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Foodservice Distribution: What's Next?

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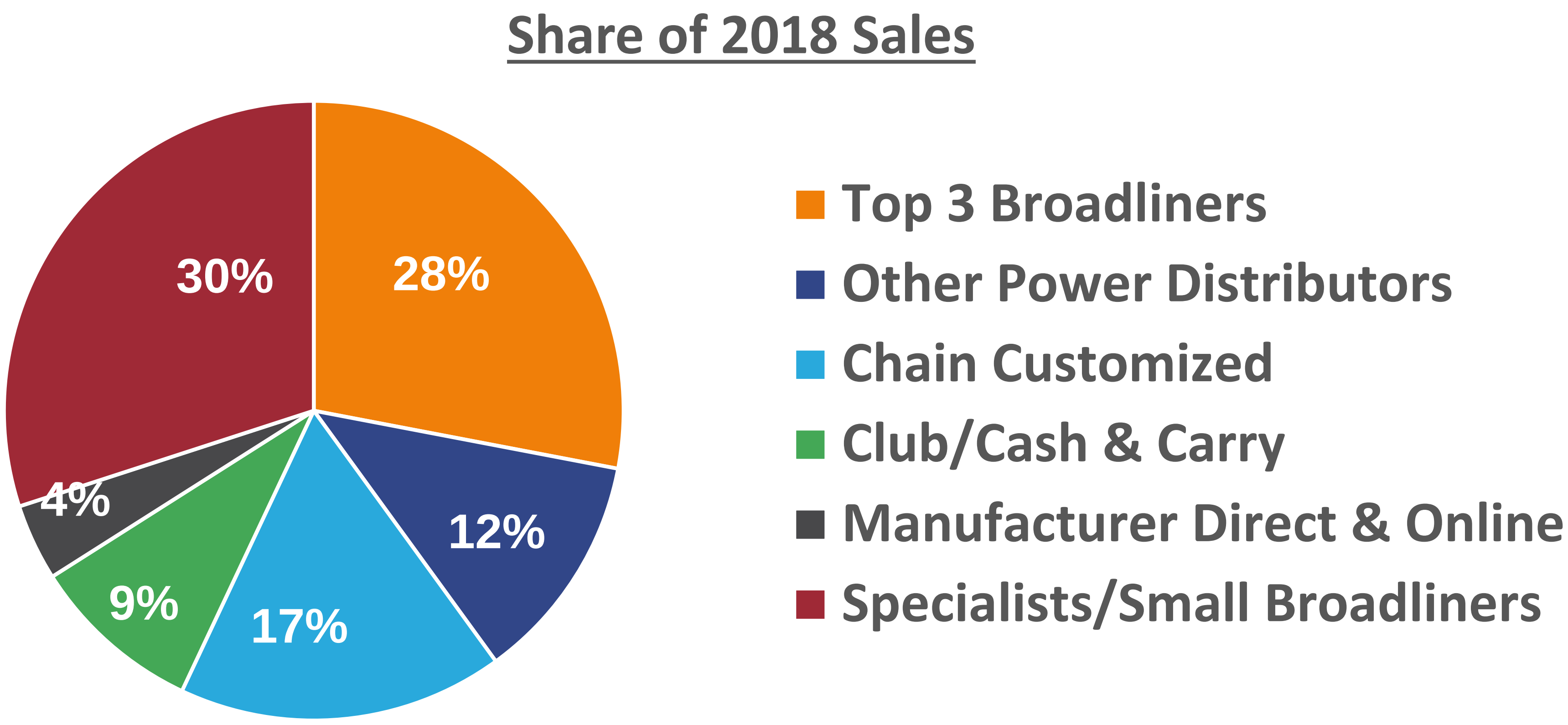
The $300 billion foodservice distribution market is concentrated and fragmented



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Despite robust economy, forceful headwinds are pressuring distributor margins

- Operating costs escalating
- Labor situation is increasingly bleak
- Negligible case volume growth
- Little/no pricing power; lower GP $/case

“Headwinds” (cont.)

- Increased business complexity, incl. more regulation
- Contract/GPO share growing
- Changing customer demands
  - ✓ Sustainability, biodegrability, tamper evidence, reusability, material preferences
- High margin independent market slowing
- Increasingly more effective disruptors

Opex is outpacing gross profit growth

Fourth quarter 2018 results

	Sysco*	USF	PFG
Sales	+4.2%	-0.8%	+7.1%
Gross Profit	+4.5%	+1.6%	+8.2%
Opex	+4.7%	+4.9%	+4.5%
Operating Income	+4.3%	-13.2%	+48.1%
Total Cases	+2.9%	-0.8%	+5.5%

*U.S. Foodservice only

Channel outlook is generally favorable

Distributor type	Outlook
Top 3 Broadliners	Acquire specialists, some fill-ins. Lead in technology. Leverage scale for profit growth.
Power Distributors	Geographic expansion. Build key competencies. Some consolidation.
Chain Customized	Imperiled without fee increases and new service model.
Specialists/Small Broadliners	Well-positioned firms will do well, others vulnerable. Acquisition targets for top broadliners. Paper houses strong due to expertise and focus.

Channel outlook is generally favorable

Distributor type	Outlook
Club stores/CNC	New store formats, expanded delivery options, and online ordering
Manufacturer Direct	Growing; bypass distributors, counter-strike DPL
ViSKUs/Re-Di	Rapidly growing “no touch” solution for effective assortment and seamless experience.
Pure E-Commerce	Amazon, Webstaurant Store improving perishables effectiveness; continued rapid growth. Broadliners defend turf.

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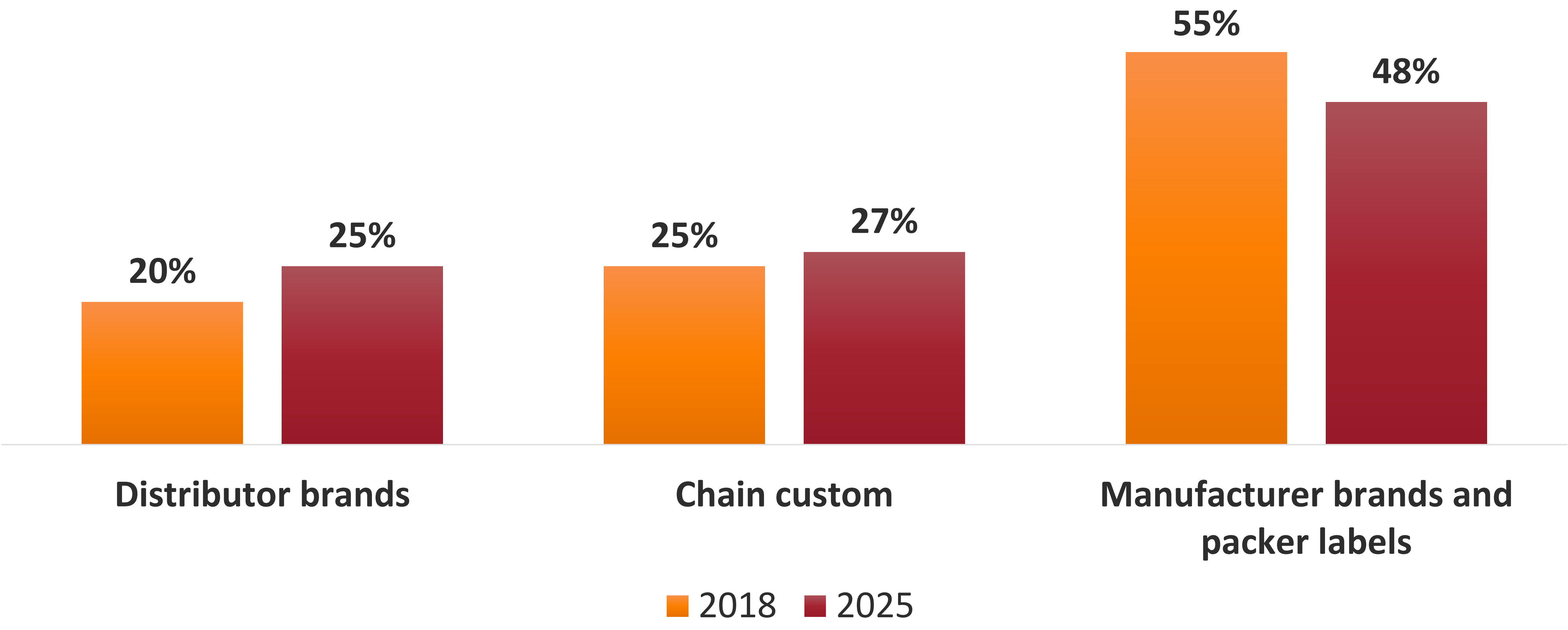
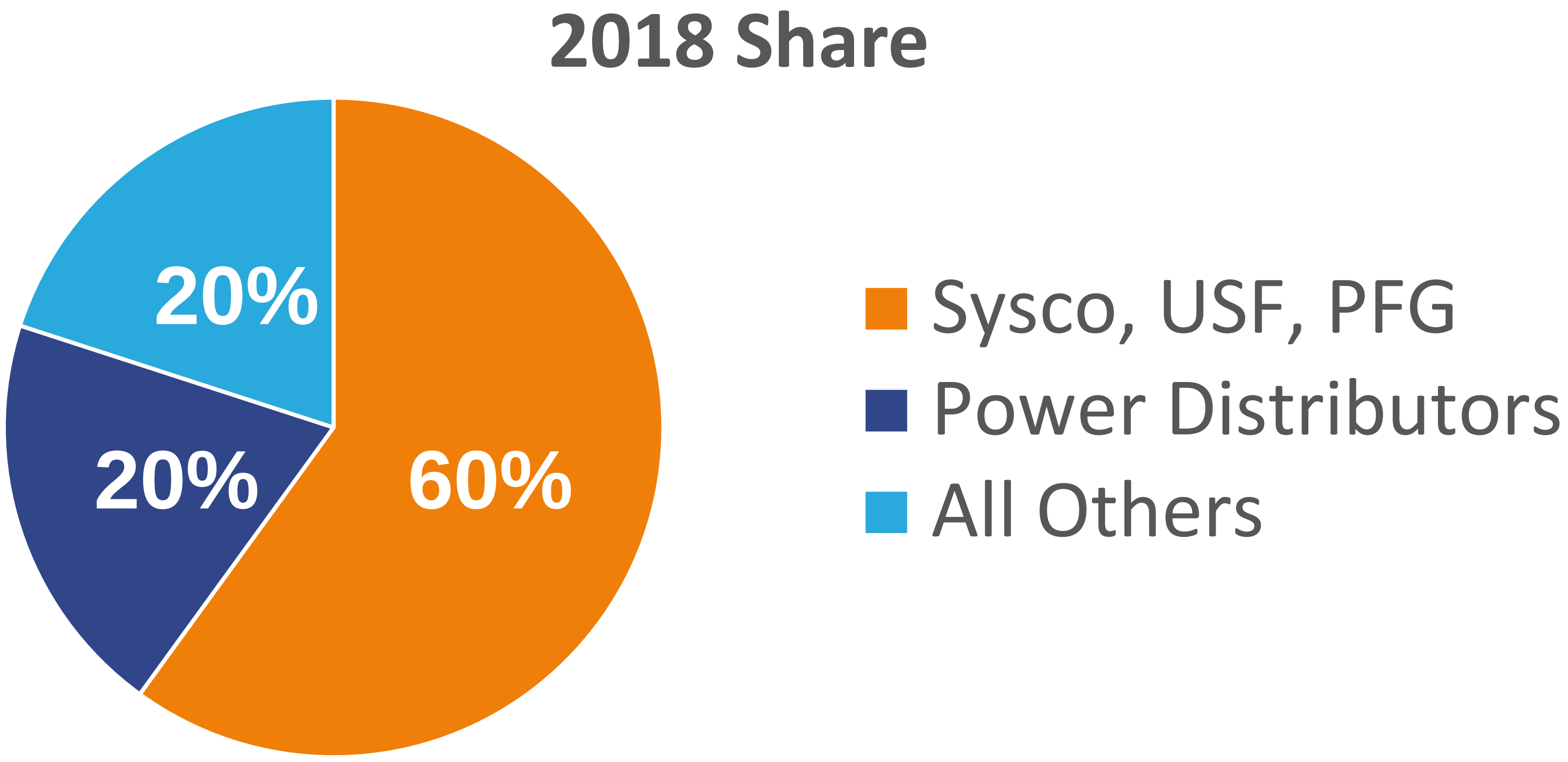
Distributor brands and chain custom will gain share



Top 3 have 60% of distributor brand volume today



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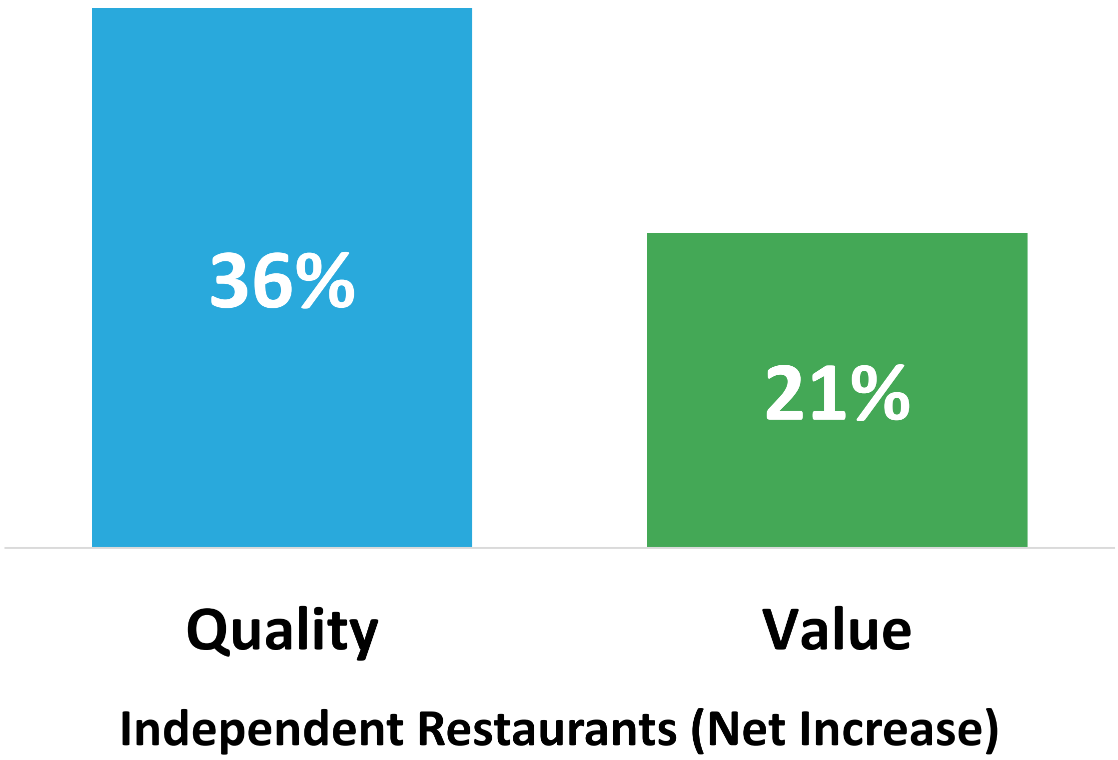
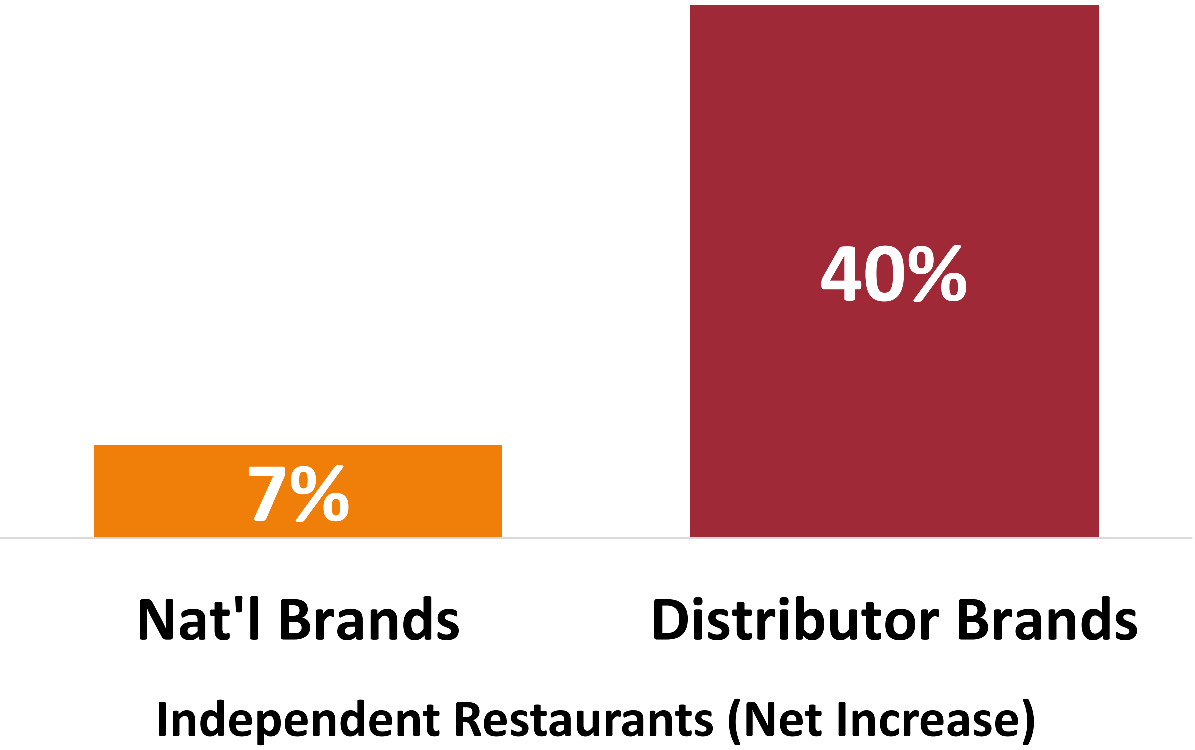
Operators believe distributor brands have improved…



…leading to increased propensity to buy



Foodservice packaging is a core category for broadline distributors

- 6 – 8% of sales with generally solid margins
- Good growth - delivery is major catalyst
- Category challenges exist
  - ✓ SKU intensive, high cube
  - ✓ Relatively low velocity per SKU
  - ✓ Heavily skewed to lower margin QSR chains
  - ✓ Paper houses, clubs/CNC formidable competition
  - ✓ Packaging bans/restrictions/taxes

Distributors will manage their businesses more strategically

- Improve customer mix
- Develop/enhance own brands
  - ✓ More “joint innovation” activity
- Data/fact-based decision making
- Better expense and category management
- Productivity enhancements

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Distributors will manage their businesses more strategically with more focus on profitability

- Leveraged buying
- Create more differentiated position
- Technology investments with ROI
  - ✓Predictive analytics, AI/machine learning, blockchain, customer interface, robotics
- Talent upgrades
- Category optimization

Manufacturers can expect "smarter" customers

Greater strategic underpinning to relationships	Reduced business complexity	Greater accountability for results	Fact based decision making
More demands for dedicated resources and innovation	Heavy emphasis on logistics optimization	More openness to change	More genuine collaboration