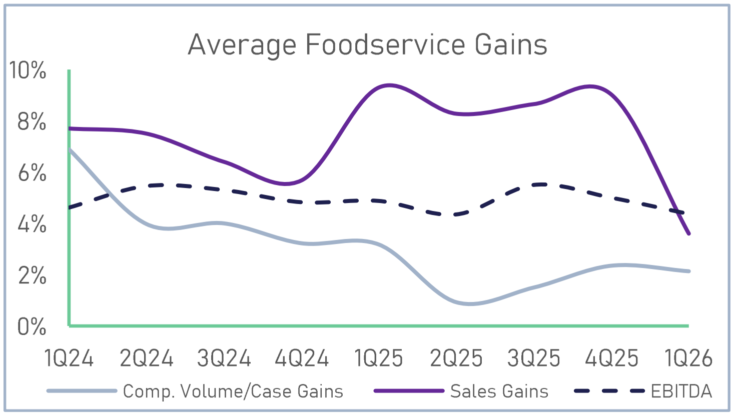
Foodservice Distribution 1Q26 Update / Sysco & Jetro Restaurant Depot Analysis

OVERVIEW



The foodservice distribution industry entered 2026 on solid footing with steady sales growth, resilient margins, and a demand environment that, while softening, remained manageable. However, the quarter's operating story is largely overshadowed by another blockbuster M&A announcement, Sysco's announced acquisition of Jetro Restaurant Depot, a deal we have long anticipated would happen.

At $29.1 billion and an elevated 13.9x EBITDA multiple, the transaction is not only the largest deal in foodservice distribution history, but also a clear statement where the market is heading and how it is pricing. It reflects a growing reality that organic growth is minimal, and any near-term meaningful expansion will require an acquisition at a high price point.

M&A UPTICK

Following a more cautious M&A environment in 2025, acquisition activity is already off to an elevated start in 2026 as distributors increasingly rely on consolidation deals to build scale in a still-muted growth environment. Sysco's pending acquisition of Jetro will instantly establish it as the #1 player in cash-and-carry, is the clearest example of this shift. Meanwhile, PFG's purchase of Cash-Wa represents a more incremental approach, adding density and strengthening its position in the Midwest, particularly within convenience.

Even with elevated activity, management across the public operators continue to claim capital allocation remains disciplined, focused on returns and leverage. That said, the multiple Sysco is paying for Jetro, on top of the 13x PFG paid for Cheney in 2024, raises the question as to whether the industry is entering a bidding era, where well-capitalized players stretch balance sheets to pursue transformative deals, while smaller distributors struggle to keep pace. In today's low-growth, margin-sensitive environment, scale, reach, and financial firepower are no longer just advantages, they are essential.

SYSCO/JETRO ACQUISITION

While newsworthy, the deal is not a surprise. We have highlighted on multiple occasions that the cash-and-carry channel represented Sysco's most glaring gap, and that Jetro, as the only scaled national operator in that channel, was the obvious and likely answer. Sysco's "Sysco To Go" concept signaled its intent, but it was ultimately a limited, proof-of-concept effort. Building organically would have taken too long, and the acquisition reflects both urgency and willingness to pay for speed and scale.

Founded in 1976, Jetro Restaurant Depot is the dominant U.S. wholesale cash-and-carry foodservice provider serving more than 725,000 independent restaurants and foodservice operators. The model is fundamentally different from Sysco's core broadline business. Independent restaurant owners, caterers, and small operators drive to a warehouse which averages 60,000 sqft, handselect their product across a broad assortment of fresh and packaged goods, pay upfront, and haul it themselves. Unlike conventional wholesalers, Jetro does not provide delivery of goods or require a minimum order, and that simplicity is what makes it an attractive opportunity to supplement Sysco's broadline model. With 166 locations across 35 states, Jetro operates with a structurally lower cost base (no delivery fleet, route infrastructure, or dedicated salesforce) which supports strong returns. In FY25, Jetro generated $16 billion in revenue and $2.1 billion in EBITDA, maintaining a 30-year track record of EBITDA growth.

Cash-and-Carry Foodservice Landscape

Company	Annual Sales	Locations	Notes
Restaurant Depot	$16 Billion	166 stores 35 states	Grown almost entirely organically into the largest in the segment
US Foods CHEF'STORE	~$1.50 Billion to $2 Billion <5% of USF's $38 Billion revenue	95 stores 14 states	Acquired as Smart Foodservice from Apollo for $970M in 2020, rebranded to CHEF'STORE in 2021. Synergies with broadline never materialized; US Foods explored a sale in 2024 but couldn't find a buyer at the right price.
Gordon Food Service	$22 Billion GFS total; stores not broken out	183+ stores 15 states	GFS is the largest family-owned broadline distributor North America (Its cash-and-carry retail stores opened in 1979 and grew organically, primarily in the Midwest and Southeast.)

Sysco CEO Kevin Hourican described cash-and-carry as "an extremely recession resilient business," noting that every time there's an economic downturn, Restaurant Depot takes share, a point that resonates in the current environment. With an estimated $60 billion to $70 billion addressable market, cash-and-carry represents a meaningful and previously untapped opportunity for Sysco.

The Rationale: Is It Justified?

The timing of the acquisition reflects broader industry constraints. Organic volume growth has become anemic, rising roughly 2% in 1Q26 and generally trailing inflation. Foot traffic at restaurants declined nearly 3%, the lowest in 12 months, with lower-income consumers, an important demand driver, remaining under pressure.

+1.5x Local Business Volume

+20% More Revenue

+45% More EBITDA

Against this backdrop, cash-and-carry offers access to an adjacent pool of demand that Sysco has not tapped into. Moreover, it is an attractive segment; in Sysco's justification for the acquisition, it noted that the combination immediately increases the size of Sysco's local business, its highest-margin and most resilient segment, by 1.5x; Restaurant Depot's customer base is considered 100% local, serving the small independent restaurants that have held up best in down markets.

However, immediately following the announcement, Sysco's stock price fell 15% and has remained down through this report's publication as investors scrutinize the multiple Sysco is paying. The 13.9x EBITDA multiple is a premium valuation for a cash-and-carry business, especially in this interest rate environment, a segment that has not had much historic M&A outside the 11x US Foods paid for Smart Foodservice in 2020 when interest rates were lower (rebranded as Chef'Store). However, the multiple aligns with a broader trend of rising acquisition multiples across the sector. PFG's acquisition of Cheney Brothers was 13x as it gained strong share in the growing southeast U.S. foodservice market.

Similarly, in our view, Sysco is not just paying for Jetro's earnings, it is securing leadership in a channel where it previously had minimal presence and is banking on solid growth (to open 125+ additional locations over the next two decades) and synergy (expects $250 million of procurement and supply chain efficiencies) within its existing business. Beyond simply being the largest operator with the most locations, Jetro is known for being a very efficient and effective operation. Sysco appears to recognize this; Jetro will operate as a standalone segment, maintaining its leadership team under Richard Kirschner, who will report directly to CEO Kevin Hourican while two Jetro directors will also join Sysco's board. Lastly, we view this transaction as Sysco's attempt to buy customers; many independent operators already split their purchases across multiple channels. By commanding an already scaled cash-and-carry platform, Sysco acquires those customers it does not serve and can better target serving these high margin customers through multiple channels.

One note of caution, US Foods likely had the same thought process when it acquired Smart Foodservice. However, after four years it put the asset on the market in 2024 with the Company commenting that the purchase came with the expectation that it would "generate significant synergies with our broadline business, however, those benefits have been very limited. As we have evolved our strategy to increase focus on execution in our broadline operations, we are exploring strategic alternatives for our cash and carry stores." US Foods has since reversed its stance on that sale, we believe in part because Sysco started eyeing entry into the segment.

Financial Structure and Balance Sheet Implications

The transaction will be funded primarily through approximately $21 billion in new and hybrid debt, increasing Sysco's net leverage to roughly 4.5x to 5.0x, well above its target range. Management has outlined a deleveraging plan including a 1x reduction in leverage over the next 24 months supported by strong combined free cash flow generation; Sysco generated approximately $3.5 billion in FY25 while Jetro generated approximately $1.9B. Sysco also announced it will pause share repurchases to prioritize debt reduction.

PFG/Cash-Wa Distributing

Meanwhile, PFG is building methodically with Cash-Wa, a textbook example of its playbook.

- RetailStat confirmed that PFG acquired Cash-Wa Distributing in early 2026 for an undisclosed amount. The business will operate as a wholly owned subsidiary, retaining its name and brand.
- The acquisition adds approximately $1 billion in revenue and expands PFG's footprint across the Midwest, with operations spanning Nebraska, South Dakota, and North Dakota. It also strengthens PFG's convenience retail platform (around 40% of total revenue), a key growth driver, while enhancing regional distribution density and network efficiency.
- The transaction continues PFG's active M&A strategy, building on the $2.1 billion acquisition of Cheney Brothers (October 2024), Jose Santiago (July 2024), and the recent tuck-in acquisition of NATCO.

1Q26 RECAP

The quarter began with solid momentum, though volume trends moderated following the government shutdown before showing some recovery once it was lifted. Overall conditions were noted as "softening," with pressure concentrated among lower-income consumers and deflation emerging across select categories. Despite this, the large players delivered respectable performance. Sales growth averaged 5.3%, primarily driven by pricing and mix. Non-commercial segments such as healthcare and hospitality outperformed restaurants on both volume and profitability. Independent restaurants remained a bright spot while chain volumes continued to face pressure underscoring the strategic logic behind Sysco's move into the cash-and-carry channel.

Private label was the standout operational theme across the group, with Sysco and US Foods both calling it out as a key margin driver as customers increasingly prioritized affordability. PFG delivered roughly 5% sales growth but was the only company to trim its full-year guidance, an early signal that cost pressures are beginning to affect forward visibility. Management teams broadly expect demand to improve alongside consumer sentiment, though much of that commentary pre-dates the Iran conflict and the resulting increases in fuel and certain commodity costs, which could introduce incremental volatility in the quarters ahead.

INFLATION

Inflation trends remained mixed throughout the quarter. While pricing continued to support topline growth, its impact is moderating. By February 2026, menu prices were up 3.9% year-over-year versus 2.4% for food-at-home, reflecting a narrowing gap.

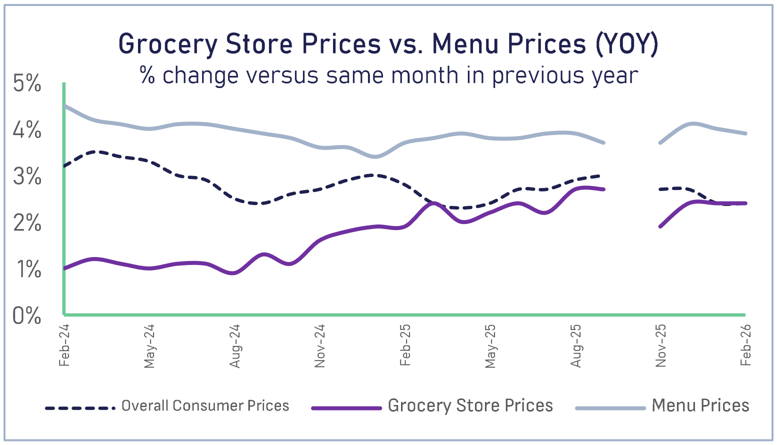
At the category level, trends were uneven. Produce remained modestly inflationary, while proteins and dairy saw minimal inflation or periods of deflation. While inflation continues to support revenue, its benefit is fading as pricing moderates and volumes stay constrained. As a result, distributors are increasingly relying on mix, private label penetration, and procurement strategies to protect margins.

Looking ahead, while the broader trend points toward a more normalized pricing environment, geopolitical factors, including ongoing tensions in the Middle East, introduce renewed volatility and at a minimum higher fuel prices. While Chefs' management noted fuel surcharges help offset these pressures their effectiveness varies by route density, customer mix, and ticket size. Overall, inflation remains a tailwind, but a weaker one, increasing the importance of execution to sustain profitability.

Sales Year-Over-Year Most Recent Quarter (RetailStat Estimates)			
	Comp. Volume / Case Gains	Inflation	Total Sales Gains
Sysco (U.S. Foodservice)	1%	1%	2%
US Foods	0%	2%	3%
PFG (Foodservice)	5%	2%	5%
Chefs' Warehouse	1%	10%	11%
Average	1.7%	3.7%	5.3%

Gross Margin Year-Over-Year Most Recent Quarter			
	Current Year Q Gross Margin	Prior Year Q Gross Margin	Difference
Sysco (U.S. Foodservice)	18.9%	18.9%	0.0%
US Foods	17.5%	17.5%	0.0%
PFG (Foodservice)	N/A	N/A	N/A
Chefs' Warehouse	24.2%	24.3%	-0.1%
Average	20.2%	20.2%	0.0%

EBITDA Margin Year-Over-Year Most Recent Quarter			
	Current Year Q EBITDA Margin	Prior Year Q EBITDA Margin	Difference
Sysco	4.8%	4.8%	0.0%
US Foods	5.0%	4.7%	0.3%
PFG (Foodservice)	3.3%	3.4%	-0.1%
Chefs' Warehouse	7.0%	6.6%	0.4%
Average	5.0%	4.9%	0.2%



October prices not included due to government shutdown.

OUTLOOK

Though 1Q26 was more of the same, the outlook for the remainder of the year is less clear. The industry entered 2026 expecting steady growth, but the recent rise in fuel costs and commodity pressure are expected to introduce incremental risk to both margins and demand. In March, gas prices averaged just over $4 per gallon, up from under $3 per gallon in December, while diesel rose sharply, increasing costs across transportation, sourcing, and broader inputs. For distributors, this creates pressure from both sides. Supply costs are moving higher, while consumer wallets remain squeezed. Historically, fuel prices above the $4 threshold have weighed on discretionary spending, adding risk to an already cautious demand environment.

In this environment current guidance may prove harder to sustain if cost pressures persist. Notably, PFG has already modestly lowered its outlook, signaling early signs of a more challenging landscape. Meanwhile, operators will continue to prioritize private label expansion, pricing discipline, mix optimization, sourcing, and productivity initiatives. Sysco is advancing AI and value-tier offerings, US Foods is scaling Pronto and embedding AI into MOXe, PFG is onboarding large accounts and targeting Cheney synergies, and Chefs' is investing in digital tools and expansion. M&A should remain active, but with organic growth constrained, the question is whether it unfolds at a measured pace or becomes a byproduct of bidding wars, especially following the Jetro multiple, which could end up defining the sector.

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