CLEVELAND RESEARCH COMPANY

1375 East 9th Street Suite 600, Cleveland, OH 44114
Office: 216-649-7250 ~ Fax: 216-649-7251 ~ www.cleveland-research.com

July 31, 2006

SYSCO	(BUY)
SYY	$27.47

EARNINGS

	Jun-05	Jun-06E	Jun-07E
Q1	$0.35	$0.31	$0.39
Q2	$0.36	$0.33	$0.38
Q3	$0.34	$0.30	$0.37
Q4	$0.44	$0.42	$0.50
CRC EPS	**$1.47**	**$1.35**	**$1.64**
Consensus		1.37	$1.59
P/E		20x	17x
Relative P/E (SPX)		130%	120%
EBITDA/share		$2.96	$3.46
EV/EBITDA		10.2x	8.7x

MARKET DATA

Shares Outstanding (mm)	618.5
Market Capitalization (mm)	$16,991
Avg Daily Share Vol (mm)	2,127,017
52-Week High	$37
52-Week Low	$27
Annual Dividend	$0.68
Dividend Yield	2.5%
S&P 500	$1,263

FUNDAMENTALS

ROE (Trailing 4Qs)	33.6%
Book Value	$4.53
Debt/Cap	39%
Revenue (Trailing 4Qs)	$32,101
5-Year Growth Rate	13%
Institutional Ownership	72%
Target Price	**$36.00**

SYY Revving Up for Earnings Acceleration

Conclusion

We really like what we are seeing and hearing from Sysco due to share gains and cost reduction efforts, and we think investors should be aggressively buying shares as earnings should see more momentum in FY07

Key Points

- Despite the general foodservice slowdown, SYY is doing a great job taking market share from other distributors through a powerful punch of adding customer contact reps (+6% this year with +7% slated for next year) and conducting business reviews with customers (40k this year versus 8k last year)
- SYY is looking to increase sales in faster growing segments, product lines, or new/underserved markets (such as specialty companies, national brands over SYY brand, Canada, and institutions)
- We expect to see progress on reducing operating expenses in FY07, especially on costs tied to the RDC as well as transportation savings from new centralization software
- We see opportunities to improve overall returns over the next two years due to direct/indirect benefits from the RDC, more foldouts/replacement facilities, and better execution and control at SYGMA

Jason D. Whitmer
Senior Research Analyst
(216) 649-7203
jwhitmer@cleveland-research.com

Scott Bender
Research Associate
(216) 649-7237
sbender@cleveland-research.com

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SYY: EXECUTIVE SUMMARY

We think investors have likely been approaching SYY with caution or nervousness due to (1) a slowdown in overall restaurant demand (with dreadfully negative trends coming from public casual diners), (2) high fuel costs, (3) greater expense pressures, and (4) underwhelming earnings performance over the last 12-18 months. However, we believe an earnings inflection is right around the corner due to strong share gains and expense reduction initiatives.

This report provides an update on both near-term issues and long-term opportunities as we evaluate the company's bull and bear case components. When we add up the catalysts versus the risks, we clearly shake out more bullish on the earnings outlook given the company's opportunities to see a better combination of sales strength and expense leverage in FY07.

As we look beyond the next 12 months, we firmly believe SYY will be able to extend its dominance in foodservice distribution via its redistribution network and further expansion into ancillary segments and geographies. The competitive dynamics over both the near and long term are extremely favorable for SYY as peers seem to be having harder time in the current consumer and cost environment. As SYY further develops its redistribution centers (RDCs), we think the company can completely change the game of foodservice distribution due to lower distribution costs, better procurement and supply chain visibility, greater selection, and faster service.

The following is a brief summary of three specific catalysts in our bull case thesis.

1. **Sales Strength and Market Share Gains.** We are hearing that SYY is pushing harder than ever to gain share, and we see solid traction through Business Reviews and the hiring of more customer contact reps. We also think SYY is re-focusing on increasing sales in new/under-developed business segments or geographies.
2. **Directional Cost Improvements.** We think cost cutting is a top near-term priority and the best long-term lever for operating margin leverage. Getting the first RDC fully ramped is the best EPS swing factor over the next 12 months.
3. **Better Outlook on Returns.** We think multiple projects and business segments will help rejuvenate returns for SYY, with the company's RDC ramp up the number one opportunity. In addition, we expect foldout/replacement facilities to help lower distribution costs due to either technology or geographic advantages. Lastly, we expect better returns out of SYGMA (which is in more of a turnaround mode) and Specialty businesses (demand is phenomenal, scale and expertise getting better).

SYY Bull Case Gaining Momentum

	BULL CASE CATALYSTS	Evaluation
1	Share Gains Driving Sales	Business Reviews and additional customer contact reps are top two priorities
2	Expenses Improve	Look for RDC and technology savings to help in FY07 (also best long-term lever)
3	Returns Accelerate	Both 2006 and 2007 should see expansion due to food and G&A benefits

	BEAR CASE RISKS	Evaluation
1	End Market Headwinds	Restaurants are not in great shape due to consumer environment
2	Near-Term Costs	Despite directional improvement or better comparisons, costs remain challenging
3	Structural Changes	SYY is undergoing internal change, while new channels present external hurdles

Source: Cleveland Research Co.

Bottom line, our research confirms our thesis that SYY is in much better shape today than it has been in the last two years, and we believe both sales and margins can show tangible improvement in FY07 as a result.

While the near-term business looks better, we have even more conviction that the long-term outlook is fantastic due to the company's huge potential to cut costs and take further share tied to the RDC project. Therefore, we expect SYY to exceed consensus expectations for FY07, and we think now is a good time to be building positions.

OVERVIEW of SYY BUSINESS MIX

Before we dive into support for our bullish thesis, we need to re-establish the framework for SYSCO's business segments.

SYY serves an addressable end market that exceeds $200 billion, the majority of which is through specific foodservice channels (SYY also serves as a supplier to the $8 billion hotel/motel industry through Guest Supply). Based on the company's $31.5 billion CY05 sales, SYY holds close to 15% consolidated market share. However, we find it interesting that SYY actually does business with over 40% of the industry's approximate 900,000 "purchase points" in North America, which means the market is still quite fragmented. The company also estimates that even its best customers only use SYY for 40% of purchases (or 40% penetration).

SYY Estimated Addressable Market

Segment	Sales (in billions)
U.S. Foodservice Market	$166.4
Non-Food Market	$20.0
Canadian Foodservice Market	$12.0
Estimated 2005 Foodservice Market	$198.4
Hotel Amenities & Supply Market	$8.0
Total Market	**$206.4**

Source: Company Reports and Presentations

Most of SYSCO's business is generated through restaurants, and certainly the bigger chunk of profits are generated via independent restaurants (or street business). However, SYY also has a significant presence among institutions and other stable channels such as hospitals, schools, and hotels/motels (combined, these generate 36% of sales, or $11.3 billion in CY05).

SYY Channel Mix by Customer Type

	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Restaurants	60%	61%	61%	62%	64%	65%	64%	63%	63%	64%	64%
Hospitals and Nursing Homes	12%	11%	11%	11%	10%	10%	11%	10%	10%	10%	10%
Schools and Colleges	7%	7%	7%	7%	7%	6%	6%	6%	6%	5%	5%
Hotels and Motels	6%	6%	6%	5%	5%	5%	5%	6%	6%	6%	6%
Other	15%	15%	15%	15%	14%	14%	14%	15%	15%	15%	15%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Company reports

While SYY owns 15% of its entire addressable market, the company just started broadcasting its share by channel.

Full service restaurants is largely synonymous with independent restaurants (although chains like The Cheesecake Factory would technically be included here), and SYY is close to 20% share within this specific end market or 17% on a blended basis for all restaurants.

Most other segments are clearly under-penetrated (except for Healthcare), including educational institutions, businesses, and even retail outlets. We have been hearing that SYY is more focused on some of these under-penetrated channels recently, while we also see faster growth in multiple specialty businesses (namely produce and custom-cut meats).

SYY Market Share by Customer Segment

Customer Segment	Est. Market Share (%)
Full Service Restaurants	19.8%
Limited Service Restaurants	14.1%
Total Restaurants	17.0%
Retail Hosts	3.3%
Educational Institutions	10.5%
Travel & Leisure	13.0%
Business & Industry	6.7%
Healthcare	36.7%
Other	12.7%

Source: Company Reports and Presentations

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As we break down the company's three primary businesses, **Broadline** (which includes the full package of distribution services through 70 some operating companies) continues to be the dominant arm of the company in both sales and profits (80% and 94%, respectively). Over 50% of these sales are generated by independent restaurants (as defined by Marketing Associate sales as a percentage of Broadline), or $13 billion in total (43% of total company sales). By our estimates, these independent restaurants account for roughly 80% of segment profits, or 75% of total consolidated segment profits. This is why independent restaurants are so vital to the company's near- and long-term earnings.

SYGMA is a large business segment in revenues (13% of SYY) but rather insignificant in terms of profits (less than 1% of total). Furthermore, profits have been under meaningful pressure here over the last 4-6 quarters. While meaningful changes seem to be underway, we wonder if this business will continue to be a viable long-term part of SYY.

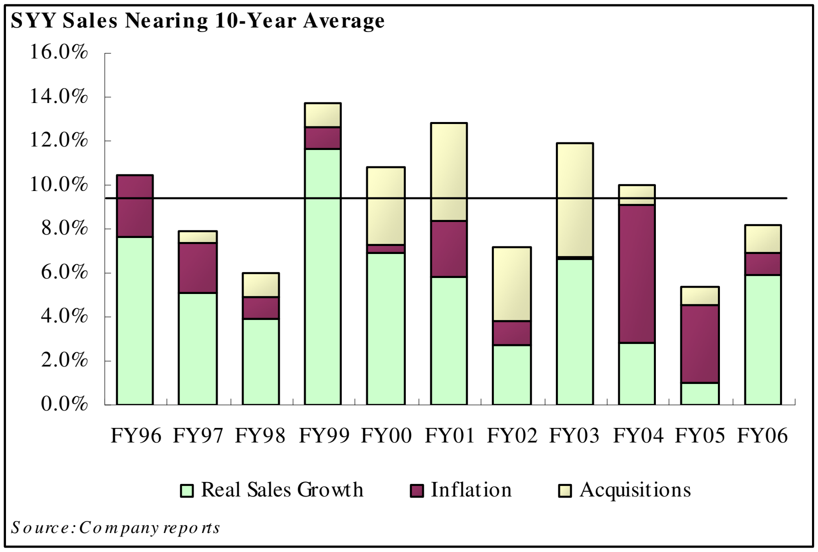
Lastly, the company's **Specialty** segment is the fastest growing piece—now closing in on 10% of sales and 7% of profits. SYY created this segment beginning in FY99 due to a need in core categories such as produce and custom-cut meats. We do not think SYY has been given enough credit over the years for adding these businesses, but we see an abundance of both sales and margin opportunities over the next 3-5 years in this segment in particular.

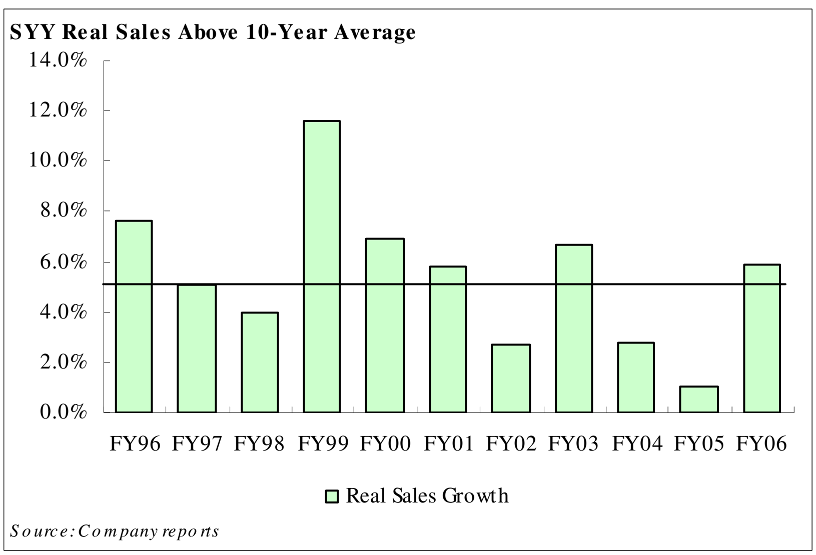
SYSCO Corp.									
BROADLINE	**Jun-00**	**Jun-01**	**Jun-02**	**Jun-03**	**Jun-04**	**Jun-05**	**Jun-06E**	**Jun-07E**	**Jun08E**
Sales	**16,644**	**18,107**	**19,163**	**21,490**	**23,719**	**24,266**	**25,722**	**27,774**	**29,997**
% Change	8%	9%	6%	12%	10%	2%	6%	8%	8%
% of Total Sales	86%	83%	82%	82%	81%	80%	78%	78%	76%
EBIT	**801**	**1,006**	**1,131**	**1,276**	**1,442**	**1,516**	**1,549**	**1,742**	**1,983**
% Change	20%	26%	12%	13%	13%	5%	2%	12%	14%
EBIT Margin	4.81%	5.56%	5.90%	5.94%	6.08%	6.25%	6.02%	6.27%	6.61%
BPS Change	49	74	35	4	14	17	-23	25	34
% of Total Profits	96%	94%	94%	94%	93%	94%	93%	92%	90%
SYGMA	**Jun-00**	**Jun-01**	**Jun-02**	**Jun-03**	**Jun-04**	**Jun-05**	**Jun-06E**	**Jun-07E**	**Jun08E**
Sales	**2,154**	**2,416**	**2,671**	**2,916**	**3,549**	**3,916**	**4,422**	**4,999**	**5,645**
% Change	8%	12%	11%	9%	22%	10%	13%	13%	13%
% of Total Sales	11%	11%	11%	11%	12%	13%	13%	14%	14%
EBIT	**14**	**16**	**23**	**24**	**25**	**18**	**13**	**25**	**37**
% Change	7%	21%	41%	3%	6%	-28%	-28%	94%	46%
EBIT Margin	0.63%	0.67%	0.86%	0.82%	0.71%	0.46%	0.29%	0.50%	0.65%
BPS Change	0	5	19	-5	-11	-25	-17	21	15
% of Total Profits	2%	2%	2%	2%	2%	1%	1%	1%	2%
Specialty/Other	**Jun-00**	**Jun-01**	**Jun-02**	**Jun-03**	**Jun-04**	**Jun-05**	**Jun-06E**	**Jun-07E**	**Jun08E**
Sales	**535**	**1,378**	**1,707**	**2,003**	**2,384**	**2,441**	**3,047**	**3,385**	**4,157**
% Change		158%	24%	17%	19%	2%	25%	11%	23%
% of Total Sales	3%	6%	7%	8%	8%	8%	9%	9%	11%
EBIT	**21**	**42**	**49**	**51**	**79**	**86**	**112**	**134**	**172**
% Change		99%	15%	5%	53%	9%	30%	20%	29%
EBIT Margin	3.98%	3.07%	2.86%	2.56%	3.29%	3.51%	3.66%	3.95%	4.14%
BPS Change		-91	-21	-30	74	22	16	28	20
% of Total Profits	3%	4%	4%	4%	5%	5%	7%	7%	8%
Intersegment Sales	-29	-116	-191	-269	-316	-341	**-402**	**-450**	**-553**
TOTAL SEGMENT SALES	**19,304**	**21,785**	**23,351**	**26,140**	**29,336**	**30,282**	**32,789**	**35,708**	**39,245**
TOTAL SEGMENT EBIT	**836**	**1,065**	**1,203**	**1,351**	**1,546**	**1,620**	**1,674**	**1,901**	**2,193**
Blended EBIT Margin	**4.3%**	**4.9%**	**5.2%**	**5.2%**	**5.3%**	**5.3%**	**5.1%**	**5.3%**	**5.6%**
BPS Change	**43**	**56**	**27**	**2**	**10**	**8**	**-24**	**-2**	**26**

The following three sections provides more detail and insights into our bull case thesis on SYY.

1. Sales Update

SYY management has vocally been **more focused on sales over the last 12 months**, and we think the company has been able to follow through and deliver convincing momentum on its pace of revenue growth (both real sales and total nominal sales). While some might think that SYY is exposed to slower overall restaurant sales, we firmly believe the company remains on track to deliver high single-digit sales growth due to more visible market share gains and further account penetration. Even based on our channel research, SYY has made this its top priority within its customer base, and the commitment to customized Business Reviews at each operating company appears to be paying off. Notice that SYY is nearing its 10-year average on total sales growth (just under double-digits), while **real sales growth is actually above its 10-year average** (+5-6%).





SYY reported that through the first six weeks of the fourth quarter, the company had posted **three record sales weeks** (first time a quarter has seen three record sales weeks since FY04). The first week of 4Q was also the first record sales week outside of Mother's Day since April 2004, and the company posted back-to-back record sales weeks for the first time since FY03. Overall, sales had increased 7.6% compared to the same period last year including slight deflation of 0.2% (meaning real sales growth is likely between 6-7%).

Even though SYY has been making solid progress on sales over the last few quarters, investors are still quite nervous that overall restaurant sales have slowed enough to cause a problem for the company. While it is more than apparent that casual dining chains are taking it on the chin within our restaurant coverage (particularly on traffic), we do not think the same magnitude of declines is moving across the independent community (which is a change of tone compared to the last few years). Surely the broader risk for a slower end market is in front of SYY, but we think the combination of better relative sales and specific market share gains are helping the company push through the current environment.

To provide support for our thinking, we surveyed 41 independent restaurants across the country that use SYY as their primary distributor. Our conclusions are actually fairly favorable for both SYY share gains and the current pace of business. More specifically, **SYY has been able to increase its mix by 250 bps on average** (from 35.9% to 38.4%) versus this time last year, with a **net 12% of the restaurants buying more product from SYY**.

In terms of the sales pace versus expectations for these independent restaurants, overall business is currently slightly ahead of plan. These restaurants also seem surprisingly optimistic about the next 3-6 months, and the expectation for SYY purchases looks a bit better on a net basis as well.

Survey Shows Solid SYY Share Gains and Stable Sales for Independents

Average Purchase Mix from SYY Today	38.4%
Average Purchase Mix from SYY LY	35.9%
Change in Market Share	**+2.5%**
Percentage of Restaurants Buying **More** from SYY	22%
Percentage of Restaurants Buying the **Same** from SYY	68%
Percentage of Restaurants Buying **Less** from SYY	10%
NET Share Gains versus Losses	**+12%**
Plan to Buy **More** from SYY Next 3-6 Months	22%
Plan to Buy **Same** from SYY Next 3-6 Months	63%
Plan to Buy **Less** from SYY Next 3-6 Months	12%
NET Purchase Intentions (More - Less)	**+10%**
Business is **Above** Plan	22%
Business is **On** Plan	56%
Business is **Below** Plan	17%
NET Sales vs. Plan (Above - Below)	**+5%**
Expect Business to **Improve** Next 3-6 Months	54%
Expect Business to **Stay the Same** Next 3-6 Months	37%
Expect Business to **Weaken** Next 3-6 Months	0%
NET Expectations (Improve - Weaken)	**+54%**

Source: CRC Channel Research

The following two sections outline specific market share catalysts for SYY.

Market Share Priorities: Incremental Customer Contact Reps and Business Reviews

SYSCO is in the middle of two very specific end market initiatives to help stimulate its overall sales flow driven by incremental sales reps and performing customized business reviews with its customer base. This should help SYY more effectively increase its depth (or penetration) and breadth within the channel—particularly via the most profitable independent or street account segment. By increasing sales with existing customers, SYY can more effectively increase cases and lines per stop, which should in turn favorably move the needle on profitability. Management indeed confirmed last quarter that account penetration has been the biggest catalyst for its market share momentum.

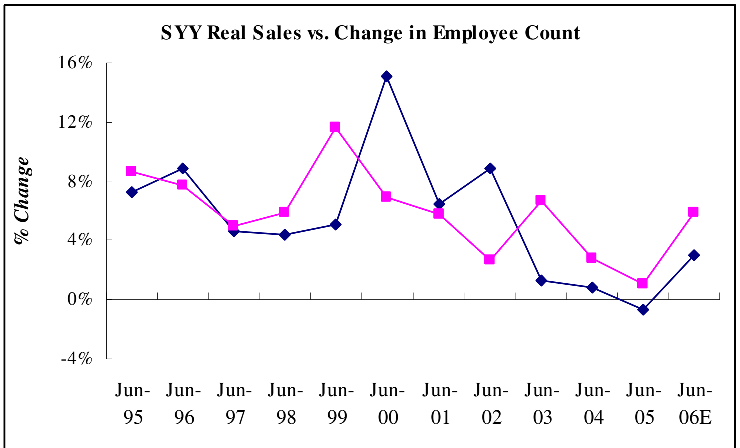
Adding Sales Reps in the Field a Key Near-Term Sales Stimulus

During our conversations with management last fall, one of the points of confession on softer sales was the company's decision to trim back on people back in FY05. Even though the hiring freeze helped curb costs at the time, it clearly impacted SYSCO's ability to be in front of customers, and sales likely took a hit. By investing in more people this year (goal is to increase customer contact reps—which include market associates, business review managers, and business development managers—by 6%), SYY has had a good deal of success using its sales force as a primary sales catalyst—and we expect more of the same next year (early indications are for another 7% increase in customer contact reps).

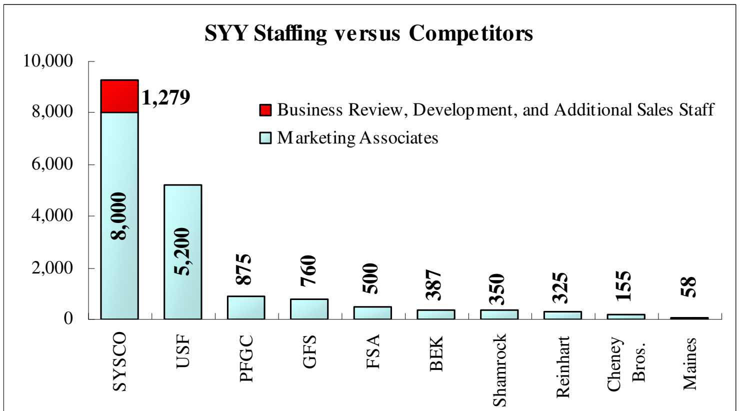
SYY Customer Contact Reps

	# of Reps	Sequential Change	Y/Y Change
2QF05	9,709		
3QF05	9,775	0.7%	
4QF05	9,900	1.3%	
1QF06	9,950	0.5%	
2QF06	10,000	0.5%	3.0%
3QF06	10,222	2.2%	4.6%
4QF06E	10,497	2.7%	6.0%

Source: Company Reports, CRC Estimates



Source: Company reports



Source: Company Reports

Based on the correlation of real sales growth to employee growth, clearly this is an important variable for the company to manage. Even though labor productivity has been getting better over the last few years (such as sales per labor hour or sales per employee), it has been apparent that SYY has handcuffed its growth by limiting the number of bodies in the field, at the operating companies, or in Houston.

By making a more deliberate investment in its people this year, we think SYY can better serve current customers while pursuing more profitable new customers going forward (Business Development is supposedly not nearly as refined as the Business Review program).

In addition, the relative strength of internal sales reps dwarfs the competition. We have heard both USF and PFGC publicly declare that they plan to add more sales reps to chase similar street business, but we have not seen as much follow through compared to SYY.

As of today, SYY has almost as many reps as the number two through ten distributors combined. We hear that the company has been more actively pursuing sales reps from primary peers (namely USF), and it sounds like a good number of reps have found a compelling reason to join SYY over the last 6-12 months.

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Business Reviews Help Spur Both Near- and Long-Term Gains

Over the last 18 months, SYY has had a great deal of success with its Business Review initiative, which essentially covers 3-4 hour meetings with the company's best customers. The agenda for most of these sessions is an in-depth menu analysis/development, and SYY is trying to play the role of a consultant rather than just a distributor. This includes providing some peer/market analysis and establishing financial objectives, including a detailed matrix on sales contribution relative to gross profit per item or category. Customers can then address where pricing needs to be taken, and what items need to be removed. While this **helps build loyalty** among customers, it also serves as a catalyst to either **regain lost business or better retain current business**.

Bottom line, SYY is seeing strong results in every region, and the **average sales lift has consistently been in the mid-teens** since the program started. Management is also starting to get positive anecdotal feedback on second or even third reviews, which will likely help the company "comp the comp" during FY07. Roughly 40,000 reviews were conducted in FY06, which amounts to roughly 10% of the customer base but closer to 40-50% of profits. As the company continues to refine the process, we think there is still more of a tail to the overall initiative.

SYY Business Reviews

	# of Business Reviews	
	Quarterly	**Cumulative**
1QF06	8,000	8,000
2QF06	8,500	16,500
3QF06	10,000	26,500
4QF06E	13,500	40,000

Source: Company Reports

When we surveyed the 41 independent restaurants, we also asked them if they have gone through a business review. Only 20% of these restaurants had gone through the process, and while some restaurateurs do not like outside third parties providing advice, those that did have a review spoke favorably on the results (half said that they ordered more from SYY, including one that had previously cut the order volume but pushed it back up).

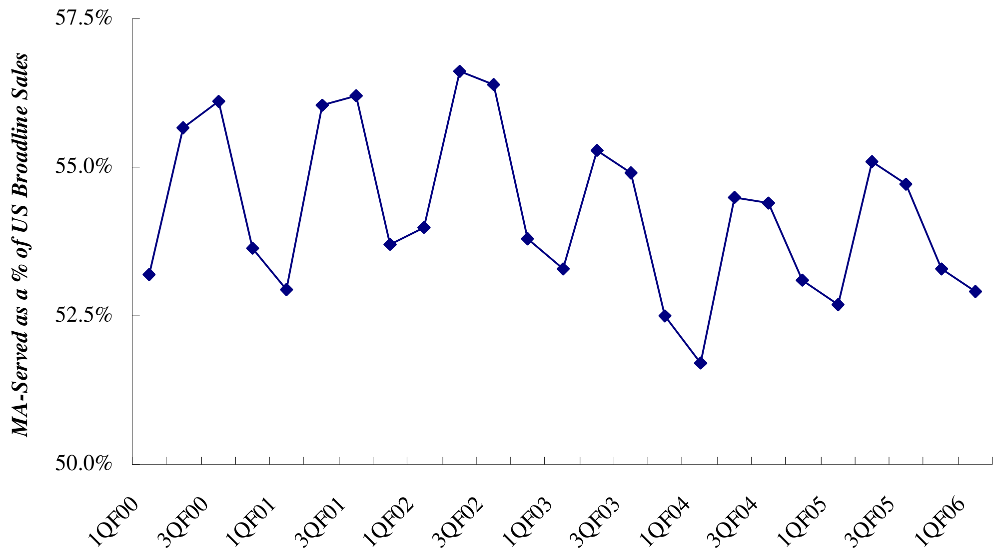
Channel Anecdotes on Business Reviews

- *"We completed a business review and it was a great experience. Our menu was updated last week, so we are waiting to see how customers react to the changes."*
- *"We have done several business reviews with SYSCO. It is a good experience because they gives us new ideas and help us control menu prices. We usually see the benefits last for a period afterward and then it levels off."*
- *"They gave us some ideas on our menus, what we offer and how to prepare some items. The changes were pretty successful and I enjoyed the process as a whole."*
- *"I actually cut my orders from SYSCO to 10% (from 90%) this month. When SYSCO saw that, we did a business review and they gave us a few price deals and some tips on our menu. After that, we began to order 40% of our purchases from them."*
- *"It was great and helped us improve our business and dinning experience. Since the business review, our sales went up 5%."*
- *"We get the usual discounts and a few new ideas. We did see positive change in sales afterward, but nothing drastic."*
- *"If our volumes drop or customers start to complain, then we would consider a business review."*
- *"I would never do a business review with SYSCO. To me, it seems ridiculous to have a vendor do something I consider my job."*
- *"I've been in business for almost fifteen years and I have had basically the same menu. I don't think a review with SYSCO would help me much."*
- *"The business review process went very well, but price and service are still my number one concerns. I know what my customers like and the restaurant can practically run itself. Why would I want to change that?"*
- *"I think it was a waste of both our times. I already now what I need and what SYY and their competitors offer."*

Source: CRC Channel Research

The success of business reviews can ultimately be measured by penetration of MA-based sales. Investors need to be cautious about looking at this figure sequentially, however, since this mix tends to be quite volatile on a seasonal basis (numbers have been bouncing between 52% and 57% over the last 3-5 years).

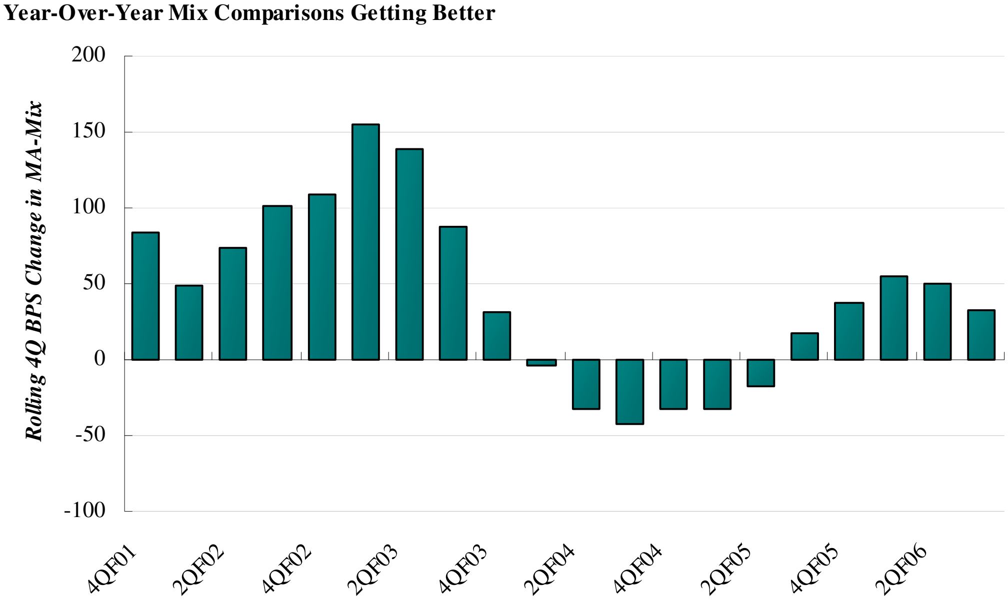
MA-Based Sales Vary Seasonally



Source: Company reports

We think the best way to measure MA-based sales is on a rolling year-over-year basis point change in penetration. While most of FY04 and early FY05 was losing footing on MA sales, we have clearly seen tangible improvement over the last four quarters. We continue to watch for more upside to this mix as a driver to both sales and profits (remember the higher the MA-based mix, the higher the profits).

Year-Over-Year Mix Comparisons Getting Better



Source: Company reports

Market Share versus Peers: SYY Investments Should Start to Cut Into Competitors

In addition to internal efforts to gain share, we think SYY has a wider window to steal share from both local/regional distributors as well as its larger peers (namely US Foodservice). We believe the company's distribution competitors are under a greater deal of duress due to higher gas prices (bigger proportional expense, lower operating margins) and rising interest rates (higher relative borrowing levels).

Below is a chart of total sales, real sales, and operating margin performance for SYY's primary public competitors over the last three years (USF has roughly 10% market share, PFCG has just north of 3%). There are two different stories to tell as (1) USF has struggled mightily on sales and even more on profitability since Ahold's accounting debacle from a few years ago, and (2) PFGC has done a decent job on sales over the last few years but a sub-par move on margins. In fact, it seems like both companies need to adjust some margin issues before they are ready to tackle more proactive sales initiatives. From our view point, we think SYY has a major competitive edge on sales/share, expenses, operating margins, debt levels, and cash flow.

SYY Performance vs. Competitors

	Total Sales Growth			Real Sales Growth			Operating Margin		
	SYY	**USF**	**PFGC**	**SYY**	**USF**	**PFGC**	**SYY**	**USF**	**PFGC**
1Q06	9.4%	3.8%	3.2%	3.4%	2.8%	3.2%	4.2%	1.4%	0.7%
4Q05	8.7%	1.8%	6.8%	6.8%	1.0%	5.8%	4.6%	1.0%	1.5%
3Q05	6.3%	1.3%	7.3%	4.7%	1.1%	7.3%	4.4%	1.2%	1.3%
2Q05	5.6%	0.3%	12.7%	3.0%	-1.0%	11.7%	5.8%	1.0%	1.5%
1Q05	5.9%	0.9%	16.2%	1.1%	-2.5%	13.2%	4.7%	0.4%	0.7%
4Q04	4.2%	0.8%	13.0%	-0.3%	-3.1%	9.0%	5.4%	0.7%	1.7%
3Q04	5.6%	2.9%	11.5%	-0.8%	-2.1%	7.5%	5.1%	0.4%	2.2%
2Q04	8.4%	7.5%	13.8%	0.0%	0.5%	7.8%	5.8%	0.8%	2.3%
1Q04	9.9%	4.6%	15.4%	4.3%	0.0%	11.4%	4.7%	-0.5%	1.1%
4Q03	10.8%	6.0%	16.3%	2.7%	-0.2%	11.3%	5.3%	0.6%	1.7%
3Q03	11.0%	5.9%	18.7%	4.1%	2.2%	14.2%	5.0%	-1.1%	2.9%
2Q03	10.5%	0.4%	28.0%	6.1%	-1.4%	13.0%	5.9%	1.3%	3.2%
1Q03	13.8%	-1.5%	27.0%	5.7%	-1.4%	12.0%	4.5%	-2.0%	2.4%
Average	***8.5%***	***2.7%***	***14.6%***	***3.1%***	***-0.3%***	***9.8%***	***5.0%***	***0.4%***	***1.8%***

Source: Company reports

In regards to US Foodservice in particular, our channel research suggests that Ahold could divest USF over the next 1-2 years (most likely to be sold off in pieces). SYY is "so far ahead of everyone else" that there is no chance that USF or other regional/independents will ever be able to catch up. We also think a management-led buyout is probable for USF, which we think would ultimately play in SYSCO's favor as the business still needs to rationalize in order to improve profitability.

Other Sales Initiatives: Pursue Faster-Growing Geographies, Segments, or Brands

In addition to market share gains, we heard that SYY is more actively pursuing new or underdeveloped market segments and geographies. More specifically, it sounds like the company has renewed its efforts at schools, within healthcare, and even retail service delis. Geographically, SYY continues to push hard to build fold-outs (goal is 3 per year), acquire fold-ins (smaller local companies), and further develop its Canadian business (which is 8% of total sales). We also think there are big changes ahead on the company's private label (or SYY Brand) program—although we are not sure what those changes imply going forward on sales or margins.

SYY Sales Mix by Geography

	FY03	FY04	FY05
United States	$24,218	$27,144	$27,851
US % of Total	93%	93%	92%
Canada	**$1,922**	**$2,191**	**$2,431**
Canada % of Total	7%	7%	8%
Canada % Change		14%	11%
Canada Growth vs. US		1.2x	4.2x

Source: Company reports

Geographic Emphasis North of the Border

SYY acquired SERCA back in FY02, and while there was a lot of discussion immediately following, we have not seen or heard a lot about this business over the last few years. However, we get the sense that this business has done fairly well on sales (11-14% growth over the last two years), and we expect more margin/expense opportunities over the next 1-2 years (this is a lower margin segment due to a greater mix of chain accounts). We also hear that SYY has sent some big guns up to Canada to do some specific work on merchandising.

SYY Sales Mix by Product Category

	MIX FY05 vs. FY95	Growth Rate vs. Total
Fresh and Frozen Meats	4%	1.19x
Canned and Dry Products	-7%	0.66x
Frozen Fruits/Veggies	-1%	0.97x
Poultry	2%	1.19x
Dairy	2%	1.20x
Fresh Produce	2%	1.37x
Paper & Disposables	1%	1.14x
Seafood	-1%	0.90x
Beverage	0%	1.07x
Equipment/Smallwares	-1%	0.71x
Janitorial/Chemical	0%	1.17x
Medical Supplies	0%	0.68x

Source: Company reports

Fresh Product Categories Growing Faster

SYY is also better positioned in faster growing categories such as fresh meats, poultry, dairy, and produce. The primary vehicle for this growth has been driven by acquisitions of specialty companies, but the broader portfolio for operating companies has been a big win in our opinion.

Conversely, the mix and rate of growth for staples has been consistently falling (particularly for canned/dry goods).

Areas that are under-penetrated where we anticipate some more action include seafood and janitorial (again, mostly through acquisition).

SYY Sales Mix by Product Category

	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Fresh and Frozen Meats	15%	15%	15%	15%	15%	17%	18%	18%	18%	19%	19%
Canned and Dry Products	25%	24%	23%	23%	22%	21%	19%	19%	19%	18%	18%
Frozen Fruits/Veggies	15%	14%	15%	15%	14%	14%	13%	13%	14%	13%	14%
Poultry	9%	10%	10%	10%	10%	10%	10%	10%	10%	11%	11%
Dairy	8%	9%	9%	9%	10%	9%	9%	9%	9%	9%	10%
Fresh Produce	6%	6%	6%	6%	6%	7%	9%	9%	9%	8%	8%
Paper & Disposables	7%	8%	8%	7%	7%	8%	8%	8%	8%	8%	8%
Seafood	6%	5%	5%	6%	6%	6%	6%	6%	6%	5%	5%
Beverage	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Equipment/Smallwares	3%	3%	3%	3%	3%	2%	2%	2%	2%	2%	2%
Janitorial/Chemical	2%	2%	2%	2%	2%	2%	2%	3%	2%	2%	2%
Medical Supplies	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

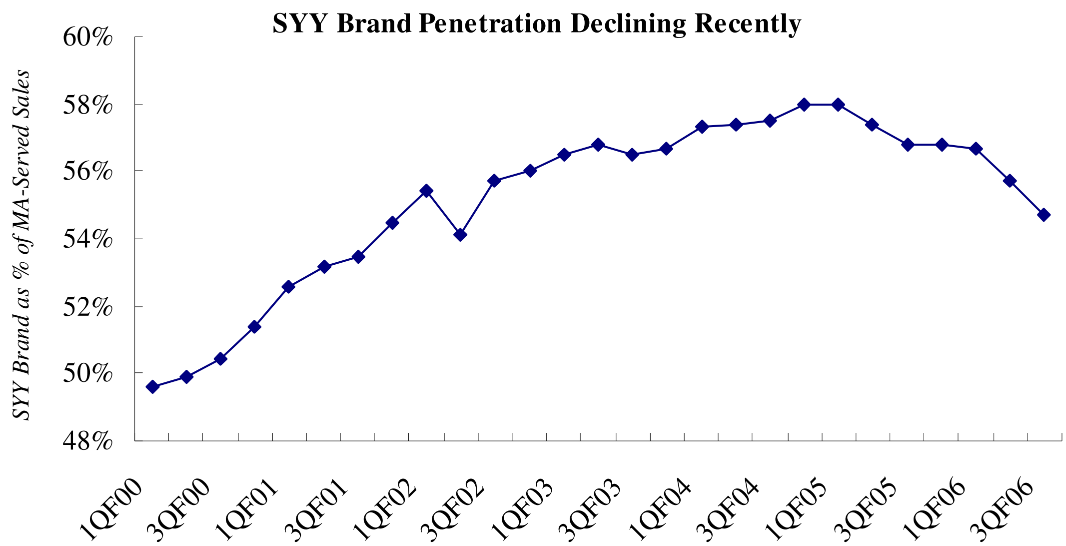
Merchandising Changes Underway on SYY Brand

The last arena of focus for SYY makes us pause as the company seems to be completely changing directions on its SYY Brand (or its private label program). There are multiple moving parts to this changing program as (1) SYY rationalizes its private label portfolio, (2) the company has removed MA incentives to sell more SYY Brand, and (3) we hear that there has been some discussion to outsource some of this process with a private label specialist (Daymon and Associates popped up as a potential candidate).

We have already seen an approximate **10% reduction in SKU's from over 40,000 to 36,000** (at one point we remember this figure being even higher), and management has publicly stated that it plans to rethink what products or categories deserve the SYY Brand.

Historically, incentives were given to marketing associates to sell SYY Brand (as well as certain co-branded product such as Starbucks), although we have reason to believe these **incentives are now being removed**. As SYY Brand takes more of a back seat, marketing associates and operating companies will be able to broaden their national brand coverage in order to better facilitate specific customer orders/requests.

While we need to do more digging on a potential strategic partner in this whole process, management has suggested that its **sourcing of this product is changing**. It is clear, however, that the overall mix of SYY Brand is shrinking.



Source: Company Reports

The biggest question mark on the philosophical shift is the potential impact on margins. SYY Brand has most certainly been a plus for gross margins over the last ten years, and there could be a margin risk attached as the mix continues to shrink. However, we think there is an end game for this platform that can offset this pressure either over the intermediate term (better procurement through sourcing and SKU rationalization) or over the long term (better procurement through the RDC).

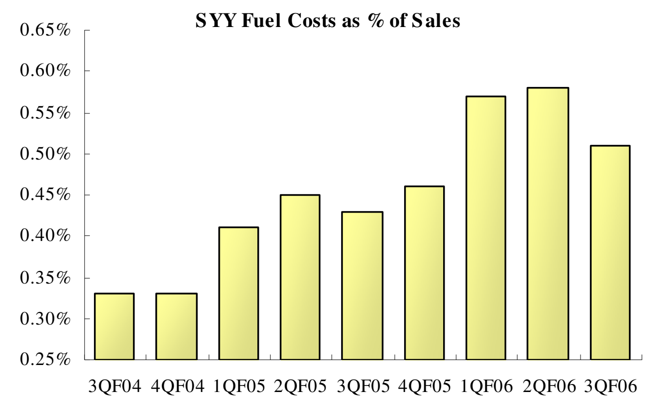
The good thing is that SYY is no longer forcing its private label on its customers, and we like the rationale that the company wants to move more volume and sell what sells rather than dictate or push its own brand. This is another solid example that management is most committed to case volume and not as much managing the business for gross margins.

Oddly, US Foodservice is going in the opposite direction by introducing a whole new scheme for its new Monarch private label (it is more common for competitors to mirror SYY rather than take a different road).

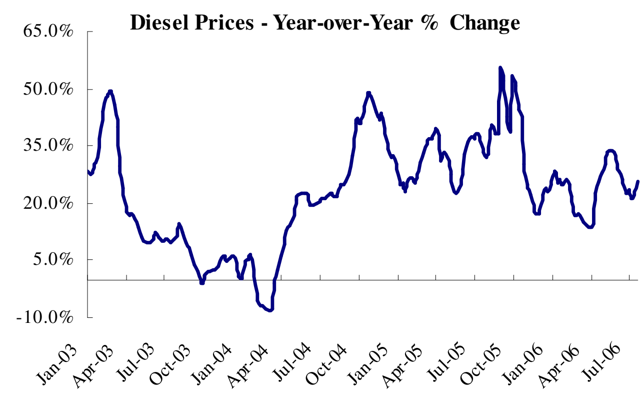
CLEVELAND RESEARCH COMPANY

2. Cost Outlook Should Noticeably Improve in FY07

Beyond top-line catalysts, we firmly believe cost cutting initiatives are critical levers to improve earnings over both the near and long term. The two biggest pressure points have been coming from fuel and incremental costs associated with the company's redistribution center. The former has seen a 30-50% increase in year-over-year diesel prices (which includes some favorable hedging), or a $10-$15 million headwind per quarter. However, we remind investors that fuel expense is only 50 bps of total sales, which we believe is substantially lower than other distributors. Furthermore, while we do not pretend to be experts on oil, we have a hard time coming to the conclusion that this will be a persistent 30-50% headwind. That said, comparisons should meaningfully ease as we move through the next six months.

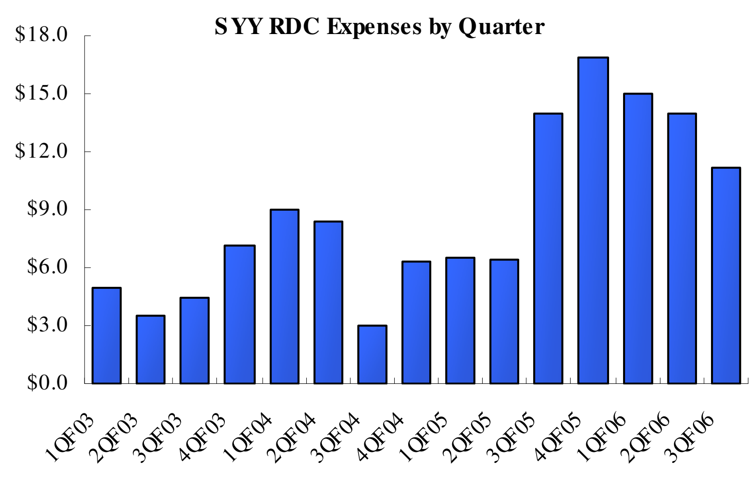


Source: Company Reports



Source: Energy Information Administration

We think the more controllable expense opportunity is through the RDC itself. While we address the returns of this project in greater detail later, we firmly believe the company has hit a ceiling on net incremental costs relative to the benefits. The dollar amount has been shrinking for a few quarters, and we believe the company's $0.04-$0.05 headwind over the last couple years should shrink over the next six months and potentially go away by 2HF07 (when the RDC is fully ramped). Indeed, SYY management has said that it expects its overall expense pressures to lessen "if not disappear" after 4Q (of course the most significant non-comparable expense from options becomes comparable beginning next quarter as well).



Source: Company Reports

As a side note, we also remember SYY referencing incremental expenses last fall to serve customers and even some competitors' customers impacted by the hurricanes. While we do not pretend to be a meteorologist either, we expect to see some favorable comparisons here as well.

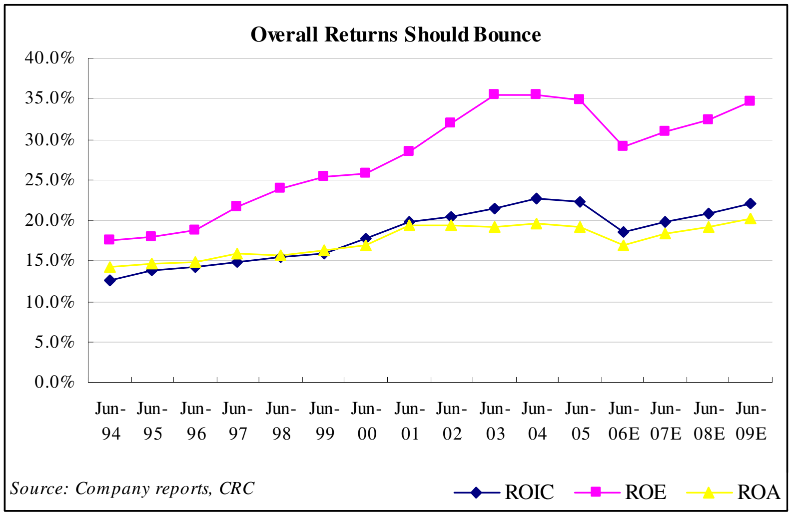
Most cost savings over the last 3-5 years have been driven by technological investments and improvements, such as SUS (Sysco Uniform System that provides uniform benchmarking across all OpCo's), SWMS (Sysco Warehouse Management System with applications on inventory and labor in particular), and more recently SOS (Sysco Order Selector that improves accuracy of picking and slotting).

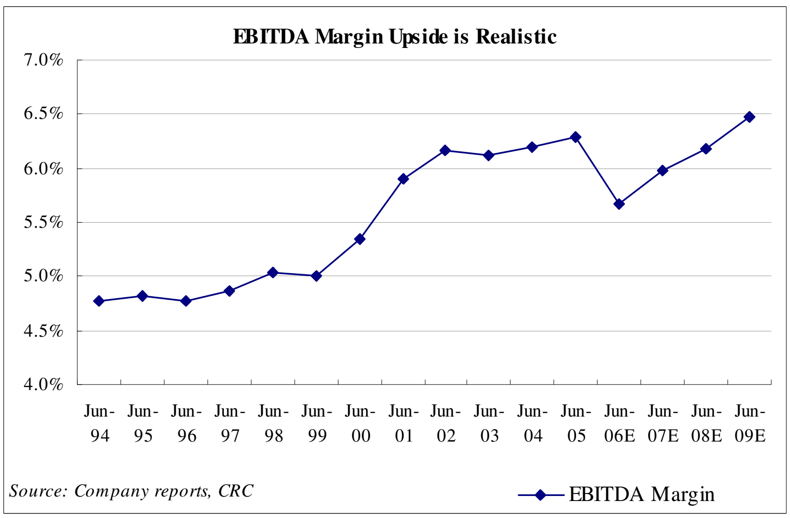
We expect a continuation of basic productivity efforts (fuller trucks, fewer miles, efficient routing), but we also anticipate major savings from the company's new transportation and inventory systems (among other initiatives).

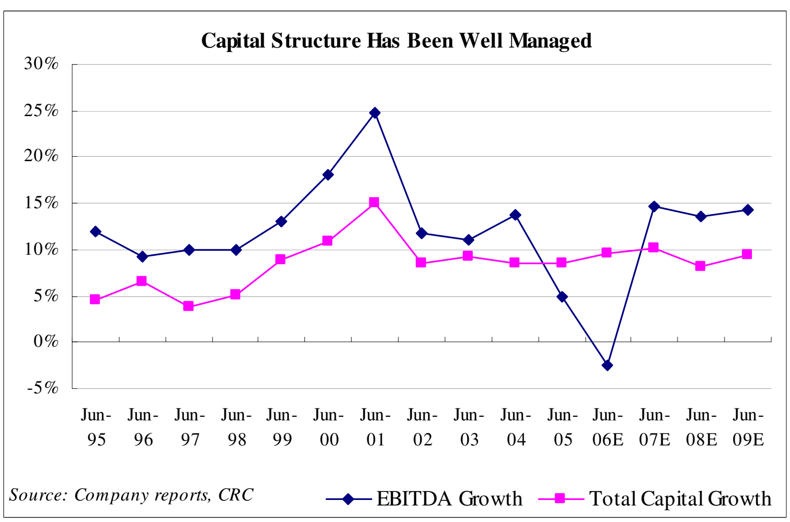
> **Transportation Software:** 28 of 69 OpCo's had been converted to this platform as of 3Q, and 41 should be converted by June. The remaining facilities will be online by December (or 1HF07), and SYY should be able to now manage all inbound freight to the OpCo's and the RDC from Houston (helps optimize network and save on transportation/fuel).
>
> **Inventory Software (DPR):** We have heard great things about the company's new inventory forecasting software, called Demand Planning & Replenishment (DPR). The Northeast OpCo's are already seeing an annualized $27 million in inventory reduction as of late 2005, and the entire system should be converted by 1HF08. The package should help synchronize forecasting, planning and ordering functions and support shorter lead times, less inventory and fresher product.
>
> **Procurement:** We heard that Sysco is removing an entire layer of management in merchandising that it added roughly 8-10 years ago. The company is going back to letting the buyers handle all the procurement negotiations instead of designating a merchandiser to handle multiple buyers. We also heard that SYY may start doing more international sourcing, particularly on non-foods (such as paper goods) or maybe even seafood.

Even though SYY is changing its model from a largely decentralized and regional business to a more controlled centralized system, we think the visibility and flow of product can ultimately help the company improve turns and lower costs (especially as it relates to the redistribution center over the long term).

3. Return Opportunities through RDC, Foldouts, and SYGMA







One of the most compelling reasons to own SYY is the company's immaculate rate of returns (measured by ROE, ROIC, or ROA).

Few companies have been able to grow sales and earnings while maintaining a solid balance sheet and stream of cash flow. We think this is one of the best arguments in favor of the company's perennial premium to the market.

However, returns have clearly fallen over the last two years, with the more drastic revision this year largely due to the change in accounting for options.

Nevertheless, we anticipate a nice **uptick in overall returns due to a combination of numerator and denominator catalysts.**

Considering most foodservice distributors barely generate over 1% EBIT margins, we find it more than impressive that SYY has been able to consistently expand operating margins over the last 10-15 years.

We have strong conviction that more upside is available to the company as **the number of OpCo's above 7% pretax margins continues to rise every year** (currently 40% of the 70 in FY05, and 66% of the OpCo's improved versus FY04). We anticipate EBITDA margin improvements largely through sales leverage and cost reduction over the next 1-2 years.

As we outline in the next few pages, we truly believe the company's RDC project will meaningfully drive improvements in both earnings power and returns as the network should help to lower distribution costs as well as limit capital needs going forward (both PP&E and working capital).

In fact, we would not be surprised to see an even sharper jump in margins and returns relative to expectations as this initiative builds steam over the next 3-5 years.

RDC Benefits Likely Closer Than Investors Realize

As we evaluate the current state of the RDC, we believe the majority of the heavy lifting is over—both on costs and operational bumps. The early kinks have largely been tied to software glitches and logistical overload, although the model itself and the execution of the model seems to be well in tact. Going forward, we think the RDC costs begin to directionally improve as capacity ramps up and more cases flow to the OpCo's. Furthermore, our supplier sources are starting to see lower costs of their own, faster throughput, fuller pallets, and fewer invoices.

While investors have been losing a bit of patience on this entire project (which in truth has taken much longer than expected), we think the redistribution network will turn into a net contributor over the next 12 months, and we believe the long-term benefits will provide a huge payday on costs, market share, and overall returns.

More superficially, the RDC helps lower operating expenses (transportation savings, lower admin expenses, better procurement/pricing), but it also curtails capital needs (which in turn could help lower interest expense). This includes major working capital savings (mostly inventory) coupled with capacity relief for current operating companies (PP&E avoidance). The latter helps SYY avoid consistent spending to bump out its facilities to facilitate growth.

In short, the capital avoidance for current OpCo's will exceed the capital expenditures for the RDC's. SYY has already been holding off on projects that are needed in Florida considering the second RDC will be operational in less than 18 months.

SYY Illustrative RDC Returns

	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Investment per Facility	$350	$100	$100	$100	$100	$100	$100	$100	$100
Cumulative Investments	$350	$450	$550	$650	$750	$850	$950	$1,050	$1,150
Returns per Facility	20%	70%	70%	70%	70%	70%	70%	70%	70%
Cumulative Returns	**20%**	**31%**	**38%**	**43%**	**47%**	**49%**	**52%**	**53%**	**55%**

Source: Cleveland Resarch Company

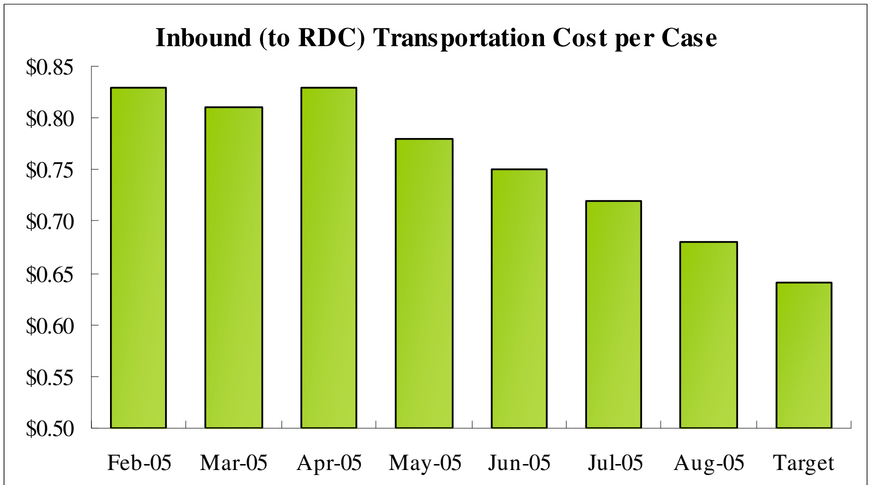
Redistribution Center Benefits

Suppliers / Processors	**SYSCO**	**SYY Customers**
Fewer ship-to destinations, invoices, and payments	Lower safety stock	Improved service levels
Consolidated orders and forecasts	Cost-efficient transportation	Wider product selection
More full pallet quantities and full truckload shipments	Less product handling	Shorter lead times for redistributed product
Accurate demand information for forecasting and scheduling of production	Reduced transaction processing costs and capital expenditures	Reductions in incremental cost from producer to consumer
	Increased sales growth	

Source: SYSCO Reports and Presentations

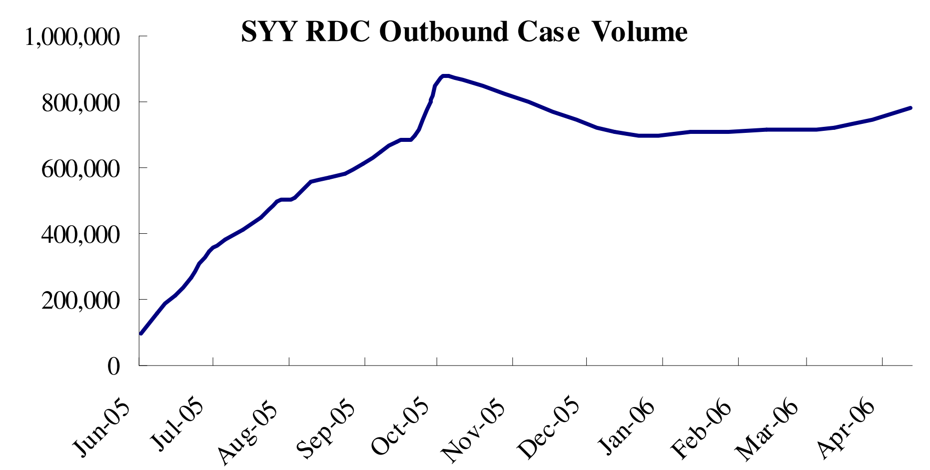
The following bullets are more recent and specific examples of material cost savings as sourced by the first RDC (which is still only 50% of case volume capacity).

- Outbound truck fill is exceeding business case, and inbound transportation cost/case is down 20% from Feb-05
- OpCo's are seeing 30% fewer delivery trucks and faster throughput (trucks unload in 15 minutes versus 2 hours)
- RDC direct labor per case improved by 40% from December 2005 to March 2006
- RDC cases per man hour was up 30% over the same time period
- NE OpCo's cases per man hour improved by 7% since December
- 8.2% reduction in handling costs per case in NE region (both RDC and non-RDC product)
- Savings on receiving labor, fork lift labor, loading costs



Source: Company Reports and Presentations

SYY disclosed that it was shipping close to 850k cases per day (or roughly 50% of capacity) during 1QF06, but management then put the ramp up on hold during 2Q to fix operational bumps. We actually think case volume shrunk a good amount thereafter but has started to ramp back up just recently. As the facility ramps up more suppliers (in process right now) and pushes case volume toward targeted levels, we expect outbound deliveries to be closer to 90% capacity utilization (if not better) by the end of the calendar year. This is when we think the RDC turns from a cost center to a profit center for SYY (which should be more visible by 2HF07).



Source: Company Reports, CRC Estimates

What's Next for the RDC Network?

SYY is now ready to move on both its second and third RDC locations, and land has already been purchased (or agreed upon) in Alachua, Florida and Hamlet, Indiana. The Florida location will likely take 14-16 months to complete after it breaks ground (which should be this month), while the Hamlet facility will likely take a bit longer due to the larger size and scope of the outbound radius (probably 18 months).

While some investors worry that these two facilities will drag SYY just when the first is ready to provide a lift, remember that most large investments and high hurdles were front-end loaded for the project. This includes software testing, deployment, and fixes, and the ramp up period should be much shorter for both Florida and Indiana (particularly Florida, which will likely only take 3-6 months compared to 12-18 months for the Northeast RDC). Plus, Florida will only service five operating companies in a much tighter geography, and SYY will clearly be better prepared on its systems and procedures. Finally, we think there will be further opportunities to optimize the network as product can be shipped from RDC to RDC as well as from RDC to OpCo's (more vendors can get involved quicker).

Fold-outs and replacement facilities

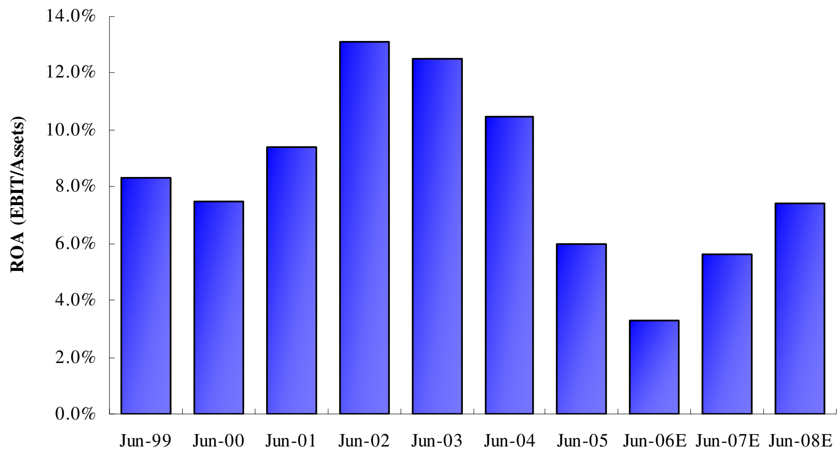
SYY has been trying to get closer to its customers by building fold-outs and replacement facilities at a faster clip over the last few years, and management has even publicly committed to building more fold-outs per year since the returns have been comfortably above those for acquisitions (goal is now to build roughly three fold-outs per year). While we need to do more digging on the financial impact from fold-outs, we firmly believe there is a net benefit for SYY on sales growth, transportation costs, and overall returns. Similarly, we think SYY can capitalize on replacement facilities to provide both state-of-the-art technology as well as better strategic or geographic placement within a market. We have seen this first-hand in Cleveland (new replacement facility has been operational for about a year now), and Denver finally converted its operating company to a new location over the last few months.

SYGMA Has Seen Meaningful Weakness, Better Days Ahead

Since SYGMA has been on its back for the last 12 months, we see this as a big opportunity for SYY to (a) implement sizeable turnaround plans, (b) re-think its business model, or (c) get rid of the business altogether. Note that this is not a good margin business at all (under 1% EBIT), although the company has justified keeping and adding to this business for the sake of decent returns.

For obvious reasons, multi-unit contracts are much more favorable to the chain restaurant that wants customized service/product at an extremely low price. SYY truly serves as an old-school middleman in this case, and while volume is good, we think margins could continue to drag going forward. In fact, we would argue that the return matrix has suffered meaningfully considering this segment has not been making much money over the last 4-6 quarters (it even lost money during 1QF06). The company has blamed slower sales from certain segment customers (Wendy's accounts for 40% of sales volume), higher fuel costs, higher startup costs related to new facilities, IT implementation costs, and higher workers comp.

SYGMA ROA Down Roughly 10%



Source: Company reports, CRC

In order to fix some of the problems at SYGMA, we have repeatedly heard that SYY has (1) been trying to unbundle services, (2) transfer some business from Broadline to SYGMA, (3) skinny the sales force, (4) establish more automated processes, and (5) pursue more emerging chains. We also think this segment desperately needs to ramp up capacity at some new/expanded facilities to improve the overall ROA (capital base is up 30-40%, yet margins have been down nearly 30% each of the last two years).

Fortunately, SYY says that it already has chain customers waiting for SYY to complete its expansion projects in order to sign contracts. In addition, we think SYY could see a reversal of two negative trends from WEN over the last couple years that should help alleviate some pressure points (SYY first lost some business but regained it, while comps have been lousy at WEN but seemingly better recently).

Risks

In short, other than arguments against valuation, we think these shares already discount general macro concerns and the lackluster pace of earnings growth over the last 12 months. Therefore, we do not envision much downside for SYY as we firmly believe a host of catalysts on sales and margins can overcome potential challenges ahead. Nevertheless, the following three variables are areas where we could be wrong.

1. **Macro risks** still could put a damper on SYY sales, particularly as end market restaurant sales have clearly been under duress over the last 3-6 months. A slower overall end market could put a dent in the company's sales pace, although the greater structural concern focuses on the relative strength of independent restaurants versus chains. We were much more nervous about this thesis in the past, although we think there is enough evidence of better health for independents today.

2. **Costs** remain an issue for investors as operating margins currently remain under pressure, particularly due to higher fuel prices (impacts both distribution costs as well as case volume demand for independent restaurants). We are also a bit leery of rising costs for drivers due to shortages and tight trucking capacity. If we take a step back from the last few quarters, however, it is more than clear that SYY has the capacity to meaningfully lower its cost structure simply due to technology investments and overall supply chain management. Coupled with the anticipated long-term network savings through the RDC (as well as the favorable cost swings over the intermediate term), we think the buckets of cost savings can meaningfully outweigh the sum of cost pressures.

3. Certain **structural changes** within the industry and at SYY could be a risk as new channels show strong growth and as pricing strategies shift gears. We have seen a strong rise of "cash and carry" businesses that have attracted a lot of new business over the last couple years, such as Restaurant Depot and even Sam's/Costco. Furthermore, there has also been a trend for more contract pricing or buying groups among independent restaurants or a consortium of restaurants. These changes could potentially have adverse margin consequences on SYY if the company is forced to move faster than it wants to on pricing. We have been hearing lots of chatter on SYY's overall pricing schemes (such as moving to net pricing in some cases), although we truly believe the RDCs will allow the company far more pricing flexibility than it has ever had.

Expectations Next 6-12 Months

Absent "unusual" cost pinches or comparisons, SYY has been growing in confidence over the last couple quarters due to its sales progression. Management firmly anticipates leverage returning in FY07, and we are comfortably confident that earnings will see a nice facelift over the next 6-12 months due to an inflection in costs and operating margins.

Strategic Evaluation Underway

SYY has also been quietly undergoing an internal strategic review over the last 12 months, and while management has not disclosed anything yet, the company is "reassessing" its old assumptions (likely by business segment) and the overall structure of the company. Management recently told investors that it has been going through a "deliberate, disciplined strategic study of our business and what we need to do to ensure that the growth over the next 36 years matches the growth over the last 36 years." While this could just be a simple evaluation of basic business strategy, we have a feeling that something more powerful is coming. Management certainly has an audience that is eager if not impatient for good news (any good news is good news), and the company should have enough tricks up its sleeve or assets to play with to appease investors that are hungry for some change.

Three basic goals that SYY plans to tackle over both the near and long term include:

- Remove distribution expense out of the network
- Procure product more efficiently
- Be more aligned with customer needs

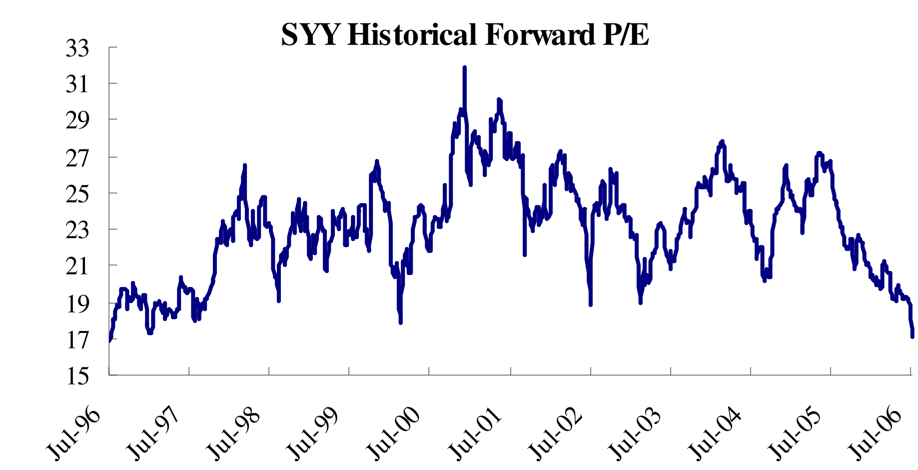
Note that SYY is likely very frustrated internally that its shares are now back to levels not seen since 2003, and we think management is going to move faster and harder to shape and deliver more poignant strategies that can drive upside to both sales and earnings.

Valuation is the Most Attractive in Six Years

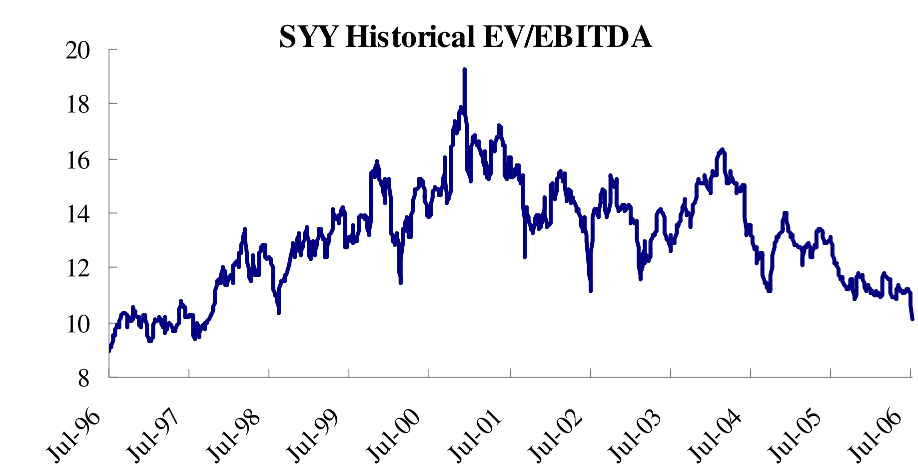
While the relative market multiple is still not particularly compelling in an environment where nearly all consumer stocks are seeing multiple contraction, we still think SYY deserves a premium to most comparable large cap companies (although there are not many if any good peers for comparison) due to (1) distant number one market share and consistent sales growth, (2) growing operating margins across core Broadline operating companies, (3) above-average returns, (4) strong cash flow, and (5) a very clean balance sheet.

Note the current discount to historic SYY valuation metrics

- Currently 25-30% below average 10-year forward P/E of 23-24x
- Note that the company has traded as high as 30x over last five years, with a peak of 28x over last three years
- Currently 20-25% below average 10-year EV/EBITDA of 13x



Source: StockVal



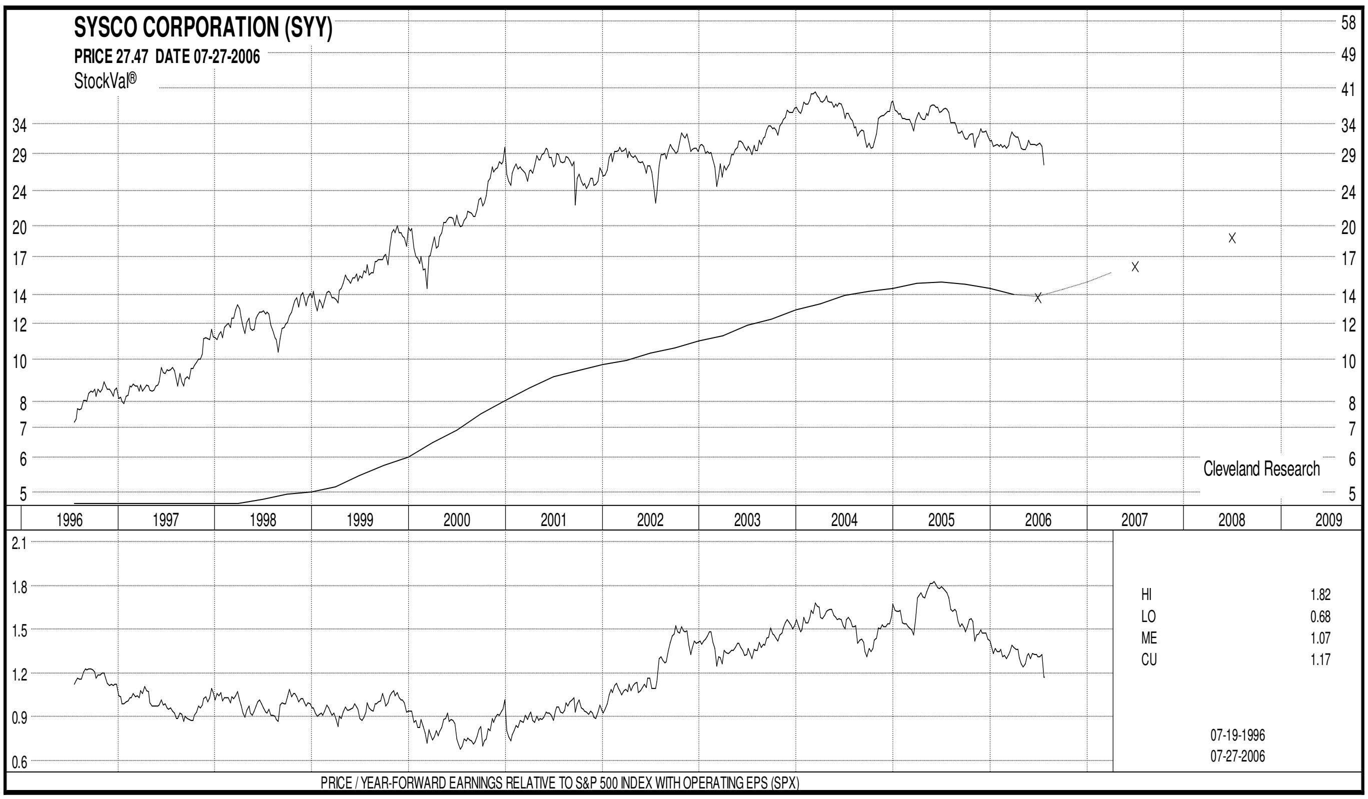
Source: StockVal

We are initiating estimates for FY07 of $1.64 per share. Based on a 22x forward multiple (which is the average over the last 12 months but still a discount to historic averages), we are establishing a **$36 price target** (which is also a little under 13x EV/EBITDA).

If we used the same multiple on CY07 estimates, we think SYY is worth $38.

Investment Thesis

We have a high level of confidence that Sysco can accelerate its earnings pace over the intermediate term due to the combination of strong sales and fewer cost pressures, and we are comfortably quite bullish on the company's long-term outlook given further market share opportunities and upside potential sourced by the development of the redistribution network. We anticipate strong sales from business reviews and share gains to serve as a directional catalyst over the next 6-12 months, while the long-term benefits of the company's redistribution initiative should meaningfully accelerate the company's earnings potential tied to cost savings, product savings, and additional market share gains (although the visible payback likely extends into FY08/FY09). Nevertheless, we are more bullish on the outlook over the next 12-18 months as the overall business appears to be improving nicely. Given that these shares are more attractively priced, we recommend that investors BUY SYY ($37 price target).



CLEVELAND RESEARCH COMPANY

SYSCO Corp.
Annual Income Statement
(in millions, except per share data)

	Jun-02	Jun-03	Jun-04	Jun-05	Jun-06E	Jun-07E	Jun-08E	Jun-09E
Broadline	19,163	21,490	23,719	24,266	25,722	27,774	29,997	32,397
SYGMA	2,671	2,916	3,549	3,916	4,422	4,999	5,645	6,265
Specialty/Other	1,707	2,003	2,384	2,441	3,047	3,385	4,157	4,780
Intersegment	-191	-269	-316	-341	-402	-450	-553	-636
TOTAL REVENUES	**$23,351**	**$26,140**	**$29,335**	**$30,282**	**$32,789**	**$35,708**	**$39,245**	**$42,807**
% Change	7%	12%	12%	3%	8%	9%	10%	9%
Cost of Sales	-18,722	-20,980	-23,662	-24,498	-26,523	-28,856	-31,714	-34,592
GROSS PROFIT	**4,628**	**5,161**	**5,674**	**5,784**	**6,266**	**6,852**	**7,531**	**8,215**
Gross Margin	19.8%	19.7%	19.3%	19.1%	19.1%	19.2%	19.2%	19.2%
Operating Expenses	-3,467	-3,837	-4,141	-4,194	-4,750	-5,093	-5,519	-5,891
% of Total Sales	14.8%	14.7%	14.1%	13.9%	14.5%	14.3%	14.1%	13.8%
OPERATING INCOME	**1,161**	**1,324**	**1,533**	**1,590**	**1,516**	**1,760**	**2,012**	**2,323**
Operating Margin	5.0%	5.1%	5.2%	5.2%	4.6%	4.9%	5.1%	5.4%
Interest Expense, Net	-63	-72	-70	-75	-108	-105	-107	-110
Other, Net	3	8	12	11	9	8	9	10
PRETAX INCOME	**1,101**	**1,260**	**1,475**	**1,525**	**1,417**	**1,663**	**1,914**	**2,223**
Income Taxes	-421	-482	-568	-564	-567	-653	-747	-867
Tax Rate	38%	38%	38%	37%	40%	39%	39%	39%
NET INCOME	**$680**	**$778**	**$907**	**$961**	**$851**	**$1,009**	**$1,168**	**$1,356**
Net Margin	2.9%	3.0%	3.1%	3.2%	2.6%	2.8%	3.0%	3.2%
EPS FROM OPERATIONS	**$1.01**	**$1.18**	**$1.37**	**$1.47**	**$1.35**	**$1.64**	**$1.92**	**$2.26**
Unusual Items					0.01			
EPS AS REPORTED					$1.37			
EPS Minus Stock Options					$1.52	$1.79	$2.09	$2.44
Average Shares Outstanding	673	662	662	653	628	617	607	600
Dividend Payout	-226	-274	-321	-369	-402	-419	-425	-432
Dividends per Share	$0.34	$0.42	$0.50	$0.58	$0.64	$0.68	$0.70	$0.72
EBITDA	$1,439	$1,597	$1,816	$1,906	**$1,859**	**$2,133**	**$2,423**	**$2,771**
EBITDA per Share	$2.14	$2.41	$2.74	$2.92	$2.96	$3.46	$3.99	$4.62
EBITDA Margin	6.2%	6.1%	6.2%	6.3%	5.7%	6.0%	6.2%	6.5%
Year-over-Year % Change								
Sales	7%	12%	12%	3%	8%	9%	10%	9%
Gross Profit	8%	12%	10%	2%	8%	9%	10%	9%
SG&A	7%	11%	8%	1%	13%	7%	8%	7%
Operating Income	12%	14%	16%	4%	-5%	16%	14%	15%
EBITDA	12%	11%	14%	5%	-2%	15%	14%	14%
Net Income from Operations	14%	14%	17%	6%	-12%	19%	16%	16%
EPS from Operations	15%	17%	16%	7%	-8%	21%	18%	17%

Sources: Company reports and Cleveland Research Company estimates

SYSCO Corp.

Balance Sheet	**Jun-02**	**Jun-03**	**Jun-04**	**Jun-05**	**Jun-06E**	**Jun-07E**	**Jun-08E**	**Jun-09E**
Cash	230	337	200	192	218	246	270	295
Accounts Receivable	1,761	2,010	2,189	2,284	2,562	2,726	2,996	3,268
Inventories	1,118	1,230	1,404	1,466	1,588	1,678	1,844	2,011
Prepaid Expenses	42	52	58	60	62	85	93	102
TOTAL CURRENT ASSETS	**3,185**	**3,630**	**3,851**	**4,002**	**4,430**	**4,734**	**5,203**	**5,676**
PP&E	1,698	1,923	2,167	2,268	2,399	2,547	2,799	3,053
Goodwill	922	1,114	1,219	1,213	1,290	1,350	1,484	1,618
Intangibles	0	0	0	73	100	110	121	132
Restricted Cash	0	84	169	102	103	103	113	123
Prepaid Pension	0	0	244	390	408	450	495	539
Other Assets	184	187	197	221	240	300	330	360
TOTAL ASSETS	**5,990**	**6,937**	**7,848**	**8,268**	**8,970**	**9,594**	**10,545**	**11,502**
Notes Payable	66	102	74	64	12	12	13	14
Accounts Payable	1,349	1,638	1,743	1,796	1,906	2,030	2,231	2,434
Accrued Expenses	768	624	725	742	750	710	780	851
Income Taxes	42	9	0	10	50	50	55	60
Deferred Taxes	0	307	422	434	375	375	412	450
Current Maturities of LT Debt	14	21	163	411	175	175	192	210
TOTAL CURRENT LIABILITIE	**2,239**	**2,701**	**3,127**	**3,458**	**3,268**	**3,352**	**3,684**	**4,018**
LT DEBT	1,176	1,249	1,231	956	1,684	1,600	1,758	1,918
Deferred Taxes	442	498	687	725	695	800	879	959
Other LT Liabilities	0	290	238	370	400	569	625	682
SHAREHOLDERS' EQUITY	**2,133**	**2,198**	**2,565**	**2,759**	**2,923**	**3,273**	**3,597**	**3,923**

Cash Flow	**Jun-02**	**Jun-03**	**Jun-04**	**Jun-05**	**Jun-06**	**Jun-07E**	**Jun-08E**	**Jun-09E**
Net Earnings	680	778	907	961	851	1,009	1,168	1,356
Add Non-Cash Items	568	782	919	890	943	974	1,011	1,048
Change in Working Capital	-162	-187	-637	-660	-650	-675	-700	-725
CASH FROM OPERATIONS	**1,085**	**1,373**	**1,190**	**1,192**	**1,144**	**1,308**	**1,478**	**1,679**
Capex	-416	-436	-530	-390	-443	-464	-491	-514
Acquisitions	-235	-209	-79	-116	-120	-100	-100	-100
CASH FROM INVESTMENTS	**-662**	**-682**	**-684**	**-413**	**-563**	**-564**	**-591**	**-614**
Debt repayments	-144	-12	-78	-43	-360	-150	-100	-100
Debt borrowings	384	85	185	0	833	50	50	0
Share repurchase	-474	-478	-609	-598	-558	-450	-500	-500
Dividends Paid	-213	-262	-310	-357	-402	-419	-425	-432
CASH FOR FINANCING	**-360**	**-551**	**-642**	**-784**	**-487**	**-969**	**-975**	**-1,032**

Cash Flow Worksheet								
Net Income	$680	$778	$907	$961	$851	$1,009	$1,168	$1,356
D&A	278	273	284	317	343	374	411	448
Capex	-416	-436	-530	-390	-443	-464	-491	-514
Working Capital	-310	155	204	181	-618	-220	-137	-138
Dividends	-226	-274	-321	-369	-402	-419	-425	-432
FREE CASH FLOW	**$6**	**$496**	**$543**	**$700**	**-$269**	**$279**	**$526**	**$720**
per share	$0.01	$0.75	$0.82	$1.07	-$0.43	$0.45	$0.87	$1.20

CLEVELAND RESEARCH COMPANY

SYSCO Corp.
Quarterly Income Statement
(in millions, except per share data)

	September			December			March			June					
	1QF05	**1QF06**	**1QF07E**	**2QF05**	**2QF06**	**2QF07E**	**3QF05**	**3QF06**	**3QF07E**	**4QF05**	**4QF06E**	**4QF07E**	**Jun-05**	**Jun-06E**	**June-07E**
Broadline	6,129	6,345	7,010	5,881	6,288	6,734	5,932	6,368	6,791	6,323	6,722	7,239	24265.8	25722.4	27774.07
SYGMA	916	1,060	1,169	941	1,070	1,202	983	1,086	1,254	1,076	1,205	1,374	3916	4421.78	4999.24
Specialty/Other	565	693	785	593	714	825	606	784	837	677	856	938	2441.27	3046.94	3385.131
Intersegment	-78	-86	-104	-85	-102	-110	-84	-100	-111	-95	-114	-125	-341	-402.267	-450.222
TOTAL REVENUES	**$7,532**	**$8,010**	**$8,859**	**$7,331**	**$7,971**	**$8,651**	**$7,437**	**$8,138**	**$8,771**	**$7,981**	**$8,669**	**$9,426**	**$30,282**	**$32,789**	**$35,708**
% Change	5.6%	6.4%	10.6%	4.2%	8.7%	8.5%	5.9%	9.4%	7.8%	-1.9%	8.6%	8.7%	3.2%	8.3%	8.9%
Cost of Sales	-6,095	-6,481	-7,158	-5,934	-6,435	-6,987	-6,032	-6,602	-7,108	-6,438	-7,005	-7,602	-24,499	-26,523	-28,856
GROSS PROFIT	**1,437**	**1,530**	**1,701**	**1,398**	**1,536**	**1,665**	**1,405**	**1,536**	**1,663**	**1,543**	**1,664**	**1,824**	**5,783**	**6,266**	**6,852**
Gross Margin	19.1%	19.1%	19.2%	19.1%	19.3%	19.2%	18.9%	18.9%	19.0%	19.3%	19.2%	19.4%	19.1%	19.1%	19.2%
Operating Expenses	-1,055	-1,177	-1,284	-1,005	-1,171	-1,250	-1,052	-1,193	-1,269	-1,081	-1,209	-1,291	-4,194	-4,750	-5,093
% of Total Sales	14.0%	14.7%	14.5%	13.7%	14.7%	14.4%	14.2%	14.7%	14.5%	13.5%	13.9%	13.7%	13.8%	14.5%	14.3%
OPERATING INCOME	**382**	**353**	**417**	**393**	**365**	**415**	**353**	**342**	**394**	**462**	**456**	**533**	**1,589**	**1,516**	**1,760**
Operating Margin	5.1%	4.4%	4.7%	5.4%	4.6%	4.8%	4.7%	4.2%	4.5%	5.8%	5.3%	5.7%	5.2%	4.6%	4.9%
Interest Expense, Net	-18	-22	-27	-18	-29	-26	-20	-29	-26	-19	-27	-25	-75	-108	-105
Other, Net	2	3	2	2	2	2	3	1	2	4	3	2	11	9	8
PRETAX INCOME	**366**	**334**	**392**	**377**	**338**	**390**	**336**	**314**	**371**	**447**	**432**	**510**	**1,525**	**1,417**	**1,663**
Income Taxes	-140	-135	-154	-144	-134	-153	-117	-125	-146	-163	-173	-200	-564	-567	-653
Tax Rate	38%	40%	39%	38%	40%	39%	35%	40%	39%	36%	40%	39%	37%	40%	39%
NET INCOME	**$226**	**$199**	**$238**	**$233**	**$204**	**$237**	**$219**	**$189**	**$225**	**$284**	**$259**	**$309**	**$962**	**$851**	**$1,009**
Net Margin	3.0%	2.5%	2.7%	3.2%	2.6%	2.7%	2.9%	2.3%	2.6%	3.6%	3.0%	3.3%	3.2%	2.6%	2.8%
Unusual Items		9												9	
Net Income as Reported		$208												$860	
EPS FROM OPERATIONS	**$0.35**	**$0.31**	**$0.39**	**$0.36**	**$0.33**	**$0.38**	**$0.34**	**$0.30**	**$0.37**	**$0.44**	**$0.42**	**$0.50**	**$1.47**	**$1.35**	**$1.64**
Unusual Items		$0.01												$0.01	
EPS AS REPORTED		$0.33												$1.37	
EPS Excluding Options		$0.36	$0.42		$0.37	$0.42		$0.34	$0.40		$0.45	$0.54		$1.52	$1.79
Average Shares Outstanding	651	635	618	653	627	617	651	625	616	648	624	615	653	628	617
Dividend Payout	85	95	105	85	94	105	98	106	105	97	106	105	364	402	419
Dividends per Share	$0.13	$0.15	$0.17	$0.13	$0.15	$0.17	$0.15	$0.17	$0.17	$0.15	$0.17	$0.17	$0.56	$0.64	$0.68
Year-over-Year % Change															
Sales	6%	6%	11%	4%	9%	9%	6%	9%	8%	-2%	9%	9%	3%	8%	9%
Gross Profit	4%	6%	11%	2%	10%	8%	5%	9%	8%	-3%	8%	10%	2%	8%	9%
SG&A	3%	11%	9%	1%	17%	7%	4%	13%	6%	-3%	12%	7%	1%	13%	7%
Operating Income	7%	-7%	18%	6%	-7%	14%	6%	-3%	15%	-2%	-1%	17%	4%	-5%	16%
Net Income from Operations	8%	-12%	19%	5%	-12%	16%	12%	-14%	19%	1%	-9%	19%	6%	-12%	19%
EPS from Operations	8%	-10%	23%	5%	-9%	18%	12%	-10%	21%	2%	-5%	21%	7%	-8%	21%

Sources: Company reports and Cleveland Research Company estimates

Disclosures

Buy*: The stock's return is expected to exceed the market due to superior fundamentals and positive catalysts.*
Sell*: The stock's total return is expected to underperform the market due to weak fundamentals and a lack of catalysts.*
Neutral*: The stock is expected to be in line with the market due to full valuation and/or a lack of catalysts.*

Valuation and Risk*: Price targets are established under various valuation methods including P/E, P/S, EV/EBITDA on financial estimates based on forward earnings. Price targets are not established for every stock. The price target's effectiveness may be affected by various outside factors. Risk assessments can be found in the most recent research on these stocks.*

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