

SYSCO CORP
Form 10-Q
November 04, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 27, 2014

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-6544

Sysco Corporation

(Exact name of registrant as specified in its charter)

| | |
|--|--------------------------------------|
| Delaware | 74-1648137 |
| (State or other jurisdiction of incorporation or organization) | (IRS employer identification number) |
| 1390 Enclave Parkway | 77077-2099 |
| Houston, Texas | (Zip Code) |
| (Address of principal executive offices) | |

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Registrant's Telephone Number, Including Area Code:

(281) 584-1390

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | | |
|-------------------------|---|---------------------------|
| Large Accelerated Filer | | Accelerated Filer |
| Non-accelerated Filer | (Do not check if a smaller reporting company) | Smaller Reporting Company |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

587,883,822 shares of common stock were outstanding as of October 25, 2014.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

(In thousands, except for share data)

| | Sep. 27, 2014 (unaudited) | Jun. 28, 2014 | Sep. 28, 2013 (unaudited) |
|---|------------------------------|---------------|------------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 384,898 | \$ 413,046 | \$ 359,532 |
| Accounts and notes receivable, less allowances of \$60,879, \$49,902, and \$61,324 | 3,646,817 | 3,398,713 | 3,423,152 |
| Inventories | 2,845,641 | 2,602,018 | 2,540,643 |
| Deferred income taxes | 140,554 | 141,225 | 150,516 |
| Prepaid expenses and other current assets | 90,493 | 83,745 | 74,680 |
| Prepaid income taxes | - | 43,225 | - |
| Total current assets | 7,108,403 | 6,681,972 | 6,548,523 |
| Plant and equipment at cost, less depreciation | 3,968,713 | 3,985,618 | 3,979,351 |
| Other assets | | | |
| Goodwill | 1,980,524 | 1,950,672 | 1,908,542 |
| Intangibles, less amortization | 180,325 | 177,227 | 200,074 |
| Restricted cash | 165,437 | 145,412 | 157,837 |
| Other assets | 214,511 | 227,049 | 245,329 |
| Total other assets | 2,540,797 | 2,500,360 | 2,511,782 |
| Total assets | \$ 13,617,913 | \$ 13,167,950 | \$ 13,039,656 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Notes payable | \$ 78,635 | \$ 70,975 | \$ 45,584 |
| Accounts payable | 2,924,417 | 2,831,028 | 2,475,589 |
| Accrued expenses | 1,132,069 | 1,160,850 | 930,800 |
| Accrued income taxes | 94,437 | - | 139,286 |
| Current maturities of long-term debt | 306,931 | 304,777 | 206,158 |
| Total current liabilities | 4,536,489 | 4,367,630 | 3,797,417 |
| Other liabilities | | | |
| Long-term debt | 2,650,490 | 2,384,167 | 2,878,391 |
| Deferred income taxes | 115,500 | 121,580 | 270,923 |
| Other long-term liabilities | 959,920 | 1,027,878 | 893,783 |
| Total other liabilities | 3,725,910 | 3,533,625 | 4,043,097 |
| Commitments and contingencies | | | |
| Noncontrolling interest | 34,098 | - | - |
| Shareholders' equity | | | |
| Preferred stock, par value \$1 per share | | | |
| Authorized 1,500,000 shares, issued none | - | - | - |

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| | | | |
|--|---------------|---------------|---------------|
| Common stock, par value \$1 per share | | | |
| Authorized 2,000,000,000 shares, issued | | | |
| 765,174,900 shares | 765,175 | 765,175 | 765,175 |
| Paid-in capital | 1,155,838 | 1,139,218 | 1,086,716 |
| Retained earnings | 8,878,693 | 8,770,751 | 8,635,190 |
| Accumulated other comprehensive loss | (743,172) | (642,663) | (411,801) |
| Treasury stock at cost, 177,897,055, | | | |
| 179,050,186 and 183,960,944 shares | (4,735,118) | (4,765,786) | (4,876,138) |
| Total shareholders' equity | 5,321,416 | 5,266,695 | 5,199,142 |
| Total liabilities and shareholders' equity | \$ 13,617,913 | \$ 13,167,950 | \$ 13,039,656 |

Note: The June 28, 2014 balance sheet has been derived from the audited financial statements at that date.

See Notes to Consolidated Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

CONSOLIDATED RESULTS OF OPERATIONS (Unaudited)

(In thousands, except for share and per share data)

| | 13-Week Period Ended | |
|-------------------------------------|----------------------|---------------|
| | Sep. 27, 2014 | Sep. 28, 2013 |
| Sales | \$ 12,445,081 | \$ 11,714,267 |
| Cost of sales | 10,256,364 | 9,648,780 |
| Gross profit | 2,188,717 | 2,065,487 |
| Operating expenses | 1,723,104 | 1,587,289 |
| Operating income | 465,613 | 478,198 |
| Interest expense | 30,934 | 30,528 |
| Other expense (income), net | (2,188) | (4,534) |
| Earnings before income taxes | 436,867 | 452,204 |
| Income taxes | 158,054 | 166,614 |
| Net earnings | \$ 278,813 | \$ 285,590 |
| Net earnings: | | |
| Basic earnings per share | \$ 0.47 | \$ 0.49 |
| Diluted earnings per share | 0.47 | 0.48 |
| Average shares outstanding | 588,277,056 | 587,621,529 |
| Diluted shares outstanding | 593,309,750 | 591,458,948 |
| Dividends declared per common share | \$ 0.29 | \$ 0.28 |

See Notes to Consolidated Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In thousands)

| | 13-Week Period Ended | |
|--|----------------------|------------------|
| | Sep. 27, 2014 | Sep. 28, 2013 |
| Net earnings | \$ 278,813 | \$ 285,590 |
| Other comprehensive (loss) income: | | |
| Foreign currency translation adjustment | (71,254) | 30,807 |
| Items presented net of tax: | | |
| Amortization of cash flow hedges | 126 | 96 |
| Change in fair value of cash flow hedges | (34,111) | - |
| Amortization of prior service cost | 1,737 | 1,742 |
| Amortization of actuarial loss (gain), net | 2,993 | 2,491 |
| Total other comprehensive (loss) income | (100,509) | 35,136 |
| Comprehensive income | \$ 178,304 | \$ 320,726 |

See Notes to Consolidated Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

CONSOLIDATED CASH FLOWS (Unaudited)

(In thousands)

| | 13-Week Period Ended | |
|--|----------------------|------------------|
| | Sep. 27, 2014 | Sep. 28, 2013 |
| Cash flows from operating activities: | | |
| Net earnings | \$ 278,813 | \$ 285,590 |
| Adjustments to reconcile net earnings to cash provided by operating activities: | | |
| Share-based compensation expense | 12,161 | 13,465 |
| Depreciation and amortization | 137,799 | 133,744 |
| Deferred income taxes | 9,940 | (14,926) |
| Provision for losses on receivables | 6,058 | 8,437 |
| Other non-cash items | (1,280) | 1,646 |
| Additional investment in certain assets and liabilities, net of effect of businesses acquired: | | |
| (Increase) in receivables | (267,602) | (234,441) |
| (Increase) in inventories | (251,998) | (134,849) |
| (Increase) in prepaid expenses and other current assets | (7,019) | (14,266) |
| Increase in accounts payable | 99,744 | 34,770 |
| (Decrease) in accrued expenses | (28,725) | (60,845) |
| Increase in accrued income taxes | 137,506 | 156,251 |
| Decrease (increase) in other assets | 2,327 | (617) |
| (Decrease) in other long-term liabilities | (64,417) | (4,243) |
| Excess tax benefits from share-based compensation arrangements | (689) | (487) |
| Net cash provided by operating activities | 62,618 | 169,229 |
| Cash flows from investing activities: | | |
| Additions to plant and equipment | (118,821) | (135,749) |
| Proceeds from sales of plant and equipment | 1,126 | 10,573 |
| Acquisition of businesses, net of cash acquired | (32,074) | (1,341) |
| (Increase) in restricted cash | (20,025) | (12,509) |
| Net cash used for investing activities | (169,794) | (139,026) |
| Cash flows from financing activities: | | |
| Bank and commercial paper borrowings (repayments), net | 268,598 | 235,807 |
| Other debt borrowings | 13,901 | 1,780 |
| Other debt repayments | (4,207) | (5,409) |
| Debt issuance costs | (642) | - |
| Cash paid for settlement of cash flow hedge | (58,935) | - |
| Proceeds from common stock reissued from treasury for share-based compensation awards | 35,179 | 96,591 |
| Treasury stock purchases | - | (250,601) |
| Dividends paid | (170,049) | (164,138) |
| Excess tax benefits from share-based compensation arrangements | 689 | 487 |

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| | | |
|--|------------|------------|
| Net cash provided by (used for) financing activities | 84,534 | (85,483) |
| Effect of exchange rates on cash | (5,506) | 2,527 |
| Net (decrease) in cash and cash equivalents | (28,148) | (52,753) |
| Cash and cash equivalents at beginning of period | 413,046 | 412,285 |
| Cash and cash equivalents at end of period | \$ 384,898 | \$ 359,532 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 49,921 | \$ 52,135 |
| Income taxes | 15,827 | 22,219 |

See Notes to Consolidated Financial Statements

Sysco Corporation and its Consolidated Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Unless this Form 10-Q indicates otherwise or the context otherwise requires, the terms “we,” “our,” “us,” “Sysco,” or “the company” as used in this Form 10-Q refer to Sysco Corporation together with its consolidated subsidiaries and divisions.

1. BASIS OF PRESENTATION

The consolidated financial statements have been prepared by the company, without audit, with the exception of the June 28, 2014 consolidated balance sheet which was taken from the audited financial statements included in the company's fiscal 2014 Annual Report on Form 10-K. The financial statements include consolidated balance sheets, consolidated results of operations, consolidated statements of comprehensive income and consolidated cash flows. In the opinion of management, all adjustments, which consist of normal recurring adjustments, necessary to present fairly the financial position, results of operations, comprehensive income and cash flows for all periods presented have been made.

In fiscal 2015, Sysco acquired a 50% interest in a foodservice company in Costa Rica. It was determined that consolidation of the entity was appropriate and therefore the financial position, results of operations and cash flows for this company have been included in Sysco's financial statements. The value of the 50% noncontrolling interest is considered redeemable due to certain features of the investment agreement and has been presented as mezzanine equity, which is outside of permanent equity, in the consolidated balance sheets. The elimination of the noncontrolling interest portion of the results of operations is located within other expense (income), net in the consolidated results of operations, as this amount is not material. The non-cash add back for the change in the value of the noncontrolling interest is located within Other non-cash items on the consolidated cash flows.

Prior year amounts within the consolidated balance sheets and consolidated cash flows have been reclassified to conform to the current year presentation as it relates to the presentation of certain accrued expenses, deferred taxes and other long-term liabilities balances within these statements. The impact of these reclassifications was immaterial to the prior year period.

These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the company's fiscal 2014 Annual Report on Form 10-K. Certain footnote disclosures included in annual financial statements prepared in accordance with generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to applicable rules and regulations for interim financial statements.

A review of the financial information herein has been made by Ernst & Young LLP, independent registered public accounting firm, in accordance with established professional standards and procedures for such a review. A Review Report of Independent Registered Public Accounting Firm has been issued by Ernst & Young LLP and is included as Exhibit 15.1 to this Form 10-Q.

2. CHANGES IN ACCOUNTING

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB issued Accounting Standards update (ASU) 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This update amends Accounting Standards Codification (ASC) 740, Income Taxes, to require that, in certain cases, an unrecognized tax benefit, or portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, when such items exist in the same taxing jurisdiction. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, which was fiscal 2015 for Sysco. Early adoption was permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date, and retrospective application is permitted. This update did not have an impact on the company's financial statements.

3. NEW ACCOUNTING STANDARDS

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This update creates ASC 606, Revenue from Contracts with Customers, and supercedes the revenue recognition requirements in ASC 605, Revenue Recognition. Additionally, other sections of the ASC were amended to be consistent with the guidance in this update. The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. A five-step revenue recognition model is to be applied to achieve

this core principle. ASC 606 also specifies comprehensive disclosures to help users of financial statements understand the nature, amount, timing and uncertainty of revenue that is recognized. The amendments in this

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update are effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period, which is fiscal 2018 for Sysco. Early adoption is not permitted. Sysco is currently evaluating the impact this update will have on its financial statements.

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This update creates a new subtopic ASC 205-40, "Presentation of Financial Statements – Going Concern," and provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The requirements in this update are effective for the annual period ending after December 15, 2016, which is fiscal 2017 for Sysco, and for annual and interim periods thereafter. Early application is permitted. Sysco acknowledges this new guidance and will comply with the disclosure requirements if applicable beginning in fiscal 2017.

4. ACQUISITIONS

During the first quarter of fiscal 2015, in the aggregate, the company paid cash of \$32.1 million for acquisitions made during the quarter. Acquisitions in the first quarter of fiscal 2015 were immaterial, individually and in the aggregate, to the consolidated financial statements.

Certain acquisitions involve contingent consideration typically payable over periods of up to three years only in the event that certain operating results are attained. As of September 27, 2014, aggregate contingent consideration amounts outstanding relating to completed acquisitions were \$69.0 million, of which \$53.9 million was recorded as earnout liabilities as of September 27, 2014.

In the second quarter of fiscal 2014, the company announced an agreement to merge with US Foods, Inc. (US Foods). US Foods is a leading foodservice distributor in the United States (U.S.) that markets and distributes fresh, frozen and dry food and non-food products to more than 200,000 foodservice customers, including independently owned single location restaurants, regional and national chain restaurants, healthcare and educational institutions, hotels and motels, government and military organizations and retail locations. Following completion of the proposed merger, the combined company will continue to be named Sysco and headquartered in Houston, Texas.

As of the time the merger agreement was announced in December 2013, Sysco agreed to pay approximately \$3.5 billion for the equity of US Foods, comprised of \$3 billion of Sysco common stock and \$500 million of cash. As part of the transaction, Sysco will also assume or refinance US Foods' net debt, which was approximately \$4.7 billion as of

September 28, 2013, bringing the total enterprise value to \$8.2 billion at the time of the merger announcement. At the time of the merger announcement, Sysco secured a fully committed bridge financing that could be used for funding a portion of the purchase price. As of October 25, 2014, the merger consideration is estimated as follows: approximately \$3.7 billion for the equity of US Foods, comprised of \$3.2 billion of Sysco common stock valued using the seven day average through October 25, 2014, and \$500 million of cash. US Foods' net debt to be assumed or refinanced was approximately \$4.8 billion as of June 28, 2014, bringing the total enterprise value to \$8.5 billion as of October 25, 2014. The value of Sysco's common stock and the amount of US Foods' net debt will fluctuate. As such, the components of the transaction and total enterprise value noted above will not be finalized until the merger is consummated.

After completion of the transaction, the equity holders of US Foods will own approximately 87 million shares, or roughly 13% of Sysco. A representative from each of US Foods' two majority shareholders will join Sysco's Board of Directors upon closing. This merger is currently pending a regulatory review process by the Federal Trade Commission (FTC). The company continues to be in productive discussions with FTC staff on a solution to permit the FTC to conclude its review. Given the amount of work remaining, and considering the upcoming holidays, the company does not currently expect to complete the transaction before the first quarter of 2015. Under certain conditions, including lack of regulatory approval, Sysco would be obligated to pay \$300 million to the owners of US Foods if the merger were cancelled.

In contemplation of issuing long-term financing for this merger, in January 2014, the company entered into two forward starting swap agreements with notional amounts totaling \$2 billion to reduce the variability in the expected cash outflows of interest payments on 10-year and 30-year debt due to changes in benchmark interest rates. In September 2014, Sysco began the process of issuing long-term financing for this merger by pricing a six-part senior notes offering totaling \$5 billion. At the same time, the forward starting interest rate swaps were terminated in conjunction with the pricing of the senior notes. Cash settlement of these swaps occurred in September 2014 and October 2014. Concurrent with the new senior notes, Sysco entered into new interest rate swap agreements that effectively converted two series of the senior notes totaling \$1.25 billion to floating rate debt. These swaps were designated as fair value hedges. In October 2014, subsequent to quarter-end, the senior notes were funded, and the previously outstanding unsecured bridge facility was terminated. Detailed discussion of these transactions is located in Note 6, Derivative Financial Instruments, and Note 7, Debt.

5. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The accounting guidance includes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability; and
- Level 3 – Unobservable inputs for the asset or liability, which include management’s own assumption about the assumptions market participants would use in pricing the asset or liability, including assumptions about risk.

Sysco’s policy is to invest in only high-quality investments. Cash equivalents primarily include time deposits, certificates of deposit, commercial paper, high-quality money market funds and all highly liquid instruments with original maturities of three months or less. Restricted cash consists of investments in high-quality money market funds.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

- Time deposits and commercial paper included in cash equivalents are valued at amortized cost, which approximates fair value. These are included within cash equivalents as a Level 2 measurement in the tables below.
- Money market funds are valued at the closing price reported by the fund sponsor from an actively traded exchange. These are included within cash equivalents and restricted cash as Level 1 measurements in the tables below.
- The interest rate swap agreements, discussed further in Note 6, “Derivative Financial Instruments,” are valued using a swap valuation model that utilizes an income approach using observable market inputs including interest rates, LIBOR swap rates and credit default swap rates. These are included within prepaid expenses and other current assets, other assets, accrued expenses and other long-term liabilities as Level 2 measurements in the tables below.

The following tables present the company’s assets measured at fair value on a recurring basis as of September 27, 2014, June 28, 2014 and September 28, 2013:

Assets and Liabilities Measured at Fair
Value as of Sep. 27, 2014

| Level 1 | Level 2 | Level 3 | Total |
|---------|---------|---------|-------|
|---------|---------|---------|-------|

(In thousands)

Assets:

Cash and cash equivalents

| | | | | |
|------------------|---------|------------|------|------------|
| Cash equivalents | \$ - | \$ 143,416 | \$ - | \$ 143,416 |
| Restricted cash | 165,437 | - | - | 165,437 |
| Other assets | | | | |

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| | | | | |
|------------------------------|------------|------------|------|------------|
| Interest rate swap agreement | - | 264 | - | 264 |
| Total assets at fair value | \$ 165,437 | \$ 143,680 | \$ - | \$ 309,117 |

Liabilities:

Other long-term liabilities

| | | | | |
|---------------------------------|------|----------|------|----------|
| Interest rate swap agreements | \$ - | \$ 3,496 | \$ - | \$ 3,496 |
| Total liabilities at fair value | \$ - | \$ 3,496 | \$ - | \$ 3,496 |

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Assets and Liabilities Measured at Fair
Value as of Jun. 28, 2014

Level 1 Level 2 Level 3 Total

(In thousands)

Assets:

Cash and cash equivalents

| | | | | |
|------------------|----------|------------|------|------------|
| Cash equivalents | \$ 2,770 | \$ 131,966 | \$ - | \$ 134,736 |
|------------------|----------|------------|------|------------|

| | | | | |
|-----------------|---------|---|---|---------|
| Restricted cash | 145,412 | - | - | 145,412 |
|-----------------|---------|---|---|---------|

Other assets

| | | | | |
|------------------------------|---|-------|---|-------|
| Interest rate swap agreement | - | 4,828 | - | 4,828 |
|------------------------------|---|-------|---|-------|

| | | | | |
|----------------------------|------------|------------|------|------------|
| Total assets at fair value | \$ 148,182 | \$ 136,794 | \$ - | \$ 284,976 |
|----------------------------|------------|------------|------|------------|

Liabilities:

Accrued expenses

| | | | | |
|------------------------------|------|------------|------|------------|
| Interest rate swap agreement | \$ - | \$ 133,466 | \$ - | \$ 133,466 |
|------------------------------|------|------------|------|------------|

| | | | | |
|---------------------------------|------|------------|------|------------|
| Total liabilities at fair value | \$ - | \$ 133,466 | \$ - | \$ 133,466 |
|---------------------------------|------|------------|------|------------|

Assets Measured at Fair Value as of Sep.
28, 2013

Level 1 Level 2 Level 3 Total

(In thousands)

Assets:

Cash and cash equivalents

| | | | | |
|------------------|------|------------|------|------------|
| Cash equivalents | \$ - | \$ 129,510 | \$ - | \$ 129,510 |
|------------------|------|------------|------|------------|

Prepaid expenses and other current assets

| | | | | |
|------------------------------|---|-------|---|-------|
| Interest rate swap agreement | - | 2,015 | - | 2,015 |
|------------------------------|---|-------|---|-------|

| | | | | |
|-----------------|---------|---|---|---------|
| Restricted cash | 157,837 | - | - | 157,837 |
|-----------------|---------|---|---|---------|

Other assets

| | | | | |
|------------------------------|---|-------|---|-------|
| Interest rate swap agreement | - | 4,125 | - | 4,125 |
|------------------------------|---|-------|---|-------|

| | | | | |
|----------------------------|------------|------------|------|------------|
| Total assets at fair value | \$ 157,837 | \$ 135,650 | \$ - | \$ 293,487 |
|----------------------------|------------|------------|------|------------|

The carrying values of accounts receivable and accounts payable approximated their respective fair values due to the short term maturities of these instruments. The fair value of Sysco's total debt is estimated based on the quoted market prices for the same or similar issue or on the current rates offered to the company for debt of the same remaining maturities and is considered a Level 2 measurement. The fair value of total debt approximated \$3.3 billion, \$3.0 billion and \$3.3 billion as of September 27, 2014, June 28, 2014 and September 28, 2013, respectively. The

carrying value of total debt was \$3.0 billion, \$2.8 billion and \$3.1 billion as of September 27, 2014, June 28, 2014 and September 28, 2013, respectively.

6. DERIVATIVE FINANCIAL INSTRUMENTS

Sysco manages its debt portfolio to achieve an overall desired position of fixed and floating rates and may employ interest rate swaps from time to time to achieve this position. The company does not use derivative financial instruments for trading or speculative purposes.

In fiscal 2014, the company entered into an interest rate swap agreement that effectively converted \$500 million of fixed rate debt maturing in fiscal 2018 to floating rate debt. The company entered into interest rate swap agreements that effectively converted \$500 million of the new senior notes maturing in fiscal 2018 and \$750 million of the new senior notes maturing in fiscal 2020 to floating rate debt. See Note 7, Debt, for further discussion of the senior notes issuance. These transactions were entered into with the goal of reducing overall borrowing cost and increasing floating interest rate exposure and were designated as fair value hedges against the changes in fair value of fixed rate debt resulting from changes in interest rates.

In January 2014, the company entered into two forward starting swap agreements with notional amounts totaling \$2 billion. The company designated these derivatives as cash flow hedges of the variability in the expected cash outflows of interest payments on then forecasted 10-year and 30-year debt due to changes in the benchmark interest rates. In September 2014, in conjunction with the pricing of the \$1.25 billion senior notes maturing in fiscal 2025 and \$1 billion senior notes maturing in fiscal 2045, the company terminated these swaps, locking in the effective yields on the related debt. Cash of \$58.9 million was paid to settle the 10-year swap in September 2014, and cash of \$129.9 million was paid to settle the 30-year swap in October 2014 subsequent to quarter-end. The September 2014 cash payment is located within the line Cash paid for settlement of cash flow hedge within financing activities in the

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statement of consolidated cash flows. The cumulative losses recorded in Accumulated other comprehensive (loss) income related to these swaps will be amortized through interest expense over the term of the issued debt.

The location and the fair value of derivative instruments designated as hedges in the consolidated balance sheet as of September 27, 2014, June 28, 2014 and September 28, 2013 are as follows:

| | Asset Derivatives | | Liability Derivatives | |
|--------------------------------|--|------------|-----------------------------|------------|
| | Balance Sheet Location (In thousands) | Fair Value | Balance Sheet Location | Fair Value |
| Interest rate swap agreements: | | | | |
| Sep. 27, 2014 | Other assets | \$ 264 | Other long-term liabilities | \$ 3,496 |
| Jun. 28, 2014 | Other assets | 4,828 | Accrued expenses | 133,466 |
| Sep. 28, 2013 | Prepaid expenses and other current assets | 2,015 | N/A | N/A |

The location and effect of derivative instruments and related hedged items on the consolidated results of operations for the first quarter of fiscal 2015 and 2014 presented on a pre-tax basis are as follows:

| | Location of (Gain) or Loss Recognized in Comprehensive Income | Amount of (Gain) or Loss Recognized in Comprehensive Income 13-Week Period Ended | |
|---------------------------------|---|--|------------------|
| | | Sep. 27, 2014 | Sep. 28, 2013 |
| (In thousands) | | | |
| Fair Value Hedge Relationships: | | | |
| Interest rate swap agreements | Interest expense | \$ (3,269) | \$ (3,175) |
| Cash Flow Hedge Relationships: | | | |
| Interest rate swap agreements | Other comprehensive income | 55,374 | - |
| Interest rate contracts | Interest expense | 205 | 156 |

Hedge ineffectiveness represents the difference between the changes in the fair value of the derivative instruments and the changes in fair value of the fixed rate debt attributable to changes in the benchmark interest rates. Hedge ineffectiveness is recorded directly in earnings within interest expense and was immaterial for the first quarter of fiscal

2015 and 2014. The interest rate swaps do not contain credit-risk-related contingent features.

Subsequent Event

In October 2014, subsequent to quarter-end, cash of \$129.9 million was paid to settle the 30-year forward starting swap discussed above. This swap was terminated in September 2014, but the cash payment did not occur until October 2014.

7. DEBT

As of September 27, 2014, Sysco had an uncommitted bank line of credit, which provided for unsecured borrowings for working capital of up to \$20 million. There were no borrowings outstanding under this line of credit as of September 27, 2014.

Sysco has a Board-approved commercial paper program allowing the company to issue short-term unsecured notes in an aggregate amount not to exceed \$1.3 billion.

Sysco and one of its subsidiaries, Sysco International, ULC, have a revolving credit facility supporting the company's U.S. and Canadian commercial paper programs. The facility provides for borrowings in both U.S. and Canadian dollars. Borrowings by Sysco International, ULC under the agreement are guaranteed by Sysco, and borrowings by Sysco and Sysco International, ULC under the credit agreement are guaranteed by the wholly-owned subsidiaries of Sysco that are guarantors of the company's senior notes and debentures. The facility in the amount of \$1.5 billion expires December 29, 2018, but is subject to extension. As of September 27, 2014, commercial paper issuances outstanding were \$398.6 million and were classified as long-term debt, as the company's commercial paper programs are supported by the long-term revolving credit facility described above.

During the first quarter of 2015, aggregate commercial paper issuances and short-term bank borrowings ranged from \$123.8 million to approximately \$659.4 million.

The company's Irish subsidiary, Pallas Foods, has a multicurrency revolving credit facility in the amount of €100 million (Euro), which provides for capital needs for the company's European subsidiaries. This facility provides for unsecured borrowings and expires September 23, 2015, but is subject to extension. Outstanding borrowings under this facility were €62.0 million (Euro) as of September 27, 2014, reflected in Notes payable on the consolidated balance sheet.

As of September 27, 2014, Sysco had an unsecured \$3.3865 billion bridge term loan agreement with multiple lenders in connection with its proposed merger with US Foods (discussed further in Note 4, Acquisitions). The facility provided that Sysco could borrow up to \$3.3865 billion in term loans on the closing date of the US Foods merger to fund the acquisition, refinance certain indebtedness of US Foods and pay related fees and expenses. The facility had an expiration date of March 8, 2015, but was subject to extension if regulatory approvals had not yet been obtained. Any borrowings under the bridge term loan agreement would be guaranteed by the same subsidiaries of Sysco that guarantee the company's revolving credit facility, and in certain circumstances, would also be guaranteed by US Foods after closing of the merger.

In September 2014, Sysco priced a six-part senior notes offering totaling \$5 billion as long-term financing for the proposed US Foods merger transaction.

Subsequent Event

In October 2014, subsequent to quarter-end, the senior notes described above were funded, and the previously outstanding unsecured bridge facility described above was terminated. The senior notes, issued under the company's February 2012 registration statement, are unsecured, are not subject to any sinking fund requirement and include a redemption provision that allows Sysco to retire the notes at any time prior to maturity at the greater of par plus accrued interest or an amount designed to ensure that the note holders are not penalized by early redemption. In addition, if the merger has not closed by October 8, 2015 or if the merger agreement is terminated on or prior to October 8, 2015, Sysco must redeem all of the senior notes at a redemption price equal to 101% of the principal of the senior notes plus accrued interest. The notes will be fully and unconditionally guaranteed initially by the wholly-owned U.S. Broadline subsidiaries that guarantee Sysco's other senior notes. Proceeds from the notes will be used to pay the cash portion of the consideration for the proposed merger, to refinance certain indebtedness of US Foods, to unwind certain cash flow hedges that Sysco entered into in contemplation of this merger-related debt assumption and refinancing, to repay a portion of Sysco's outstanding commercial paper and to pay expected future direct transaction costs related to the merger. Details of the senior notes are below:

| Maturity Date | Par Value (in millions) | Coupon Rate | Pricing (percentage of par) |
|-----------------|----------------------------|-------------|--------------------------------|
| October 2, 2017 | \$ 500 | 1.45 % | 99.962 % |
| October 2, 2019 | 750 | 2.35 | 99.864 |
| October 2, 2021 | 750 | 3.00 | 99.781 |
| October 2, 2024 | 1,250 | 3.50 | 99.616 |
| October 2, 2034 | 750 | 4.35 | 99.841 |
| October 2, 2044 | 1,000 | 4.50 | 98.992 |

8. COMPANY-SPONSORED EMPLOYEE BENEFIT PLANS

In the tables below, the caption “Pension Benefits” includes both the company-sponsored qualified pension plan and the Supplemental Executive Retirement Plan. The components of net company-sponsored benefit cost for the first quarter of fiscal 2015 and fiscal 2014 are as follows:

| | Pension Benefits | | Other Postretirement Plans | |
|--------------------------------------|------------------|------------------|----------------------------------|---------------------|
| | Sep. 27, 2014 | Sep. 28, 2013 | Sep. 27, 2014 | Sep. 28, 2013 |
| | (In thousands) | | | |
| Service cost | \$ 2,815 | \$ 2,414 | \$ 134 | \$ 136 |
| Interest cost | 42,779 | 40,109 | 148 | 187 |
| Expected return on plan assets | (57,156) | (48,199) | - | - |
| Amortization of prior service cost | 2,777 | 2,786 | 42 | 42 |
| Recognized net actuarial loss (gain) | 4,968 | 4,082 | (109) | (36) |
| Net periodic benefit cost | \$ (3,817) | \$ 1,192 | \$ 215 | \$ 329 |

Sysco’s contributions to its company-sponsored defined benefit plans were \$56.1 million and \$5.8 million during the first quarter of fiscal 2015 and 2014, respectively.

9. MULTIEMPLOYER EMPLOYEE BENEFIT PLANS

Sysco contributes to several multiemployer defined benefit pension plans in the U.S. and Canada based on obligations arising under collective bargaining agreements covering union-represented employees. Sysco does not directly manage these multiemployer plans, which are generally managed by boards of trustees, half of whom are appointed by the unions and the other half appointed by Sysco and the other employers contributing to the plan.

Based upon the information available from plan administrators, management believes that several of these multiemployer plans are underfunded. In addition, pension-related legislation in the U.S. requires underfunded pension plans to improve their funding ratios within prescribed intervals based on the level of their underfunding. As a result, Sysco expects its contributions to these plans to increase in the future. In addition, if a U.S. multiemployer defined benefit plan fails to satisfy certain minimum funding requirements, the Internal Revenue Service may impose a nondeductible excise tax of 5% on the amount of the accumulated funding deficiency for those employers contributing to the fund.

Withdrawal Activity

Sysco has voluntarily withdrawn from various multiemployer pension plans. There were no withdrawal liability provisions recorded in the first quarter of fiscal 2015 or the first quarter of fiscal 2014. As of September 27, 2014, June 28, 2014, and September 28, 2013, Sysco had approximately zero, \$1.4 million and \$40.3 million, respectively, in liabilities recorded related to certain multiemployer defined benefit plans for which Sysco's voluntary withdrawal had already occurred. Recorded withdrawal liabilities are estimated at the time of withdrawal based on the most recently available valuation and participant data for the respective plans; amounts are subsequently adjusted to the period of payment to reflect any changes to these estimates. If any of these plans were to undergo a mass withdrawal, as defined by the Pension Benefit Guaranty Corporation, within the two plan years following the plan year in which we completely withdraw from that plan, Sysco could have additional liability. The company does not currently believe any mass withdrawals are probable to occur in the applicable two-plan year time frame relating to the plans from which Sysco has voluntarily withdrawn.

Potential Withdrawal Liability

Under current law regarding multiemployer defined benefit plans, a plan's termination, Sysco's voluntary withdrawal, or the mass withdrawal of all contributing employers from any underfunded multiemployer defined benefit plan would require Sysco to make payments to the plan for Sysco's proportionate share of the multiemployer plan's unfunded vested liabilities. Generally, Sysco does not have the greatest share of liability among the participants in any of the plans in which it participates. Sysco believes that one of the above-mentioned events is reasonably possible for certain plans in which it participates and estimates its share of withdrawal liability for these plans could have been as much as \$90.0 million as of September 27, 2014. This estimate excludes plans for which Sysco has recorded withdrawal liabilities or where the likelihood of the above-mentioned events is deemed remote. This estimate is based on the information available from plan administrators, the majority of which had a valuation date of December 31, 2013. As the valuation date for most of these plans was December 31, 2013, the company's estimate reflects the condition of the financial markets as of that date. Due to the lack of current information, management believes Sysco's current share of the withdrawal liability could materially differ from this estimate.

10. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

| | 13-Week Period Ended | |
|---|---|---------------|
| | Sep. 27, 2014 | Sep. 28, 2013 |
| | (In thousands, except for share and per share data) | |
| Numerator: | | |
| Net earnings | \$ 278,813 | \$ 285,590 |
| Denominator: | | |
| Weighted-average basic shares outstanding | 588,277,056 | 587,621,529 |
| Dilutive effect of share-based awards | 5,032,694 | 3,837,419 |
| Weighted-average diluted shares outstanding | 593,309,750 | 591,458,948 |
| Basic earnings per share: | \$ 0.47 | \$ 0.49 |
| Diluted earnings per share: | \$ 0.47 | \$ 0.48 |

The number of options that were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive was approximately 600,000 for the first quarter of fiscal 2015 and was insignificant for the first quarter of fiscal 2014.

11. COMPREHENSIVE INCOME

Comprehensive income is net earnings plus certain other items that are recorded directly to shareholders' equity, such as foreign currency translation adjustment, amounts related to cash flow hedging arrangements and certain amounts related to pension and other postretirement plans. Comprehensive income was \$178.3 million and \$320.7 million for the first quarter of fiscal 2015 and fiscal 2014, respectively.

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A summary of the components of other comprehensive income (loss) and the related tax effects for each of the periods presented is as follows:

| | Location of Expense (Income) Recognized in Net Earnings | 13-Week Period Ended Sep. 27, 2014 | | |
|---|---|------------------------------------|-------------|----------------------|
| | | Before Tax Amount | Tax | Net of Tax Amount |
| (In thousands) | | | | |
| Pension and other postretirement benefit Reclassification adjustments: | | | | |
| Amortization of prior service cost | Operating expenses | \$ 2,819 | \$ 1,082 | \$ 1,737 |
| Amortization of actuarial loss (gain), net | Operating expenses | 4,859 | 1,866 | 2,993 |
| Total reclassification adjustments | | 7,678 | 2,948 | 4,730 |
| Foreign currency translation: | | | | |
| Other comprehensive income before reclassification adjustments: | | | | |
| Foreign currency translation adjustment | N/A | (71,254) | - | (71,254) |
| Interest rate swaps: | | | | |
| Reclassification adjustments: | | | | |
| Amortization of cash flow hedges | Interest expense | 205 | 79 | 126 |
| Other comprehensive income before reclassification adjustments: | | | | |
| Change in fair value of cash flow hedges | N/A | (55,374) | (21,263) | (34,111) |
| Total other comprehensive (loss) income | | \$ (118,745) | \$ (18,236) | \$ (100,509) |

| | Location of Expense (Income) Recognized in Net Earnings | 13-Week Period Ended Sep. 28, 2013 | | |
|--|---|---------------------------------------|----------|-------------------------|
| | | Before Tax Amount | Tax | Net of Tax Amount |
| (In thousands) | | | | |
| Pension and other postretirement benefit plans: Reclassification adjustments: | | | | |
| Amortization of prior service cost | Operating expenses | \$ 2,828 | \$ 1,086 | \$ 1,742 |
| Amortization of actuarial loss (gain), net | Operating expenses | 4,046 | 1,555 | 2,491 |

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| | | | | |
|---|------------------|-----------|----------|-----------|
| Total reclassification adjustments | | 6,874 | 2,641 | 4,233 |
| Foreign currency translation: Other comprehensive income before reclassification adjustments: | | | | |
| Foreign currency translation adjustment | N/A | 30,807 | - | 30,807 |
| Interest rate swaps: Reclassification adjustments: | | | | |
| Amortization of cash flow hedges | Interest expense | 156 | 60 | 96 |
| Total other comprehensive income (loss) | | \$ 37,837 | \$ 2,701 | \$ 35,136 |

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The following tables provide a summary of the changes in accumulated other comprehensive (loss) income for the periods presented:

| | 13-Week Period Ended Sep. 27, 2014 | | | |
|---|---|------------------------------------|--|--------------|
| | Pension and Other | | | |
| | Postretirement Benefit Plans, net of tax | Foreign Currency Translation | Interest Rate Swaps, net of tax | Total |
| | (In thousands) | | | |
| Balance as of Jun. 28, 2014 | \$ (685,957) | \$ 134,452 | \$ (91,158) | \$ (642,663) |
| Other comprehensive income before reclassification adjustments | - | (71,254) | (34,111) | (105,365) |
| Amounts reclassified from accumulated other comprehensive loss | 4,730 | - | 126 | 4,856 |
| Balance as of Sep. 27, 2014 | \$ (681,227) | \$ 63,198 | \$ (125,143) | \$ (743,172) |

| | 13-Week Period Ended Sep. 28, 2013 | | | |
|---|---|------------------------------------|--|--------------|
| | Pension and Other | | | |
| | Postretirement Benefit Plans, net of tax | Foreign Currency Translation | Interest Rate Swaps, net of tax | Total |
| | (In thousands) | | | |
| Balance as of Jun. 29, 2013 | \$ (575,167) | \$ 137,558 | \$ (9,328) | \$ (446,937) |
| Other comprehensive income before reclassification adjustments | - | 30,807 | - | 30,807 |
| Amounts reclassified from accumulated other comprehensive loss | 4,233 | - | 96 | 4,329 |
| Balance as of Sep. 28, 2013 | \$ (570,934) | \$ 168,365 | \$ (9,232) | \$ (411,801) |

12. SHARE-BASED COMPENSATION

Sysco provides compensation benefits to employees and non-employee directors under several share-based payment arrangements including various employee stock incentive plans, the Employees' Stock Purchase Plan, and various

non-employee director plans.

Stock Incentive Plans

In the first quarter of fiscal 2015, 9,330 restricted stock units were granted to employees. Based on the jurisdiction in which the employee resides, some of these restricted stock units were granted with forfeitable dividend equivalents. The fair value of each restricted stock unit award granted with a dividend equivalent is based on the company's stock price as of the date of grant. For restricted stock unit awards granted without dividend equivalents, the fair value was reduced by the present value of expected dividends during the vesting period. The weighted average grant-date fair value per share of restricted stock units granted during the first quarter of fiscal 2015 was \$37.41.

Employees' Stock Purchase Plan

Plan participants purchased 315,856 shares of Sysco common stock under the Sysco Employees' Stock Purchase Plan during the first quarter of fiscal 2015.

The weighted average fair value per share of employee stock purchase rights issued pursuant to the Employees' Stock Purchase Plan was \$5.62 during the first quarter of fiscal 2015. The fair value of the stock purchase rights is estimated as the difference between the stock price and the employee purchase price.

All Share-Based Payment Arrangements

The total share-based compensation cost that has been recognized in results of operations was \$12.2 million and \$13.5 million for the first quarter of fiscal 2015 and fiscal 2014, respectively.

As of September 27, 2014, there was \$58.7 million of total unrecognized compensation cost related to share-based compensation arrangements. This cost is expected to be recognized over a weighted-average period of 2.3 years.

13. INCOME TAXES

Uncertain Tax Positions

As of September 27, 2014, the gross amount of unrecognized tax benefits was \$46.7 million and the gross amount of liability for accrued interest related to unrecognized tax benefits was \$36.7 million. It is reasonably possible that the amount of the unrecognized tax benefits with respect to certain of the company's unrecognized tax positions will increase or decrease in the next twelve months, either because Sysco prevails on positions that were being challenged upon audit or because the company agrees to their disallowance. Items that may cause changes to unrecognized tax benefits primarily include the consideration of various filing requirements in numerous states and the allocation of income and expense between tax jurisdictions. At this time, an estimate of the range of the reasonably possible change cannot be made.

Effective Tax Rates

The effective tax rates for the first quarter of fiscal 2015 and fiscal 2014 were 36.18% and 36.84%, respectively. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate had the impact of reducing the effective tax rates for each period.

Other

The determination of the company's provision for income taxes requires significant judgment, the use of estimates and the interpretation and application of complex tax laws. The company's provision for income taxes reflects a combination of income earned and taxed in the various U.S. federal and state, as well as foreign, jurisdictions. Jurisdictional tax law changes, increases or decreases in permanent differences between book and tax items, accruals or adjustments of accruals for unrecognized tax benefits or valuation allowances, and the company's change in the mix of earnings from these taxing jurisdictions all affect the overall effective tax rate.

14. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

Sysco is engaged in various legal proceedings that have arisen, but have not been fully adjudicated. The likelihood of loss for these legal proceedings, based on definitions within contingency accounting literature, ranges from remote to reasonably possible to probable. When probable, the losses have been accrued. Based on estimates of the range of potential losses associated with these matters, management does not believe that the ultimate resolution of these proceedings, either individually or in the aggregate, will have a material adverse effect upon the consolidated financial position or results of operations of the company. However, the final results of legal proceedings cannot be predicted with certainty and, if the company failed to prevail in one or more of these legal matters, and the associated realized losses were to exceed the company's current estimates of the range of potential losses, the company's consolidated financial position or results of operations could be materially adversely affected in future periods.

15. BUSINESS SEGMENT INFORMATION

The company has aggregated its operating companies into a number of segments, of which only Broadline and SYGMA are reportable segments as defined in the accounting literature related to disclosures about segments of an enterprise. The Broadline reportable segment is an aggregation of the company's U.S. and International Broadline segments located in the Bahamas, Canada, Costa Rica, Republic of Ireland and Northern Ireland. Broadline operating companies distribute a full line of food products and a wide variety of non-food products to both traditional and chain restaurant customers, hospitals, schools, hotels, industrial caterers and other venues where foodservice products are served. These companies also provide custom-cut meat operations. SYGMA operating companies distribute a full line of food products and a wide variety of non-food products to certain chain restaurant customer locations. "Other" financial information is attributable to the company's other operating segments, including the company's specialty produce and lodging industry segments, a company that distributes specialty imported products, a company that distributes to international customers and the company's Sysco Ventures platform, a suite of technology solutions that help support the business needs of Sysco's customers.

The accounting policies for the segments are the same as those disclosed by Sysco for its consolidated financial statements. Intersegment sales represent specialty produce and imported specialty products distributed by the Broadline and SYGMA operating companies. Management evaluates the performance of each of the operating segments based on its respective operating income results. Corporate expenses and adjustments generally include all expenses of the corporate office and Sysco's shared service center. These also include all share-based compensation costs.

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The following tables set forth certain financial information for Sysco's business segments:

| | 13-Week Period Ended | |
|--------------------|----------------------|---------------|
| | Sep. 27, 2014 | Sep. 28, 2013 |
| Sales: | | |
| Broadline | \$ 10,223,102 | \$ 9,546,388 |
| SYGMA | 1,541,612 | 1,523,190 |
| Other | 764,482 | 711,882 |
| Intersegment sales | (84,115) | (67,193) |
| Total | \$ 12,445,081 | \$ 11,714,267 |

| | 13-Week Period Ended | |
|------------------------------------|----------------------|---------------|
| | Sep. 27, 2014 | Sep. 28, 2013 |
| Operating income: | | |
| Broadline | \$ 699,436 | \$ 654,707 |
| SYGMA | 5,150 | 8,343 |
| Other | 24,665 | 22,542 |
| Total segments | 729,251 | 685,592 |
| Corporate expenses and adjustments | (263,638) | (207,394) |
| Total operating income | 465,613 | 478,198 |
| Interest expense | 30,934 | 30,528 |
| Other expense (income), net | (2,188) | (4,534) |
| Earnings before income taxes | \$ 436,867 | \$ 452,204 |

| | Sep. 27, 2014 | Jun. 28, 2014 | Sep. 28, 2013 |
|----------------|----------------|---------------|---------------|
| Assets: | (In thousands) | | |
| Broadline | \$ 9,472,211 | \$ 8,956,911 | \$ 8,940,734 |
| SYGMA | 519,554 | 513,587 | 490,001 |
| Other | 1,033,526 | 1,034,775 | 953,024 |
| Total segments | 11,025,291 | 10,505,273 | 10,383,759 |
| Corporate | 2,592,622 | 2,662,677 | 2,655,897 |
| Total | \$ 13,617,913 | \$ 13,167,950 | \$ 13,039,656 |

16. SUPPLEMENTAL GUARANTOR INFORMATION – SUBSIDIARY GUARANTEES

On January 19, 2011, the wholly-owned U.S. Broadline subsidiaries of Sysco Corporation entered into full and unconditional guarantees of all outstanding senior notes and debentures of Sysco Corporation. Borrowings under the company's revolving credit facility supporting the company's U.S. and Canadian commercial paper programs are also covered under these guarantees. As of September 27, 2014, Sysco had a total of \$2.9 billion in senior notes, debentures and commercial paper outstanding that was covered by these guarantees. In October 2014, subsequent to quarter-end, Sysco funded a six-part senior notes offering totaling \$5 billion. The senior notes will be covered by this guarantee. See Note 7, Debt, for further discussion of the senior note issuance.

All subsidiary guarantors are 100%-owned by the parent company, all guarantees are full and unconditional and all guarantees are joint and several, except that the guarantee of any subsidiary guarantor with respect to a series of senior notes or debentures may be released under certain customary circumstances. If we exercise our defeasance option with respect to the senior notes or debentures of any series, then any subsidiary guarantor effectively will be released with respect to that series. Further, each subsidiary guarantee will remain in full force and effect until the earliest to occur of the date, if any, on which (1) the applicable subsidiary guarantor shall consolidate with or merge into Sysco Corporation or any successor of Sysco Corporation and (2) Sysco Corporation or any successor of Sysco Corporation consolidates with or merges into the applicable subsidiary guarantor.

The following condensed consolidating financial statements present separately the financial position, comprehensive income and cash flows of the parent issuer (Sysco Corporation), the guarantors (the majority of the company's U.S. Broadline subsidiaries), and all other non guarantor subsidiaries of Sysco (Other Non-Guarantor Subsidiaries) on a combined basis with eliminating entries.

Condensed Consolidating Balance Sheet
Sep. 27, 2014

| | Sysco | Certain U.S. Broadline Subsidiaries | Other Non-Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|-------------------------------------|----------------|---|--|----------------|------------------------|
| | (In thousands) | | | | |
| Current assets | \$ 233,010 | \$ 4,345,475 | \$ 2,529,918 | \$ - | \$ 7,108,403 |
| Investment in subsidiaries | 8,297,396 | - | - | (8,297,396) | - |
| Plant and equipment, net | 488,618 | 1,758,530 | 1,721,565 | - | 3,968,713 |
| Other assets | 355,955 | 522,013 | 1,662,829 | - | 2,540,797 |
| Total assets | \$ 9,374,979 | \$ 6,626,018 | \$ 5,914,312 | \$ (8,297,396) | \$ 13,617,913 |
| Current liabilities | \$ 831,556 | \$ 953,078 | \$ 2,751,855 | \$ - | \$ 4,536,489 |
| Intercompany payables (receivables) | 2,292 | (111,694) | 109,402 | - | - |
| Long-term debt | 2,584,125 | 15,232 | 51,133 | - | 2,650,490 |
| Other liabilities | 635,590 | 318,736 | 121,094 | - | 1,075,420 |
| Noncontrolling interest | - | - | 34,098 | - | 34,098 |

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| | | | | | |
|--|--------------|--------------|--------------|----------------|---------------|
| Shareholders' equity | 5,321,416 | 5,450,666 | 2,846,730 | (8,297,396) | 5,321,416 |
| Total liabilities and shareholders' equity | \$ 9,374,979 | \$ 6,626,018 | \$ 5,914,312 | \$ (8,297,396) | \$ 13,617,913 |

Condensed Consolidating Balance Sheet

Jun. 28, 2014

| | Sysco | Certain U.S. Broadline Subsidiaries | Other Non-Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|--|--------------|---|--|----------------|------------------------|
| (In thousands) | | | | | |
| Current assets | \$ 254,766 | \$ 3,928,660 | \$ 2,498,546 | \$ - | \$ 6,681,972 |
| Investment in subsidiaries | 8,013,214 | - | - | (8,013,214) | - |
| Plant and equipment, net | 496,953 | 1,783,262 | 1,705,403 | - | 3,985,618 |
| Other assets | 344,045 | 524,468 | 1,631,847 | - | 2,500,360 |
| Total assets | \$ 9,108,978 | \$ 6,236,390 | \$ 5,835,796 | \$ (8,013,214) | \$ 13,167,950 |
| Current liabilities | \$ 793,240 | \$ 1,008,366 | \$ 2,566,024 | \$ - | \$ 4,367,630 |
| Intercompany payables (receivables) | 20,107 | (239,539) | 219,432 | - | - |
| Long-term debt | 2,348,558 | 14,094 | 21,515 | - | 2,384,167 |
| Other liabilities | 680,378 | 328,185 | 140,895 | - | 1,149,458 |
| Shareholders' equity | 5,266,695 | 5,125,284 | 2,887,930 | (8,013,214) | 5,266,695 |
| Total liabilities and shareholders' equity | \$ 9,108,978 | \$ 6,236,390 | \$ 5,835,796 | \$ (8,013,214) | \$ 13,167,950 |

Condensed Consolidating Balance Sheet
Sep. 28, 2013

| | Sysco | Certain U.S. Broadline Subsidiaries | Other Non-Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|--|--------------|---|--|----------------|------------------------|
| (In thousands) | | | | | |
| Current assets | \$ 243,289 | \$ 4,062,670 | \$ 2,242,564 | \$ - | \$ 6,548,523 |
| Investment in subsidiaries | 8,867,634 | - | - | (8,867,634) | - |
| Plant and equipment, net | 526,608 | 1,860,215 | 1,592,528 | - | 3,979,351 |
| Other assets | 337,236 | 534,804 | 1,639,742 | - | 2,511,782 |
| Total assets | \$ 9,974,767 | \$ 6,457,689 | \$ 5,474,834 | \$ (8,867,634) | \$ 13,039,656 |
| Current liabilities | \$ 526,018 | \$ 994,630 | \$ 2,276,769 | \$ - | \$ 3,797,417 |
| Intercompany payables (receivables) | 773,170 | (1,145,339) | 372,169 | - | - |
| Long-term debt | 2,844,729 | 10,121 | 23,541 | - | 2,878,391 |
| Other liabilities | 631,708 | 391,507 | 141,491 | - | 1,164,706 |
| Shareholders' equity | 5,199,142 | 6,206,770 | 2,660,864 | (8,867,634) | 5,199,142 |
| Total liabilities and shareholders' equity | \$ 9,974,767 | \$ 6,457,689 | \$ 5,474,834 | \$ (8,867,634) | \$ 13,039,656 |

Condensed Consolidating Statement of Comprehensive Income
For the 13-Week Period Ended Sep. 27, 2014

| | Sysco | Certain U.S. Broadline Subsidiaries | Other Non-Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|---------------------------------------|------------|---|--|--------------|------------------------|
| (In thousands) | | | | | |
| Sales | \$ - | \$ 8,322,308 | \$ 4,464,469 | \$ (341,696) | \$ 12,445,081 |
| Cost of sales | - | 6,774,508 | 3,823,552 | (341,696) | 10,256,364 |
| Gross profit | - | 1,547,800 | 640,917 | - | 2,188,717 |
| Operating expenses | 190,897 | 932,195 | 600,012 | - | 1,723,104 |
| Operating income (loss) | (190,897) | 615,605 | 40,905 | - | 465,613 |
| Interest expense (income) | 50,166 | (21,474) | 2,242 | - | 30,934 |
| Other expense (income), net | (2,402) | (399) | 613 | - | (2,188) |
| Earnings (losses) before income taxes | (238,661) | 637,478 | 38,050 | - | 436,867 |
| Income tax (benefit) provision | (86,344) | 230,631 | 13,767 | - | 158,054 |
| Equity in earnings of subsidiaries | 431,130 | - | - | (431,130) | - |
| Net earnings | 278,813 | 406,847 | 24,283 | (431,130) | 278,813 |
| Other comprehensive income (loss) | (100,509) | - | (71,254) | 71,254 | (100,509) |
| Comprehensive income | \$ 178,304 | \$ 406,847 | \$ (46,971) | \$ (359,876) | \$ 178,304 |

Condensed Consolidating Statement of Comprehensive Income
For the 13-Week Period Ended Sep. 28, 2013

| | Sysco | Certain U.S. Broadline Subsidiaries | Other Non-Guarantor Subsidiaries | Eliminations | Consolidated Totals |
|---------------------------------------|----------------|---|--|--------------|------------------------|
| | (In thousands) | | | | |
| Sales | \$ - | \$ 7,746,013 | \$ 4,237,699 | \$ (269,445) | \$ 11,714,267 |
| Cost of sales | - | 6,268,866 | 3,649,359 | (269,445) | 9,648,780 |
| Gross profit | - | 1,477,147 | 588,340 | - | 2,065,487 |
| Operating expenses | 145,048 | 882,950 | 559,291 | - | 1,587,289 |
| Operating income (loss) | (145,048) | 594,197 | 29,049 | - | 478,198 |
| Interest expense (income) | 57,307 | (23,437) | (3,342) | - | 30,528 |
| Other expense (income), net | (3,345) | (857) | (332) | - | (4,534) |
| Earnings (losses) before income taxes | (199,010) | 618,491 | 32,723 | - | 452,204 |
| Income tax (benefit) provision | (73,325) | 227,882 | 12,057 | - | 166,614 |
| Equity in earnings of subsidiaries | 411,275 | - | - | (411,275) | - |
| Net earnings | 285,590 | 390,609 | 20,666 | (411,275) | 285,590 |
| Other comprehensive income (loss) | 35,136 | - | 30,807 | (30,807) | 35,136 |
| Comprehensive income | \$ 320,726 | \$ 390,609 | \$ 51,473 | \$ (442,082) | \$ 320,726 |

Condensed Consolidating Cash Flows
For the 13-Week Period Ended Sep. 27, 2014

| | Sysco | Certain U.S. Broadline Subsidiaries | Other Non-Guarantor Subsidiaries | Consolidated Totals |
|--|----------------|---|--|------------------------|
| | (In thousands) | | | |
| Cash flows provided by (used for): | | | | |
| Operating activities | \$ (93,666) | \$ (24,502) | \$ 180,786 | \$ 62,618 |
| Investing activities | (33,867) | (33,841) | (102,086) | (169,794) |
| Financing activities | 46,544 | 605 | 37,385 | 84,534 |
| Effect of exchange rates on cash | - | - | (5,506) | (5,506) |
| Intercompany activity | 58,326 | 55,264 | (113,590) | - |
| Net increase (decrease) in cash and cash equivalents | (22,663) | (2,474) | (3,011) | (28,148) |
| Cash and cash equivalents at the beginning of period | 158,957 | 27,772 | 226,317 | 413,046 |
| Cash and cash equivalents at the end of period | \$ 136,294 | \$ 25,298 | \$ 223,306 | \$ 384,898 |

Condensed Consolidating Cash Flows
For the 13-Week Period Ended Sep. 28, 2013

| | Sysco | Certain U.S. Broadline Subsidiaries | Other Non-Guarantor Subsidiaries | Consolidated Totals |
|--|----------------|---|--|------------------------|
| | (In thousands) | | | |
| Cash flows provided by (used for): | | | | |
| Operating activities | \$ (109,620) | \$ 169,932 | \$ 108,917 | \$ 169,229 |
| Investing activities | (19,931) | (29,089) | (90,006) | (139,026) |
| Financing activities | (81,357) | (194) | (3,932) | (85,483) |
| Effect of exchange rates on cash | - | - | 2,527 | 2,527 |
| Intercompany activity | 181,535 | (139,626) | (41,909) | - |
| Net increase (decrease) in cash and cash equivalents | (29,373) | 1,023 | (24,403) | (52,753) |
| Cash and cash equivalents at the beginning of period | 207,591 | 24,295 | 180,399 | 412,285 |
| Cash and cash equivalents at the end of period | \$ 178,218 | \$ 25,318 | \$ 155,996 | \$ 359,532 |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with our consolidated financial statements as of June 28, 2014, and the fiscal year then ended, and Management's Discussion and Analysis of Financial Condition and Results of Operations, both contained in our Annual Report on Form 10-K for the fiscal year ended June 28, 2014.

The discussion below of our results includes certain non-GAAP financial measures that we believe provide important perspective with respect to underlying business trends. Other than free cash flow, any non-GAAP financial measures will be denoted as adjusted measures and exclude the impact from severance charges, merger and integration costs associated with our pending US Foods, Inc. (US Foods) merger, facility closure charges and amortization of US Foods financing costs, collectively defined as (Certain Items). More information on the rationale of the use of these measures and reconciliations to GAAP numbers can be found under "Non-GAAP Reconciliations."

Due to the inherent uncertainties concerning the impact of the pending US Foods merger (see discussion in Risk Factors in Part 1, Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 28, 2014), it is impracticable for us to provide projections that fully anticipate all possible impacts of the merger. For that reason, forward-looking disclosures in this MD&A and elsewhere describe anticipated future trends and results of only our current operations, excluding any potential impact from the US Foods merger, unless specifically noted.

Overview

Sysco distributes food and related products to restaurants, healthcare and educational facilities, lodging establishments and other foodservice customers. Our primary operations are located throughout the United States (U.S.), Bahamas, Canada, Costa Rica, Republic of Ireland and Northern Ireland and include broadline companies (which include our custom-cut meat operations), SYGMA (our chain restaurant distribution subsidiary), specialty produce companies, hotel supply operations, a company that distributes specialty imported products, a company that distributes to international customers and our Sysco Ventures platform, our suite of technology solutions that help support the business needs of our customers.

Highlights

The foodservice industry has experienced higher sales overall in the first quarter of fiscal 2015; however, these increases in sales are largely driven by higher inflation in selling prices, not from improving restaurant traffic. Real disposable income for the consumer has yet to increase meaningfully; however, other labor market metrics continue to strengthen and fuel costs have declined. While a challenging business environment continues to exist for our

customers and Sysco, many indicators suggest trends for the industry are improving. Our sales and gross profit growth for the first quarter of fiscal 2015 as compared to the first quarter of fiscal 2014 improved partially due to inflation and case volume growth, but also as a result of our business transformation initiatives including category management. Our operating expenses for the first quarter of fiscal 2015 increased partially from increased pay-related expenses and Certain Items, primarily from merger and integration planning expenses. Operating income for the first quarter of fiscal 2015 declined by 2.6% as a result; however, excluding Certain Items, adjusted operating income for the first quarter of fiscal 2015 increased 5.9%.

Comparisons of results from the first quarter of fiscal 2015 to the first quarter of fiscal 2014:

- Sales increased 6.2%, or \$0.7 billion, to \$12.4 billion.
- Operating income decreased 2.6%, or \$12.6 million, to \$465.6 million.
- Adjusted operating income increased 5.9%, or \$28.5 million, to \$509.0 million.
- Net earnings decreased 2.4%, or \$6.8 million, to \$278.8 million.
- Adjusted net earnings increased 7.6%, or \$21.8 million, to \$308.9 million.
- Basic earnings per share in the first quarter of fiscal 2015 were \$0.47, a 4.1% decrease from the comparable prior year amount of \$0.49 per share. Diluted earnings per share in the first quarter of fiscal 2015 were \$0.47, a 2.1% decrease from the comparable prior year amount of \$0.48 per share.
- Adjusted diluted earnings per share were \$0.52 in the first quarter of fiscal 2015 as compared to \$0.49 in the first quarter of fiscal 2014, representing an increase of 6.1%.

See “Non-GAAP Reconciliations” for an explanation of these non-GAAP financial measures.

In the second quarter of fiscal 2014, we announced an agreement to merge with US Foods. This merger is currently pending a regulatory review process.

Trends and Strategy

Trends

General economic conditions can affect the frequency of purchases and amounts spent by consumers for food-away-from-home and, in turn, can impact our customers and our sales. Consumers continue to spend their disposable income in a disciplined manner. We believe these conditions have contributed to a slow rate of recovery in the foodservice market. While these trends can be cyclical in nature, greater consumer confidence will be required to reverse the trend.

Our gross margin performance can be influenced by multiple factors. The modest level of growth in the foodservice market has created additional competitive pricing pressures, which is, in turn, negatively impacting gross profits. Sales to our locally-managed customers, including independent restaurant customers, may not grow at the same rate as sales to our corporate-managed customers, which can cause gross margins to decline. Inflation can be a factor that contributes to gross margin pressure. First quarter fiscal 2015 inflation was seen primarily in the meat, dairy and seafood categories, which represent more than one-third of our annual sales. While we cannot predict whether inflation will continue at current levels, periods of high inflation, either overall or in certain product categories, can have a negative impact on us and our customers. High food costs can be difficult to pass on to our customers, and inflation can reduce consumer spending in the food-away-from-home market. As such, periods of high inflation may negatively impact our sales, gross profit, operating income and earnings.

We have experienced higher operating expenses in the first quarter of fiscal 2015 as compared to first quarter of fiscal 2014, primarily from increased payroll costs and integration planning and transaction costs in connection with the proposed merger with US Foods announced in the second quarter of fiscal 2014. We anticipate incurring additional costs as we continue planning for integration of the two companies.

At the end of the first quarter of fiscal 2015, we secured long-term financing for our proposed merger with US Foods; therefore, interest expense will increase from the additional debt incurred in the amount of approximately \$125 million over the remainder of fiscal 2015. In addition, the second quarter will be impacted by a write off to interest expense of unamortized debt issuance costs of \$12.5 million in connection with the termination of our bridge facility. The write off of the debt issuance costs and additional interest incurred prior to the closing of the merger, will be treated as a Certain Items. The senior notes issued contain mandatory redemption features requiring that, if the merger has not closed by October 8, 2015 or if the merger agreement is terminated on or prior to October 8, 2015, we must redeem all of the senior notes at a redemption price equal to 101% of the principal of the senior notes plus accrued interest. The incremental interest expense estimate provided above assumes these notes will not be redeemed during fiscal 2015.

Strategy

We are focused on optimizing our core broadline business in the U.S., Bahamas, Canada, Costa Rica, Republic of Ireland and Northern Ireland, while continuing to explore appropriate opportunities to profitably grow our market share and create shareholder value by expanding beyond our core business. Day-to-day, our business decisions are driven by our mission to market and deliver great products to our customers with exceptional service, with the aspirational vision of becoming each of our customers' most valued and trusted business partner.

We have identified five components of our strategy to help us achieve our mission and vision:

- Profoundly enrich the experience of doing business with Sysco;
- Continuously improve productivity in all areas of our business;
- Expand our portfolio of products and services by initiating a customer-centric innovation program;
- Explore, assess and pursue new businesses and markets; and
- Develop and effectively integrate a comprehensive, enterprise-wide talent management process.

The five components of our strategy discussed above are designed to drive sustainable profitable growth, increase asset optimization and free cash flow and increase operating margins. Consistent with these three objectives, in the second quarter of fiscal 2014, we announced an agreement to merge with US Foods. US Foods is a leading foodservice distributor in the U.S. that markets and distributes fresh, frozen and dry food and non-food products to more than 200,000 foodservice customers, including independently owned single location restaurants, regional and national chain restaurants, healthcare and educational institutions, hotels and motels, government and military organizations and retail locations. Following the completion of the proposed merger, the combined company will continue to be named Sysco and headquartered in Houston, Texas. At closing, Sysco is expected to have annual sales of approximately \$65 billion and, with successful integration, we believe at least \$600 million in estimated annual synergies can be achieved by the combined company over a three to four year time period. Expenses to achieve synergies are estimated to be \$700 million to \$800 million to be incurred over a three year time frame once the merger has closed. We anticipate some level of capital expenditures primarily for facilities and internal use software; however, amounts have not been estimated at this time.

As of the time the merger agreement was announced in December 2013, Sysco agreed to pay approximately \$3.5 billion for the equity of US Foods, comprised of \$3 billion of Sysco common stock and \$500 million of cash. As part of the transaction, Sysco will also assume or refinance US Foods' net debt, which was approximately \$4.7 billion as of September 28, 2013, bringing the total enterprise value to \$8.2 billion at the time of the merger announcement. As of October 25, 2014, the merger consideration is estimated as follows: approximately \$3.7 billion for the equity of US Foods, comprised of \$3.2 billion of Sysco common stock valued using the seven day average through October 25, 2014 and \$500 million of cash. US Foods' net debt to be assumed or refinanced was approximately \$4.8 billion as of September 27, 2014, bringing the total enterprise value to \$8.5 billion as of October 25, 2014. The value of Sysco's common stock and the amount of US Foods' net debt will fluctuate. As such, the components of the transaction and total enterprise value noted above will not be finalized until the merger is consummated.

After completion of the transaction, the equity holders of US Foods will own approximately 87 million shares, or roughly 13%, of Sysco. A representative from each of US Foods' two majority shareholders will join Sysco's Board of Directors upon closing. This merger is currently pending a regulatory review process by the Federal Trade Commission (FTC). The company continues to be in productive discussions with FTC staff on a solution to permit the FTC to conclude its review. Given the amount of work remaining, and considering the upcoming holidays, the company does not currently expect to complete the transaction before the first quarter of 2015. Under certain conditions, including lack of regulatory approval, Sysco would be obligated to pay \$300 million to the owners of US Foods if the merger were cancelled, which would be recognized as an expense.

In September 2014, we priced a six-part senior notes offering totaling \$5 billion as long-term financing for the proposed US Foods merger transaction. In October 2014, subsequent to quarter-end, the senior notes were funded, and the previously outstanding unsecured bridge facility was terminated. Detailed discussion of these transactions is located in the Liquidity and Capital Resources section.

Business Transformation Project

Our multi-year Business Transformation Project consists of:

- the design and deployment of an enterprise resource planning (ERP) system to implement an integrated software system to support a majority of our business processes and further streamline our operations;
- initiatives to lower our operating cost structure; and
- initiatives to lower our product cost including a category management initiative to use market data and customer insights to lower product pricing and enhance our product assortment to drive sales growth.

In the first quarter of fiscal 2015, we implemented a software version upgrade to our 12 locations currently running our ERP system. We are finalizing information technology-related US Foods merger integration planning and sequencing decisions with the goal of achieving the most synergies in a timely manner. Initial areas of focus will be to roll out ERP financial modules that will enhance the scalability of our shared service center's processes, including general ledger, accounts payable and accounts receivable, as well as components of our human resources module. We believe this will allow future ERP conversions at our locations to be easier.

Benefits from our category management initiative meaningfully impacted the comparison of our gross margin for the first quarter of fiscal 2015 to the first quarter of fiscal 2014. We continue to expect that all remaining categories will be launched into the market by the end of this fiscal year. The year-over-year impact of these benefits is expected to be relatively steady through the third quarter of fiscal 2015, but will be less impactful in the fourth quarter as we begin to wrap the most significant portion of the benefits.

Results of Operations

The following table sets forth the components of our consolidated results of operations expressed as a percentage of sales for the periods indicated:

| | 13-Week Period | |
|------------------------------|------------------|------------------|
| | Ended | |
| | Sep. 27, 2014 | Sep. 28, 2013 |
| Sales | 100.0 % | 100.0 % |
| Cost of sales | 82.4 | 82.4 |
| Gross profit | 17.6 | 17.6 |
| Operating expenses | 13.9 | 13.5 |
| Operating income | 3.7 | 4.1 |
| Interest expense | 0.2 | 0.3 |
| Other expense (income), net | (0.0) | (0.0) |
| Earnings before income taxes | 3.5 | 3.8 |
| Income taxes | 1.3 | 1.4 |
| Net earnings | 2.2 % | 2.4 % |

The following table sets forth the change in the components of our consolidated results of operations expressed as a percentage increase or decrease over the comparable period in the prior year:

| | 13-Week Period |
|------------------------------|-------------------|
| Sales | 6.2 % |
| Cost of sales | 6.3 |
| Gross profit | 6.0 |
| Operating expenses | 8.6 |
| Operating income | (2.6) |
| Interest expense | 1.3 |
| Other expense (income), net | (51.7)(1) |
| Earnings before income taxes | (3.4) |
| Income taxes | (5.1) |
| Net earnings | (2.4) % |
| Basic earnings per share | (4.1) % |
| Diluted earnings per share | (2.1) |

| | |
|----------------------------|-----|
| Average shares outstanding | 0.1 |
| Diluted shares outstanding | 0.3 |

(1) Other expense (income), net was income of \$2.2 million in the first quarter of fiscal 2015 and \$4.5 million in the first quarter of fiscal 2014.

Sales

Sales for the first quarter of fiscal 2015 were 6.2% higher than the first quarter of fiscal 2014. Sales for the first quarter of fiscal 2015 increased as a result of product cost inflation and the resulting increase in selling prices, case volume growth, and sales from acquisitions that occurred within the last 12 months. Case growth in our locally-managed business was steady compared to the growth in the fourth quarter, and sales growth for both local and corporate-managed business grew at roughly similar rates in the first quarter. Changes in product costs, an internal measure of inflation or deflation, were estimated as inflation of 4.9% during the first quarter of fiscal 2015, driven mainly by inflation in the meat, dairy and seafood categories. Case volumes including acquisitions within the last 12 months improved 2.3% in the first quarter of fiscal 2015 compared to the first quarter of fiscal 2014. Case volumes excluding acquisitions within the last 12 months improved 2.2% in the first quarter of fiscal 2015. Our case volumes represent our results from our Broadline and SYGMA segments combined. Sales from acquisitions within the last 12 months favorably impacted sales by 0.6% in the first quarter of fiscal 2015. The changes in the exchange rates used to translate our foreign sales into U.S. dollars negatively impacted sales by 0.5% in the first quarter of fiscal 2015.

Operating Income

Cost of sales primarily includes our product costs, net of vendor consideration, and includes in-bound freight. Operating expenses include the costs of facilities, product handling, delivery, selling and general and administrative activities. Fuel surcharges are reflected within sales and gross profit; fuel costs are reflected within operating expenses.

The following table sets forth the change in the components of operating income and adjusted operating income expressed as a percentage increase or decrease over the comparable period in the prior year:

| | 13-Week Period Ended Sep. 28, 2014 | 13-Week Period Ended Sep. 28, 2013 | 13-Week Period Change in Dollars | 13-Week Period Change % |
|--|--|--|---|----------------------------------|
| | (In thousands) | | | |
| Gross profit | \$ 2,188,717 | \$ 2,065,487 | \$ 123,230 | 6.0 % |
| Operating expenses | 1,723,104 | 1,587,289 | 135,815 | 8.6 |
| Operating income | \$ 465,613 | \$ 478,198 | \$ (12,585) | (2.6) % |
| Gross profit | \$ 2,188,717 | \$ 2,065,487 | \$ 123,230 | 6.0 % |
| Adjusted operating expenses (Non-GAAP) | 1,679,669 | 1,584,968 | 94,701 | 6.0 |
| Adjusted operating income (Non-GAAP) | \$ 509,048 | \$ 480,519 | \$ 28,529 | 5.9 % |

The decrease in operating income was impacted by an increase in pay-related expenses and \$41.1 million in operating expenses attributable to Certain Items, primarily merger and integration planning expenses. Adjusted operating income for the first quarter of fiscal 2015 was greater than the first quarter of fiscal 2014 primarily from higher gross profits, partially offset by higher pay-related expenses. More information on the rationale for the use of these measures and reconciliations can be found under "Non-GAAP Reconciliations."

Gross profit dollars increased in the first quarter of fiscal 2015 as compared to the first quarter of fiscal 2014 primarily due to increased sales volumes. Gross margin, which is gross profit as a percentage of sales, was 17.59% in the first quarter of fiscal 2015, a decline of 4 basis points from the gross margin in the first quarter of fiscal 2014. We believe our category management initiative and efforts to manage margin are helping offset gross margin pressure stemming from increased competition in our slow-growth market, customer mix and product cost inflation. Inflation in the first quarter of fiscal 2015 was experienced primarily in the meat, dairy and seafood categories, which represent more than

one-third of our annual sales. While we cannot predict whether inflation will continue at current levels, periods of high inflation, either overall or in certain product categories, can have a negative impact on us and our customers. High food costs can be difficult to pass on to our customers, and inflation can reduce consumer spending in the food-away-from-home market. As such, periods of high inflation may negatively impact our sales, gross profit, operating income and earnings.

Operating expenses for the first quarter of fiscal 2015 increased 8.6%, or \$135.8 million, over the first quarter of fiscal 2014. Adjusted operating expenses for the first quarter of fiscal 2015 increased 6.0%, or \$94.7 million, as compared to the first quarter of fiscal 2014. The increase in operating expenses was impacted by an increase in pay-related expenses and \$41.1 million in costs attributable to Certain Items, primarily merger and integration planning expenses.

Operating Expenses Impacting Adjusted Operating Income

Pay-related expenses represent a significant portion of our operating costs, and can increase due to volume growth, acquisitions and pay increases, among other factors. These expenses increased by \$67.3 million in the first quarter of fiscal 2015 over the first quarter of fiscal 2014, primarily due to higher sales and delivery costs, as well as the timing of certain management incentive accruals. Sales and gross profit growth partially contributed to an increase in sales pay-related expenses due to increases in sales commissions and bonuses. In addition, we have increased our marketing associate headcount in certain markets in order to invest in future sales growth. Our delivery pay-related expenses are increasing from a continued shortage of drivers, which contributes to higher wages and increased overtime. Our expense related to management incentive accruals has increased primarily from reductions in accruals that occurred in the first quarter of fiscal 2014 that did not recur in the first quarter of fiscal 2015.

Cost per case is an important metric management uses to measure our expense performance. This metric is calculated by dividing the total operating expense of our North American Broadline companies by the number of cases sold. Adjusted cost per case is calculated similarly; however, the operating expense component excludes severance charges. Our corporate expenses are not included in the cost per case metrics because the metric is a measure of efficiency in our operations. We seek to grow our sales and either minimize or reduce our costs on a per case basis. Our cost per case was an increase of \$0.12 per case in the first quarter of fiscal 2015

as compared to the first quarter of fiscal 2014. Adjustments to operating expenses were not large enough in either period to produce a different result on an adjusted cost per case basis. The increase in cost per case is primarily due to pay-related expenses from our general and administrative, sales and delivery areas. We believe we have opportunities to better manage our operating expenses over the remainder of the year; however the cost increases in the first quarter will pressure our ability to meet our goal of achieving no increase in our cost per case results from fiscal 2014.

Certain Items within Operating Expenses

Sysco's operating expenses are impacted by Certain Items, which are expenses that can be difficult to predict and can be unanticipated. More information on the rationale for the use of these measures and reconciliations to GAAP numbers can be found under "Non-GAAP Reconciliations." Certain Items for the first quarter of fiscal 2015 relate primarily to integration planning and transaction costs incurred in connection with the proposed merger with US Foods. These costs totaled \$40.5 million in the first quarter of fiscal 2015. We anticipate incurring additional costs as we continue planning for integration of the two companies, as well as other financing costs incurred in connection with the proposed merger. Certain Items were not material for the first quarter of fiscal 2014.

Net Earnings

Net earnings decreased 2.4% in the first quarter of fiscal 2015 from the comparable period of the prior year due primarily to the changes in operating income discussed above. Adjusted net earnings increased 7.6% during the same period.

The effective tax rates for the first quarter of fiscal 2015 and fiscal 2014 were 36.18% and 36.84%, respectively. Indefinitely reinvested earnings taxed at foreign statutory rates less than our domestic tax rate had the impact of reducing the effective tax rates for each period.

Earnings Per Share

Basic earnings per share in the first quarter of fiscal 2015 were \$0.47, a 4.1% decrease from the comparable prior period amount of \$0.49 per share. Diluted earnings per share in the first quarter of fiscal 2015 were \$0.47, a 2.1% decrease from the comparable prior period amount of \$0.48 per share. Adjusted diluted earnings per share in the first quarter of fiscal 2015 were \$0.52 a 6.1% increase over the comparable prior period amount of \$0.49 per share. These results were primarily from the factors discussed above related to net earnings.

Non-GAAP Reconciliations

Sysco's results of operations are impacted by severance charges, US Foods merger and integration planning costs, charges from facility closures and amortization of US Foods related financing costs. Management believes that adjusting its operating expenses, operating income, interest expense, net earnings and diluted earnings per share to remove the impact of these charges provides an important perspective of underlying business trends and results and provides meaningful supplemental information to both management and investors that is indicative of the performance of the company's underlying operations and facilitates 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 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 below, each period presented is adjusted to remove the costs described above. In the table below, individual components of diluted earnings per share may not add to the total presented due to rounding. Adjusted diluted earnings per share is calculated using adjusted net earnings divided by diluted shares outstanding.

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Set forth below is a reconciliation of actual operating expenses, operating income, interest expense, net earnings and diluted earnings per share to adjusted results for these measures for the periods presented:

| | 13-Week Period Ended Sep. 27, 2014 | 13-Week Period Ended Sep. 28, 2013 | 13-Week Period Change in Dollars | 13-Week Period % Change |
|---|--|--|---|----------------------------------|
| (In thousands, except for share and per share data) | | | | |
| Operating expenses (GAAP) | \$ 1,723,104 | \$ 1,587,289 | \$ 135,815 | 8.6 % |
| Impact of severance charges | (1,804) | (1,582) | (222) | 14.0 |
| Impact of US Foods merger and integration costs | (40,481) | - | (40,481) | |
| Impact of facility closure charges | (1,150) | (739) | (411) | 55.6 |
| Adjusted operating expenses (Non-GAAP) | \$ 1,679,669 | \$ 1,584,968 | \$ 94,701 | 6.0 % |
| | | | | |
| Operating Income (GAAP) | \$ 465,613 | \$ 478,198 | \$ (12,585) | (2.6) % |
| Impact of severance charges | 1,804 | 1,582 | 222 | 14.0 |
| Impact of US Foods merger and integration costs | 40,481 | - | 40,481 | |
| Impact of facility closure charges | 1,150 | 739 | 411 | 55.6 |
| Adjusted operating income (Non-GAAP) | \$ 509,048 | \$ 480,519 | \$ 28,529 | 5.9 % |
| | | | | |
| Interest expense (GAAP) | \$ 30,934 | \$ 30,528 | \$ 406 | 1.3 % |
| Impact of US Foods financing costs | (3,703) | - | (3,703) | |
| Adjusted interest expense (Non-GAAP) | \$ 27,231 | \$ 30,528 | \$ (3,297) | (10.8)% |
| | | | | |
| Net earnings (GAAP) (1) | \$ 278,813 | \$ 285,590 | \$ (6,777) | (2.4) % |
| Impact of severance charges | 1,151 | 1,000 | 151 | 15.1 |
| Impact of US Foods merger and integration costs | 25,835 | - | 25,835 | |
| Impact of facility closure charges | 734 | 467 | 267 | 57.2 |
| Impact of US Foods financing costs | 2,363 | - | 2,363 | |
| Adjusted net earnings (Non-GAAP) (1) | \$ 308,896 | \$ 287,057 | \$ 21,839 | 7.6 % |
| | | | | |
| Diluted earnings per share (GAAP) (1) | \$ 0.47 | \$ 0.48 | \$ (0.01) | (2.1) % |
| Impact of severance charges | - | - | - | |
| Impact of US Foods merger and integration costs | 0.04 | - | 0.04 | |
| Impact of facility closure charges | - | - | - | |
| Impact of US Foods financing costs | - | - | - | |
| Adjusted diluted earnings per share (Non-GAAP) (1) | \$ 0.52 | \$ 0.49 | \$ 0.03 | 6.1 % |
| | | | | |
| Diluted shares outstanding | 593,309,750 | 591,458,948 | | |

(1) The net earnings and diluted earnings per share impacts are shown net of tax. The aggregate tax impact of adjustments for severance charges, merger and integration costs associated with our pending US Foods merger, facility closure charges and amortization of US Foods financing costs was \$17.1 million and \$0.9 million for the first quarter of fiscal 2015 and the first quarter of fiscal 2014, respectively. Amounts are calculated by multiplying the operating income impact of each item by the respective year's effective tax rate.

Segment Results

We have aggregated our operating companies into a number of segments, of which only Broadline and SYGMA are reportable segments as defined in the accounting literature related to disclosures about segments of an enterprise. The accounting policies for the segments are the same as those disclosed by Sysco for its consolidated financial statements. Intersegment sales represent specialty produce and imported specialty products distributed by the Broadline and SYGMA operating companies.

Management evaluates the performance of each of our operating segments based on its respective operating income results. Corporate expenses and adjustments generally include all expenses of the corporate office and Sysco's shared service center. These also include all share-based compensation costs. While a segment's operating income may be impacted in the short-term by increases or decreases in gross profits, expenses, or a combination thereof, over the long-term each business segment is expected to increase its operating income at a greater rate than sales growth. This is consistent with our long-term goal of leveraging earnings growth at a greater rate than sales growth.

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The following table sets forth the operating income of each of our reportable segments and the other segment expressed as a percentage of each segment's sales for each period reported and should be read in conjunction with Note 15, "Business Segment Information":

| | Operating Income as a Percentage of Sales 13-Week Period | |
|-----------|---|---------------------|
| | Sep. 27, 2014 | Sep. 28, 2013 |
| Broadline | 6.8 % | 6.9 % |
| SYGMA | 0.3 | 0.5 |
| Other | 3.2 | 3.2 |

The following table sets forth the change in the selected financial data of each of our reportable segments and the other segment expressed as a percentage increase or decrease over the comparable period in the prior year and should be read in conjunction with Note 15, "Business Segment Information":

| | Increase (Decrease) 13-Week Period | |
|-----------|--|---------------------|
| | Sales | Operating Income |
| Broadline | 7.1 % | 6.8 % |
| SYGMA | 1.2 | (38.3) |
| Other | 7.4 | 9.4 |

The following table sets forth sales and operating income of each of our reportable segments, the other segment, and intersegment sales, expressed as a percentage of aggregate segment sales, including intersegment sales, and operating income, respectively. For purposes of this statistical table, operating income of our segments excludes corporate expenses and adjustments of \$263.6 million in the first quarter of fiscal 2015, as compared to \$207.4 million in the first quarter of fiscal 2014, that is not charged to our segments. This information should be read in conjunction with Note 15, "Business Segment Information":

Components of
Segment
Results