial banks in Albania offer variable interest rate payments for businesses, depending on the base interest rate environment in the economy (mostly expressed by Libor and Euribor rates), the size of the loan, the loan's maturity and the creditors' credit rating. In addition, by borrowing long-term for an investment (for as long as 20 years maturity), Sysco can preserve short-term liquidity and use its funds for other ventures. However, the drawback of this option is that the amount of borrowing needs to be backed by collateral and can thus be limited.

NB: The rates above are an approximation of the rates that would be charged to a particular business. As a large international player, Sysco would be able to attract lower interest payments due to its size and credibility in the markets.

Financing option – Bonds

Fixed Rate Business Bonds

Bank	AER (%)	Maturity	Min Investment (USD)	Max investment (USD)
Trust Bank	4.5%	1 Year Bond	5,000	1m
United Bank	4.5%	1 Year Bond	10,000	500,000
Sphere trust	4.4%	2 Year Bond	10,000	1m
Y en Spar Bank	4.7%	5 Year Bond	5,000	750,000
FlexiBond Bank	4.2%	3 Year Bond	5,000	750,000

Source: Barclays

Bonds are an alternative financing opportunity to borrowing through commercial banks. In the bond market, Sysco would get funding through investors by issuing bonds via an investment bank. The investment bank originates the bonds and sells them to institutional investors, who are in search of high returns. It is possible through bonds to raise more capital compared to loans, as there are fewer limits as to how much a business can borrow. Further, bonds are tradable securities that provide exit options to investors (investors that have purchased bonds issued by Sysco can resell them at a profit in the secondary markets), thus making them more liquid in fulfilling Sysco's needs.

NB: The above bond rates are provided for illustrative purposes. The actual terms of bonds are decided in a bespoke deal to fit the needs of the company and given the investors' appetite for bonds in certain market conditions.



Financing option – Equity

Peer analysis (2016)

Company	Market Cap (USD bn)	Market share	Share Price (USD)	P/E	ROE (%)	Gross Div. Yield (%)	Long-Term Lev. Ratio	Net Profit Margin (%)
Sysco	30.45	17.0%	55.07	30.94	24.72%	2.42%	1.316	1.89%
Core-Mark Holding Company, Inc.	1.98	1.1%	43.00	35.91	10.70%	0.85%	N/A	0.40%
Domino's Pizza Inc	7.80	4.4%	162.63	39.40	-1.17%	0.86%	4.468	8.68%
Performance Food Group Company	2.46	1.4%	23.80	38.44	10.30%	N/A	3.002	0.42%
SuperValu Inc	1.32	0.7%	4.96	7.74	NA	1.96%	3.200	0.94%
US Foods Holding Corp.	6.03	3.4%	27.28	24.61	5.54%	5.96%	3.864	1.08%
SpartanNash Company	1.49	0.8%	39.96	21.40	7.51%	1.43%	1.773	0.80%
United Natural Foods, Inc.	2.40	1.3%	48.02	19.99	8.40%	N/A	1.920	1.44%
Whole Food Markets Inc.	9.80	5.5%	33.77	18.29	14.50%	1.56%	0.237	3.22%
Kroger Co	30.88	17.2%	32.92	18.84	31.25%	1.05%	2.083	1.77%
Starbucks Corporation	84.70	47.2%	58.20	28.49	48.16%	1.57%	0.257	13.22%
Source: Financial Times	179.31							

The weighted average **Price to Earnings (P/E)** ratio of the industry is 26.92, and thus the P/E ratio of Sysco (30.94) is above industry average.

Return on Equity (Net Income to Shareholders' Equity) is on par with Kroger Corporation, which shares similar market capitalization. Both firms have ROE well above the industry average.

Sysco's above average **Dividend Yield** (Dividend to Share Price ratio) is second only to US Foods Holding Corporation. This indicates that Sysco has high liquidity (spare cash).

Sysco has the third lowest **Leverage Ratio** (Debt to EBITDA ratio) from its competitors. EBITDA stands for Earnings before Interest Tax Depreciation and Amortization, whereas, the Debt to EBITDA ratio expresses how many years of EBITDA would it take Sysco to pay off its debts. Therefore, a low Leverage Ratio signifies high ability to service debts.

Lastly, Net Profit Margin (Net Profit to Revenues ratio) is around 2 percent.

NB: Sysco's peers are selected arbitrarily and a thorough study of the food distribution market is needed to establish Sysco's closest competitors.

III. RECOMMENDATION

The best option for Sysco is to fund its investments in Albania through loans and bonds as much as possible. According to Sysco's financial data, Sysco has a low leverage ratio (Debt to EBITDA). This means Sysco can pay its current debts quickly and has a high debt capacity - in other words the distributor is able to borrow more. In addition, an increasing dividend yield that is higher compared to dividend yields of its peers further indicates that Sysco has considerable spare cash to service its debt interest payments. Furthermore, debt is generally cheaper than equity because it also provides a tax shield, as interest payments of loans/bonds are tax deductible. However, there might be a limit of how much debt can be raised by a company, in which case the last funding resource would be through equity.

Sysco has a relatively high P/E ratio (Price to Earnings ratio) compared to its peer group. It is therefore favorable to issue equity because the shares of the company are trading at a high price in the stock exchange, and Sysco would sell its shares possibly at a profit. However, when



issuing equity, current shareholders could lose control over Sysco's direction if new shareholders are offered a large percentage of share ownership in the firm.

In order to conclude on the investment opportunity and the means of its funding, it is important to conduct further research on the Albanian food distribution market, and to contact financial institutions to arrive at more realistic borrowing rates available for large and well-established international corporations in Albania.

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