SYSCO CORP
Form 10-Q
November 06, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q
(Mark
One)

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

For the quarterly period ended September 29, 2018

OR

¨ 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	
Houston, Texas	77077-2099
(Address of principal executive offices)	(Zip Code)

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer þ	Accelerated Filer ¨
Non-accelerated Filer ¨	Smaller Reporting Company ¨
(Do not check if a smaller reporting company)	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

519,787,613 shares of common stock were outstanding as of October 12, 2018.

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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. 29, 2018 (unaudited)	Jun. 30, 2018	Sep. 30, 2017 (unaudited)
ASSETS			
Current assets			
Cash and cash equivalents	$790,304	$552,325	$909,203
Accounts and notes receivable, less allowances of $26,373, $25,768 and $41,184	4,242,419	4,073,723	4,333,704
Inventories, net	3,354,458	3,125,413	3,180,631
Prepaid expenses and other current assets	215,714	187,880	173,464
Income tax receivable	39,361	64,112	—
Total current assets	8,642,256	8,003,453	8,597,002
Plant and equipment at cost, less depreciation	4,466,903	4,521,660	4,388,299
Other long-term assets			
Goodwill	3,936,961	3,955,485	3,970,617
Intangibles, less amortization	944,525	979,812	1,052,704
Deferred income taxes	59,003	83,666	149,932
Other assets	492,434	526,328	260,036
Total other long-term assets	5,432,923	5,545,291	5,433,289
Total assets	$18,542,082	$18,070,404	$18,418,590
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Notes payable	$4,414	$4,176	$4,513
Accounts payable	4,217,833	4,136,482	3,951,205
Accrued expenses	1,502,794	1,608,966	1,502,021
Accrued income taxes	132,910	56,793	148,902
Current maturities of long-term debt	783,001	782,329	533,641
Total current liabilities	6,640,952	6,588,746	6,140,282
Long-term liabilities			
Long-term debt	7,914,344	7,540,765	8,426,359
Deferred income taxes	277,036	319,124	165,622
Other long-term liabilities	1,034,289	1,077,163	1,367,965
Total long-term liabilities	9,225,669	8,937,052	9,959,946
Commitments and contingencies			
Noncontrolling interest	36,887	37,649	83,108
Shareholders' equity			
Preferred stock, par value $1 per share Authorized 1,500,000 shares, issued none	—	—	—
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	1,438,097	1,383,619	1,348,349
Retained earnings	10,592,490	10,348,628	9,638,386
Accumulated other comprehensive loss	(1,450,843)	(1,409,269)	(1,142,578)

Treasury stock at cost, 245,025,271, 244,533,248 and 243,513,095 shares	(8,706,345)	(8,581,196)	(8,374,078)
Total shareholders’ equity	2,638,574	2,506,957	2,235,254
Total liabilities and shareholders' equity	$18,542,082	$18,070,404	$18,418,590

Note: The June 30, 2018 balance sheet has been derived from the audited financial statements at that date.

See Notes to Consolidated Financial Statements

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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. 29, 2018	Sep. 30, 2017
Sales	$15,215,279	$14,650,424
Cost of sales	12,311,494	11,856,756
Gross profit	2,903,785	2,793,668
Operating expenses	2,275,645	2,174,303
Operating income	628,140	619,365
Interest expense	89,016	80,884
Other expense (income), net	1,132	(7,975)
Earnings before income taxes	537,992	546,456
Income taxes	106,950	178,816
Net earnings	$431,042	$367,640
Net earnings:		
Basic earnings per share	$0.83	$0.70
Diluted earnings per share	0.81	0.69
Average shares outstanding	520,856,599	527,289,675
Diluted shares outstanding	529,034,470	533,063,426

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. 29, 2018	Sep. 30, 2017
Net earnings	$431,042	$367,640
Other comprehensive income (loss):		
Foreign currency translation adjustment	(24,927)	121,329
Items presented net of tax:		
Amortization of cash flow hedges	2,155	1,770
Change in net investment hedges	8,588	(12,024)
Change in cash flow hedges	(3,008)	2,203
Amortization of prior service cost	1,600	1,484
Amortization of actuarial loss, net	6,529	5,397
Actuarial loss, net	(32,511)	—
Total other comprehensive (loss) income	(41,574)	120,159
Comprehensive income	$389,468	$487,799

See Notes to Consolidated Financial Statements

Sysco Corporation and its Consolidated Subsidiaries
CONSOLIDATED CASH FLOWS (Unaudited)
(In thousands)

	13-Week Period Ended	
	Sep. 29, 2018	Sep. 30, 2017
Cash flows from operating activities:		
Net earnings	$ 431,042	$ 367,640
Adjustments to reconcile net earnings to cash provided by operating activities:		
Share-based compensation expense	29,193	27,955
Depreciation and amortization	187,627	179,662
Amortization of debt issuance and other debt-related costs	6,170	7,192
Deferred income taxes	(20,249)	(3,706)
Provision for losses on receivables	10,464	8,999
Other non-cash items	(3,695)	6,849
Additional changes in certain assets and liabilities, net of effect of businesses acquired:		
(Increase) in receivables	(182,233)	(294,989)
(Increase) in inventories	(229,100)	(166,992)
(Increase) in prepaid expenses and other current assets	(23,540)	(28,312)
Increase (decrease) in accounts payable	78,112	(57,368)
(Decrease) in accrued expenses	(111,309)	(83,883)
Increase in accrued income taxes	100,868	165,944
(Increase) in other assets	(4,261)	(13,616)
Increase (decrease) in other long-term liabilities	2,056	(32,600)
Net cash provided by operating activities	271,145	82,775
Cash flows from investing activities:		

Additions to plant and equipment	(104,322		)	(136,261		)
Proceeds from sales of plant and equipment	3,839			1,722		
Other investing activities	912			—		
Net cash (used for) investing activities	(99,571		)	(134,539		)
Cash flows from financing activities:						
Bank and commercial paper borrowings, net	—			745,100		
Other debt borrowings	386,142			1,512		
Other debt repayments	(8,078		)	(5,186		)
Proceeds from stock option exercises	84,393			57,075		
Treasury stock purchases	(204,640		)	(550,098		)
Dividends paid	(187,229		)	(174,864		)
Other financing activities	(2,200		)	(644		)
Net cash provided by financing activities	68,388			72,895		
Effect of exchange rates on cash, cash equivalents and restricted cash	(2,435		)	18,570		
Net increase in cash, cash equivalents and restricted cash	237,527			39,701		
Cash, cash equivalents and restricted cash at beginning of period	715,844			869,502		
Cash, cash equivalents and restricted cash at end of period	$	953,371		$	909,203	
Supplemental disclosures of cash flow information:						
Cash paid during the period for:						
Interest	$	81,392		$	72,057	
Income taxes	70,675			28,714		

See Notes to Consolidated Financial Statements

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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 30, 2018 consolidated balance sheet, which was derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018 (our 2018 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, except as otherwise disclosed, necessary to present fairly the financial position, results of operations, comprehensive income and cash flows for all periods presented have been made.

These financial statements should be read in conjunction with the audited financial statements and notes thereto included in our 2018 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.

These financial statements and related notes have been presented in compliance with the Securities and Exchange Commission’s (SEC) Final Rule Release No. 33-10532, Disclosure Update and Simplification, effective for all filings made on or after November 5, 2018. Sysco has adopted all relevant disclosure requirements, with the exception of adding the changes in stockholders’ equity disclosures for interim periods, which is allowed to be adopted in a future interim period.

Supplemental Cash Flow Information

The following table sets forth the company’s reconciliation of cash, cash equivalents and restricted cash reported within the Consolidated Statement of Cash Flows that sum to the total of the same such amounts shown in the Consolidated Statement of Cash Flows:

	Sep. 29, 2018	Sep. 30, 2017
	(In thousands)	
Cash and cash equivalents	$790,304	$909,203
Restricted cash [1]	163,067	—
Total cash, cash equivalents and restricted cash shown in the Consolidated Statement of Cash Flows	$953,371	$909,203

(1) Restricted cash as of September 29, 2018 primarily represents cash and cash equivalents of Sysco’s wholly owned captive insurance subsidiary, restricted for use to secure the insurer’s obligations for workers’ compensation, general liability and auto liability programs. Restricted cash is located within other assets in the consolidated balance sheet as of September 29, 2018.

2. CHANGES IN ACCOUNTING

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) and has issued subsequent amendments to this guidance. This new standard superseded existing revenue recognition standards and eliminated all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The revenue recognition principle in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of 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 or services. Sysco adopted the new standard effective July 1, 2018 using the modified retrospective approach. The adoption of ASU 2014-09 did not have a material impact on Sysco's consolidated balance sheet or consolidated results of operations as of the adoption date or for the period ended September 29, 2018.

Guidance in Presentation of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to address eight specific cash flow issues with the objective of reducing the existing diversity in practice. The eight specific issues are: (1) Debt Prepayment or Debt Extinguishment Costs; (2) Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing; (3) Contingent Consideration Payments Made after a Businesses Combination; (4) Proceeds from the Settlement of Insurance Claims; (5) Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies; (6) Distributions Received from Equity Method Invitees; (7) Beneficial Interests in Securitization Transactions; and (8) Separately Identifiable Cash and Application of the Predominance Principle. The company adopted this ASU retrospectively, effective July 1, 2018. The adoption of ASU 2016-15 did not have a material effect on the company’s cash flow statement.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, requiring that an employer report the service cost component of pension and postretirement benefits in the same line item or items as other compensation costs. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside of a subtotal of income from operations. In addition, only the service cost component will be eligible for capitalization as applicable. The company adopted this ASU effective July 1, 2018, resulting in net cost of $8.9 million for the first quarter of fiscal 2019 being reported in other expense (income) that would have previously been included in operating expense. The ASU was applied retrospectively, resulting in net benefit of $3.7 million for the first quarter of fiscal 2018 being reported in other expense (income).

3. NEW ACCOUNTING STANDARDS

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), specifying the accounting for leases, which supersedes the leases requirements in Topic 840, Leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. Lessees are permitted to make an accounting policy election to not recognize the asset and liability for leases with a term of twelve months or less. Lessors’ accounting is largely unchanged from the previous accounting standard. In addition, Topic 842 expands the disclosure requirements of lease arrangements. Topic 842 currently requires lessees and lessors to use a modified retrospective transition approach, which includes a number of practical expedients. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, which is fiscal 2020 for Sysco, with early adoption permitted. The company is currently reviewing the provisions of the new standard.

Implementation Costs Incurred in a Cloud Computing Arrangement

In August 2018, the FASB issued ASU 2018-15, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract, which aligns the accounting for implementation costs incurred in a cloud computing arrangement that is a service contract with the guidance on capitalizing costs associated with developing or obtaining internal-use software. The guidance amends Accounting Standards Codification (ASC) 350 to include in its scope implementation costs of a cloud computing arrangement that is a service contract and clarifies that a customer should apply ASC 350 to determine which implementation costs should be capitalized in such a cloud computing arrangement. This guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019, which is the first quarter of fiscal 2021 for Sysco, with early adoption permitted. The company is currently reviewing the provisions of the new standard.

4. REVENUE

Adoption of ASC Topic 606, “Revenues from Contracts with Customers”

On July 1, 2018, Sysco adopted ASC Topic 606 with no significant impact to its financial position or results of operations, using the modified retrospective method. There were no contracts which were not completed as of July 1, 2018. Results for reporting periods beginning after July 1, 2018 are presented under Topic 606, while prior period amounts have not been restated and continue to be reported in accordance with our historic accounting under Topic 605. Sysco had no adjustment to opening retained earnings as of July 1, 2018 as a result of adopting ASC Topic 606. There was no impact to revenues for the quarter ended September 29, 2018 as a result of applying ASC Topic 606.

Revenue Recognition

The company recognizes revenues when the performance obligation is satisfied, which is the point at which control of the promised goods or services are transferred to its customers, in an amount that reflects the consideration Sysco expects to be entitled to receive in exchange for those goods or services. For the majority of Sysco's customer arrangements, control transfers to customers at a point-in-time when goods have been delivered, as that is generally when legal title, physical possession and risks and rewards of goods/services transfers to the customer. The timing of satisfaction of the performance obligation is not subject to significant judgment. While certain additional services may be identified within a contract, we have concluded that those services are individually immaterial in the context of the contract with the customer, and therefore, not assessed as performance obligations.

Sales tax collected from customers is not included in revenue, but rather recorded as a liability due to the respective taxing authorities. Shipping and handling costs include costs associated with the selection of products and delivery to customers and are included within operating expenses.

Product Sales Revenues

Sysco generates revenue primarily from the distribution and sale of food and related products to its customers. Substantially all revenue is recognized at the point in time in which the product is delivered to the customer. The company grants certain customers sales incentives, such as rebates or discounts, which are accounted for as variable consideration. The variable consideration is based on amounts known at the time the performance obligation is satisfied and, therefore, requires minimal judgment.

Contract Balances

After completion of Sysco's performance obligations, the company has an unconditional right to consideration as outlined in its contracts with customers. Sysco's customer receivables will generally be collected in less than 30 days in accordance with the underlying payment terms. Customer receivables, which are included in Accounts and notes receivable, less allowances in the consolidated balance sheet, were $4.0 billion and $3.8 billion as of September 29, 2018 and June 30, 2018, respectively.

Sysco has certain customer contracts in which upfront monies are paid to its customers. These payments have become industry practice and are not related to financing of the customer's business. They are not associated with any distinct good or service to be received from the customer and, therefore, are treated as a reduction of transaction prices. All upfront payments are capitalized in Other Assets and amortized over the life of the contract or the expected life of the relationship with the customer on a straight-line basis. As of September 29, 2018, Sysco's contract assets were immaterial. Sysco has no material commissions paid that are directly attributable to obtaining a particular contract.

Disaggregation of Revenues

The following tables present our revenues disaggregated by reportable segment and sales mix for the company's principal product categories for the periods presented:

	13-Week Period Ended Sep. 29, 2018				
	US Foodservice Operations	International Foodservice Operations	SYGMA	Other	Total
	(In thousands)				
Principal Product Categories					
Fresh and frozen meats	$2,121,517	$420,456	$372,334	$—	$2,914,307
Canned and dry products	1,852,168	611,470	77,621	—	2,541,259
Frozen fruits, vegetables, bakery and other	1,423,386	628,559	291,864	—	2,343,809
Dairy products	1,086,404	318,347	154,806	—	1,559,557
Poultry	1,026,936	215,582	272,061	—	1,514,579
Fresh produce	937,580	257,544	64,849	—	1,259,973
Paper and disposables	710,759	104,539	188,616	16,409	1,020,323
Seafood	661,687	188,436	25,385	—	875,508
Beverage products	290,571	52,069	147,294	23,180	513,114
Other (1)	288,403	123,948	26,627	233,872	672,850
Total Revenue	$10,399,411	$2,920,950	$1,621,457	$273,461	$15,215,279

(1) Other revenue relates to non-food products, including textiles and amenities for our hotel supply business, equipment and subscription revenues for our Sysco Labs business, and other janitorial products, medical supplies and smallwares.

	13-Week Period Ended Sep. 30, 2017				
	US Foodservice Operations	International Foodservice Operations	SYGMA	Other	Total
	(In thousands)				
Principal Product Categories					
Fresh and frozen meats	$2,031,141	$434,639	$386,248	$—	$2,852,028
Canned and dry products	1,738,677	593,354	77,485	—	2,409,516
Frozen fruits, vegetables, bakery and other	1,266,732	626,065	272,592	—	2,165,389
Poultry	1,046,686	207,465	296,899	—	1,551,050
Dairy products	1,017,661	315,654	166,688	—	1,500,003
Fresh produce	923,792	265,583	65,546	—	1,254,921
Paper and disposables	656,309	104,110	181,829	15,390	957,638
Seafood	620,321	183,272	23,774	—	827,367
Beverage products	275,130	51,059	145,074	23,011	494,274
Other (1)	272,493	122,054	24,536	219,155	638,238
Total Revenue	$9,848,942	$2,903,255	$1,640,671	$257,556	$14,650,424

(1) Other revenue relates to non-food products, including textiles and amenities for our hotel supply business, equipment and subscription revenues for our Sysco Labs business, and other janitorial products, medical supplies and smallwares.

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5. ACQUISITIONS

There were no new acquisitions in fiscal 2019. Certain acquisitions involve contingent consideration that may include earnout agreements that are typically payable over periods of up to three years in the event that certain operating results are achieved. As of September 29, 2018, aggregate contingent consideration outstanding was $14.6 million, of which $9.8 million was recorded as earnout liabilities.

6. 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 cash deposits, 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.

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

- Cash deposits included in cash equivalents are valued at amortized cost, which approximates fair value. These are included within cash equivalents as a Level 1 measurement in the tables below.
- 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 as Level 1 measurements in the tables below.
- The interest rate swap agreements 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.
- The foreign currency swap agreements, including cross-currency swaps, are valued using a swap valuation model that utilizes an income approach applying observable market inputs including interest rates, LIBOR swap rates for U.S. dollars, Canadian dollars, pound sterling and euro currencies, and credit default swap rates.
- Foreign currency forwards are valued based on exchange rates quoted by domestic and foreign banks for similar instruments.
- Fuel swap contracts are valued based on observable market transactions of forward commodity prices.

The fair value of the company’s derivative instruments are all measured using inputs that are considered a Level 2 measurement, as they are not actively traded and are valued using pricing models that use observable market quotations. The location and the fair value of derivative assets and liabilities designated as hedges in the consolidated balance sheet are disclosed in Note 7, “Derivative Financial Instruments.”

The following tables present the company's assets measured at fair value on a recurring basis as of September 29, 2018, June 30, 2018 and September 30, 2017:

	Assets and Liabilities Measured at Fair Value as of Sep. 29, 2018			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash equivalents				
Cash and cash equivalents	$366,173	$200	$ —	$366,373
Other assets [1]	163,067	—	—	163,067
Total assets at fair value	$529,240	$200	$ —	$529,440

[1] Represents restricted cash balance recorded within other assets in the consolidated balance sheet.

	Assets and Liabilities Measured at Fair Value as of Jun. 30, 2018			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash equivalents				
Cash and cash equivalents	$169,214	$30,190	$ —	$199,404
Other assets [1]	163,519	—	—	163,519
Total assets at fair value	$332,733	$30,190	$ —	$362,923

[1] Represents restricted cash balance recorded within other assets in the consolidated balance sheet.

	Assets and Liabilities Measured at Fair Value as of Sep. 30, 2017			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash equivalents				
Cash and cash equivalents	$287,203	$43,191	$ —	$330,394
Total assets at fair value	$287,203	$43,191	$ —	$330,394

The carrying values of accounts receivable and accounts payable approximated their respective fair values due to their short-term maturities. The fair value of Sysco's total debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the company for new debt with the same maturities as existing debt, and is considered a Level 2 measurement. The fair value of total debt was approximately $8.8 billion, $8.4 billion and $9.4 billion as of September 29, 2018, June 30, 2018 and September 30, 2017, respectively. The carrying value of total debt was $8.7 billion, $8.3 billion and $9.0 billion as of September 29, 2018, June 30, 2018 and September 30, 2017, respectively.

7. DERIVATIVE FINANCIAL INSTRUMENTS

Sysco uses derivative financial instruments to enact hedging strategies for risk mitigation purposes; however, the company does not use derivative financial instruments for trading or speculative purposes. Hedging strategies are used to manage interest rate risk, foreign currency risk and fuel price risk.

Hedging of interest rate risk

Sysco manages its debt portfolio with interest rate swaps from time to time to achieve an overall desired position of fixed and floating rates.

Hedging of foreign currency risk

Sysco enters into cross-currency swap contracts to hedge the foreign currency transaction risk of certain intercompany loans. There are no credit-risk related contingent features associated with these swaps, which have been designated as cash flow hedges. The company also uses cross-currency swap contracts and euro-bond denominated debt to hedge the foreign currency exposure of our net investment in certain foreign operations. Additionally, Sysco's operations in Europe have inventory purchases denominated in currencies other than their functional currency, such as the euro, U.S. dollar, Polish zloty and Danish krone. These inventory purchases give rise to foreign currency exposure between the functional currency of each entity and these currencies. The company enters into foreign currency forward swap contracts to sell the applicable entity's functional currency and buy currencies matching the inventory purchase, which operate as cash flow hedges of the company's foreign currency-denominated inventory purchases.

Hedging of fuel price risk

Sysco uses fuel commodity swap contracts to hedge against the risk of the change in the price of diesel on anticipated future purchases. These swaps have been designated as cash flow hedges.

None of the Company's hedging instruments contain credit-risk-related contingent features. Details of outstanding hedging instruments as of September 29, 2018 are below:

Maturity Date of the Hedging Instrument	Currency / Unit of Measure	Notional Value (In millions)
Hedging of interest rate risk		
April 2019	U.S. Dollar	500
October 2020	U.S. Dollar	750
July 2021	U.S. Dollar	500
March 2025	U.S. Dollar	500
Hedging of foreign currency risk [(1)]		
Various (November 2018 to January 2019)	Swedish Krona	203
Various (October 2018 to June 2019)	U.S. Dollar	2
Various (November 2018 to October 2019)	British Pound Sterling	24
June 2021	U.S. Dollar	44
June 2021	Canadian Dollar	330
July 2021	British Pound Sterling	234
August 2021	British Pound Sterling	466
June 2023	Euro	500
Hedging of fuel risk		
Various (September 30, 2018 to August 2019)	Gallons	49

(1) Foreign currency forward contracts used to hedge against foreign exchange exposures related to inventory purchases are not material to Sysco's overall hedging portfolio.

The location and the fair value of derivative instruments designated as hedges in the consolidated balance sheet as of September 29, 2018 and June 30, 2018 are as follows:

	Balance Sheet location	Derivative Fair Value	
		Sep. 29, 2018	Jun. 30, 2018
		(In thousands)	
Fair Value Hedges:			
Interest rate swaps	Other current liabilities	$6,797	$6,820
Interest rate swaps	Other long-term liabilities	57,263	49,734
Cash Flow Hedges:			
Fuel Swaps	Other current assets	$16,578	$15,316
Foreign currency forwards	Other current assets	198	693
Cross currency swaps	Other current assets	—	4,284
Cross currency swaps	Other assets	—	3,454
Foreign currency forwards	Other current liabilities	589	71
Cross currency swaps	Other long-term liabilities	10,658	14,201
Net Investment Hedges:			
Foreign currency swaps	Other assets	$13,268	$10,709
Foreign currency swaps	Other long-term liabilities	36,230	39,690

Gains or losses recognized in the consolidated results of operations for cash flow hedging relationships are immaterial for each of the periods presented. The location and amount of gains or losses recognized in the consolidated results of operations for fair value hedging relationships for each of the periods, presented on a pretax basis, are as follows:

	13-Week Period Ended Sep. 29, 2018		
	Cost of Goods Sold	Operating Expense	Interest Expense
	(In thousands)		
Total amounts of income and expense line items presented in the consolidated results of operations in which the effects of fair value or cash flow hedges are recorded	$12,311,494	$2,275,645	$89,016
Gain or (loss) on fair value hedging relationships:			
Interest rate swaps:			
Hedged items [1]	$—	$—	$(8,588)
Derivatives designated as hedging instruments	—	—	(10,859)

[1] The hedged total includes interest expense of $15.1 million and change in fair value of debt of $6.5 million.

	13-Week Period Ended Sep. 30, 2017		
	Cost of Goods Sold	Operating Expense	Interest Expense
	(In thousands)		
Total amounts of income and expense line items presented in the consolidated results of operations in which the effects of fair value or cash flow hedges are recorded	$11,856,756	$2,174,303	$80,884
Gain or (loss) on fair value hedging relationships:			
Interest rate swaps:			
Hedged items [1]	$—	$—	$(15,230)
Derivatives designated as hedging instruments	—	—	(1,047)

[1] The hedged total includes interest expense of $17.1 million and change in fair value of debt of $1.8 million.

The location and effect of cash flow and net investment hedge accounting on the consolidated statements of comprehensive income for the 13-week period ended September 29, 2018, presented on a pretax basis, are as follows:

	13-Week Period Ended Sep. 29, 2018		
	Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivatives (In thousands)	Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (In thousands)
Derivatives in cash flow hedging relationships:			

Fuel swaps	$1,026	Operating expense	$ 4,353
Foreign currency contracts	(4,803)	Cost of goods sold	483
Total	$(3,777)		$ 4,836
Derivatives in net investment hedging relationships:			
Foreign currency contracts	$7,228	N/A	$ —
Foreign denominated debt	3,950	N/A	—
Total	$11,178		$ —

The location and effect of cash flow and net investment hedge accounting on the consolidated statements of comprehensive income for the 13-week period ended September 30, 2017, presented on a pretax basis, are as follows:

	13-Week Period Ended Sep. 30, 2017		
	Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivatives (In thousands)	Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (In thousands)
Derivatives in cash flow hedging relationships:			
Fuel swaps	$11,201	Operating expense	$ (156)
Foreign currency contracts	(21,793)	Cost of goods sold	309
Total	$(10,592)		$ 153
Derivatives in net investment hedging relationships:			
Foreign currency contracts	$(15,894)	N/A	$ —
Foreign denominated debt	(19,150)	N/A	—
Total	$(35,044)		$ —

The location and carrying amount of hedged liabilities in the consolidated balance sheet as of September 29, 2018 are as follows:

	Sep. 29, 2018 Carrying Amount of Hedged Assets (Liabilities)	Sep. 29, 2018 Cumulative Amount of Fair Value Hedging Adjustments Included in the Carrying Amount of Hedged Assets (Liabilities)
	(In thousands)	
Balance sheet location:		
Current maturities of long-term debt	$(499,739)	$ 3,609
Long-term debt	(1,744,043)	55,569

The location and carrying amount of hedged liabilities in the consolidated balance sheet as of September 30, 2017, are as follows:

	Sep. 30, 2017 Carrying Amount of Hedged Assets (Liabilities)	Sep. 30, 2017 Cumulative Amount of Fair Value Hedging Adjustments Included in the Carrying Amount of Hedged Assets (Liabilities)
	(In thousands)	
Balance sheet location:		
Current maturities of long-term debt	$(499,874)	$ (223)
Long-term debt	(1,746,904)	22,259

8. DEBT

Sysco has a commercial paper program allowing the company to issue short-term unsecured notes in an aggregate amount not to exceed $2.0 billion. As of September 29, 2018, there were no commercial paper issuances outstanding. Any outstanding amounts are classified within long-term debt, as the program is supported by a long-term revolving credit facility. During the first 13 weeks of fiscal 2019, aggregate outstanding commercial paper issuances and short-term bank borrowings ranged from zero to approximately $669.0 million.

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Senior notes offering

On September 25, 2018, Sysco issued senior notes totaling CDN $500.0 million (USD $384.6 million). The senior notes were issued in Canada with a coupon rate of 3.65% and pricing, as a percentage of par, of 99.962%. Net proceeds from the offering were used to repay internal debt that was created in fiscal 2018 when the company repatriated earnings from its Canadian operations back to Sysco Corporation, and to repay outstanding borrowings under Sysco’s commercial paper program, along with other general corporate purposes. Interest on the senior notes will be paid semi-annually on April 25 and October 25, beginning April 25, 2019. At Sysco’s option, any or all of the senior notes may be redeemed, in whole or in part, at any time prior to maturity. If Sysco elects to redeem the senior notes before the date that is two months prior to the maturity date, Sysco will pay an amount equal to the greater of (1) 100% of the principal amount of the senior notes to be redeemed; or (2) the applicable yield price, plus in either case, any accrued and unpaid interest on the senior notes to be redeemed to the date of redemption. If Sysco elects to redeem a series of senior notes on or after the applicable date described in the preceding sentence, Sysco will pay an amount equal to 100% of the principal amount of the senior notes to be redeemed plus accrued and unpaid interest on the senior notes redeemed to the redemption date.

9. EARNINGS PER SHARE

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

	13-Week Period Ended	
	Sep. 29, 2018	Sep. 30, 2017
	(In thousands, except for share and per share data)	
Numerator:		
Net earnings	$431,042	$ 367,640
Denominator:		
Weighted-average basic shares outstanding	520,856,599	527,289,675
Dilutive effect of share-based awards	8,177,871	5,773,751
Weighted-average diluted shares outstanding	529,034,470	533,063,426
Basic earnings per share	$0.83	$ 0.70
Diluted earnings per share	$0.81	$ 0.69
Dividends declared per common share	$0.36	$ 0.33

The number of securities that were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive was approximately 1,067,000 and 6,438,000 for the first quarter of fiscal 2019 and fiscal 2018, respectively.

10. OTHER 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 $389.5 million and $487.8 million for the first quarter of fiscal 2019 and fiscal 2018, respectively.

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. 29, 2018		
		Before Tax Amount	Tax	Net of Tax Amount
		(In thousands)		
Pension and other postretirement benefit plans:				
Other comprehensive income before reclassification adjustments:				
Net actuarial loss		$(36,891)	$(4,380)	$(32,511)
Reclassification adjustments:				
Amortization of prior service cost	Other expense, net	2,133	533	1,600
Amortization of actuarial loss (gain), net	Other expense, net	8,706	2,177	6,529
Total reclassification adjustments		10,839	2,710	8,129
Foreign currency translation:				
Other comprehensive income (loss) before reclassification adjustments:				
Foreign currency translation adjustment	N/A	(24,927)	—	(24,927)
Hedging instruments:				
Other comprehensive income (loss) before reclassification adjustments:				
Change in cash flow hedges	Operating expenses [1]	(3,777)	(769)	(3,008)
Change in net investment hedges	N/A	11,178	2,590	8,588
Total other comprehensive income (loss) before reclassification adjustments		7,401	1,821	5,580
Reclassification adjustments:				
Amortization of cash flow hedges	Interest expense	2,873	718	2,155
Total other comprehensive income (loss)		$(40,705)	$869	$(41,574)

[1] Amount partially impacts operating expense for fuel swaps accounted for as cash flow hedges.

	Location of Expense (Income) Recognized in Net Earnings	13-Week Period Ended Sep. 30, 2017		
		Before Tax Amount	Tax	Net of Tax Amount
		(In thousands)		
Pension and other postretirement benefit plans:				
Reclassification adjustments:				
Amortization of prior service cost	Other expense, net	$2,409	$925	$1,484
Amortization of actuarial loss (gain), net	Other expense, net	8,761	3,364	5,397
Total reclassification adjustments		11,170	4,289	6,881
Foreign currency translation:				
Foreign currency translation adjustment	N/A	121,329	—	121,329
Hedging instruments:				
Other comprehensive income (loss) before reclassification adjustments:				
Change in cash flow hedges	Operating expenses [1]	3,406	1,203	2,203
Change in net investment hedges	N/A	(23,376)	(11,352)	(12,024)
Total other comprehensive income (loss) before reclassification adjustments		(19,970)	(10,149)	(9,821)
Reclassification adjustments:				
Amortization of cash flow hedges	Interest expense	2,873	1,103	1,770
Total other comprehensive income (loss)		$115,402	$(4,757)	$120,159

[1] Amount partially impacts operating expense for fuel swaps accounted for as cash flow hedges.

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

	13-Week Period Ended Sep. 29, 2018			
	Pension and Other Postretirement Benefit Plans, net of tax	Foreign Currency Translation	Hedging, net of tax	Total
	(In thousands)			
Balance as of Jun. 30, 2018	$(1,095,059)	$(171,043)	$(143,167)	$(1,409,269)
Equity adjustment from foreign currency translation	—	(24,927)	—	(24,927)
Amortization of cash flow hedges	—	—	2,155	2,155
Change in net investment hedges	—	—	8,588	8,588
Change in cash flow hedge	—	—	(3,008)	(3,008)
Net actuarial loss	(32,511)	—	—	(32,511)
Amortization of unrecognized prior service cost	1,600	—	—	1,600
Amortization of unrecognized net actuarial losses	6,529	—	—	6,529
Balance as of Balance as of Sep. 29, 2018	$(1,119,441)	$(195,970)	$(135,432)	$(1,450,843)

	13-Week Period Ended Sep. 30, 2017			
	Pension and Other Postretirement Benefit Plans, net of tax	Foreign Currency Translation	Hedging, net of tax	Total
	(In thousands)			
Balance as of Jul. 1, 2017	$(974,232)	$(148,056)	$(140,449)	$(1,262,737)
Equity adjustment from foreign currency translation	—	121,329	—	121,329
Amortization of cash flow hedges	—	—	1,770	1,770
Change in cash flow hedges	—	—	2,203	2,203
Change in net investment hedges	—	—	(12,024)	(12,024)
Amortization of unrecognized prior service cost	1,484	—	—	1,484
Amortization of unrecognized net actuarial losses	5,397	—	—	5,397
Balance as of Balance as of Sep. 30, 2017	$(967,351)	$(26,727)	$(148,500)	$(1,142,578)

11. SHARE-BASED COMPENSATION

Sysco provides compensation benefits to employees under several share-based payment arrangements, including various long-term employee stock incentive plans and the 2015 Employee Stock Purchase Plan (ESPP).

Stock Incentive Plans

In the first quarter of fiscal 2019, options to purchase 2,550,939 shares were granted to employees. The fair value of each option award is estimated as of the date of grant using a Black-Scholes option pricing model. The weighted average grant-date fair value per option granted during the first quarter of fiscal 2019 was $11.71.

In the first quarter of fiscal 2019, 558,639 performance share units (PSUs) were granted to employees. Based on the jurisdiction in which the employee resides, some of these PSUs were granted with forfeitable dividend equivalents. The fair value of each PSU award granted with a dividend equivalent is based on the company's stock price as of the date of grant. For PSUs 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 performance share unit granted during the first quarter of fiscal 2019 was $75.08. The PSUs will convert into shares of Sysco common stock at the end of the performance period based on financial performance targets consisting of Sysco's earnings per share compound annual growth rate and adjusted return on invested capital.

Employee Stock Purchase Plan

Plan participants purchased 227,012 shares of common stock under the Sysco ESPP during the first quarter of fiscal 2019.

The weighted average fair value per right of employee stock purchase rights issued pursuant to the ESPP was $10.24 during the first quarter of fiscal 2019. 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 $29.2 million and $28.0 million for the first quarter of fiscal 2019 and fiscal 2018, respectively.

As of September 29, 2018, there was $159.1 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 2.06 years.

12. INCOME TAXES

Effective Tax Rate

The effective tax rates for the first quarters of fiscal 2019 and 2018 were 19.88% and 32.72%, respectively. The lower effective tax rate for the first quarter of fiscal 2019 is primarily due to lower tax rates enacted from the Tax Cuts and Job Act (Tax Act), the favorable impact of excess tax benefits of equity-based compensation that totaled $14.3 million and the release of certain tax contingencies due to the lapse of statutes of limitations. In the first quarter of fiscal 2018, lower U.S. tax rates from the Tax Act were not yet applicable. The effective tax rate for the first quarter of fiscal 2018 reflects the favorable impact of the excess tax benefits of equity-based compensation that totaled $16.0 million.

In accordance with SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Job Act, the company recognized the provisional impacts related to re-measurement of deferred tax assets and liabilities and the one-time transition tax in its results for the annual period ended June 30, 2018. As of the first quarter of fiscal 2019, the company has not completed its accounting for all aspects of the Tax Act. The company will continue to gather data and evaluate the impact of the Tax Act after the company has considered additional guidance issued by the U.S. Treasury Department, the Internal Revenue Service, state tax authorities and other standard-setting bodies. The company is in the process of completing accounting for the income tax effects of the Tax Act, and will finalize its accounting for the Tax Act in the second quarter of fiscal 2019.

Uncertain Tax Positions

As of September 29, 2018, the gross amount of unrecognized tax benefit and related accrued interest was $6.6 million and $4.3 million, respectively. It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain of the company's unrecognized tax positions will increase or decrease in the next twelve months. At this time, an estimate of the range of the reasonably possible change cannot be made.

Other

The determination of the company's provision for income taxes requires 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.

13. 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 and reasonably estimable, the losses have been accrued. Although the final results of legal proceedings cannot be predicted with certainty, based on estimates of the range of potential losses associated with these matters, management does not believe 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.

14. BUSINESS SEGMENT INFORMATION

The company has aggregated certain of its operating segments into three reportable segments. "Other" financial information is attributable to the company's other operating segments that do not meet the quantitative disclosure thresholds.

- U.S. Foodservice Operations - primarily includes U.S. Broadline operations, which distribute a full line of food products including custom-cut meat, seafood, specialty produce, specialty imports and a wide variety of non-food products;

- International Foodservice Operations - includes operations in the Americas and Europe, which distribute a full line of food products and a wide variety of non-food products. The Americas primarily consists of operations in Canada, Bahamas, Mexico, Costa Rica and Panama, as well as our operations that distribute to international customers. Our European operations primarily consist of operations in the United Kingdom (U.K.), France, Ireland and Sweden;
- SYGMA - our U.S. customized distribution subsidiary; and
- Other - primarily our hotel supply operations and Sysco Labs, which includes our suite of technology solutions that help support the business needs of our customers and provide support for some of our business technology needs.

The accounting policies for the segments are the same as those disclosed by Sysco for its consolidated financial statements. Corporate expenses generally include all expenses of the corporate office and Sysco's shared services center. These also include all share-based compensation costs.

The following tables set forth certain financial information for Sysco's reportable business segments. Sysco reclassified prior year amounts to conform to the current year presentation of net periodic pension and postretirement benefit costs in accordance with ASU 2017-07.

	13-Week Period Ended	
	Sep. 29, 2018	Sep. 30, 2017
Sales:	(In thousands)	
U.S. Foodservice Operations	$10,399,411	$9,848,942
International Foodservice Operations	2,920,950	2,903,255
SYGMA	1,621,457	1,640,671
Other	273,461	257,556
Total	$15,215,279	$14,650,424

	13-Week Period Ended	
	Sep. 29, 2018	Sep. 30, 2017
Operating income:	(In thousands)	
U.S. Foodservice Operations	$815,758	$782,076
International Foodservice Operations	66,772	76,804
SYGMA	2,431	4,845
Other	10,335	6,932
Total segments	895,296	870,657
Corporate	(267,156)	(251,292)
Total operating income	628,140	619,365
Interest expense	89,016	80,884
Other expense (income), net	1,132	(7,975)
Earnings before income taxes	$537,992	$546,456

15. SUPPLEMENTAL GUARANTOR INFORMATION - SUBSIDIARY GUARANTEES

On January 19, 2011, the wholly owned U.S. Broadline subsidiaries of Sysco Corporation at that time entered into full and unconditional guarantees of all outstanding senior notes and debentures of Sysco Corporation. All subsequent issuances of senior notes and debentures have also been guaranteed by these subsidiaries. As of September 29, 2018, Sysco had a total of $8.3 billion in senior notes and debentures that was covered by these guarantees.

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 or (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 (certain 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.

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Condensed Consolidated Balance Sheet
Sep. 29, 2018

	Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
	(In thousands)				
Current assets	$370,826	$4,299,713	$3,971,717	$—	$8,642,256
Intercompany receivables	6,861,262	83,000	6,301,987	(13,246,249)	—
Investment in subsidiaries	5,472,246	—	1,082,550	(6,554,796)	—
Plant and equipment, net	278,439	2,150,263	2,038,201	—	4,466,903
Other assets	747,638	669,256	4,536,366	(520,337)	5,432,923
Total assets	$13,730,411	$7,202,232	$17,930,821	$(20,321,382)	$18,542,082
Current liabilities	$1,263,290	$904,086	$4,473,576	$—	$6,640,952
Intercompany payables	1,757,839	3,264,045	8,224,365	(13,246,249)	—
Long-term debt	7,460,238	10,765	443,341	—	7,914,344
Other liabilities	610,469	550,171	671,022	(520,337)	1,311,325
Noncontrolling interest	—	—	36,887	—	36,887
Shareholders’ equity	2,638,575	2,473,165	4,081,630	(6,554,796)	2,638,574
Total liabilities and shareholders’ equity	$13,730,411	$7,202,232	$17,930,821	$(20,321,382)	$18,542,082

Condensed Consolidated Balance Sheet
Jun. 30, 2018

	Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
	(In thousands)				
Current assets	$157,994	$4,018,444	$3,827,015	$—	$8,003,453
Intercompany receivables	6,621,438	270,748	5,793,352	(12,685,538)	—
Investment in subsidiaries	4,896,004	—	983,625	(5,879,629)	—
Plant and equipment, net	278,855	2,181,576	2,061,229	—	4,521,660
Other assets	788,473	611,004	4,593,537	(447,723)	5,545,291
Total assets	$12,742,764	$7,081,772	$17,258,758	$(19,012,890)	$18,070,404
Current liabilities	$1,233,541	$886,305	$4,468,900	$—	$6,588,746
Intercompany payables	882,487	3,798,134	8,004,917	(12,685,538)	—
Long-term debt	7,470,334	8,285	62,146	—	7,540,765
Other liabilities	649,445	508,387	686,178	(447,723)	1,396,287
Noncontrolling interest	—	—	37,649	—	37,649
Shareholders’ equity	2,506,957	1,880,661	3,998,968	(5,879,629)	2,506,957
Total liabilities and shareholders’ equity	$12,742,764	$7,081,772	$17,258,758	$(19,012,890)	$18,070,404

	Condensed Consolidated Balance Sheet Sep. 30, 2017				
	Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
	(In thousands)				
Current assets	$200,583	$4,228,854	$4,167,565	$—	$8,597,002
Intercompany receivables	4,275,051	966,873	—	(5,241,924)	—
Investment in subsidiaries	7,138,247	—	—	(7,138,247)	—
Plant and equipment, net	261,906	2,032,227	2,094,166	—	4,388,299
Other assets	151,031	514,392	4,767,866	—	5,433,289
Total assets	$12,026,818	$7,742,346	$11,029,597	$(12,380,171)	$18,418,590
Current liabilities	$360,586	$4,859,882	$919,814	$—	$6,140,282
Intercompany payables	—	—	5,241,924	(5,241,924)	—
Long-term debt	8,352,110	7,191	67,058	—	8,426,359
Other liabilities	1,078,868	20,268	434,451	—	1,533,587
Noncontrolling interest	—	—	83,108	—	83,108
Shareholders' equity	2,235,254	2,855,005	4,283,242	(7,138,247)	2,235,254
Total liabilities and shareholders' equity	$12,026,818	$7,742,346	$11,029,597	$(12,380,171)	$18,418,590

	Condensed Consolidated Statement of Comprehensive Income For the 13-Week Period Ended Sep. 29, 2018				
	Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
	(In thousands)				
Sales	$—	$9,479,806	$6,234,158	$(498,685)	$15,215,279
Cost of sales	—	7,660,101	5,150,078	(498,685)	12,311,494
Gross profit	—	1,819,705	1,084,080	—	2,903,785
Operating expenses	220,281	1,052,350	1,003,014	—	2,275,645
Operating income (loss)	(220,281)	767,355	81,066	—	628,140
Interest expense (income) [1]	41,413	(21,538)	69,141	—	89,016
Other expense (income), net	6,600	(54)	(5,414)	—	1,132
Earnings (losses) before income taxes	(268,294)	788,947	17,339	—	537,992
Income tax (benefit) provision	(93,587)	196,445	4,092	—	106,950
Equity in earnings of subsidiaries	605,750	—	94,341	(700,091)	—
Net earnings	431,043	592,502	107,588	(700,091)	431,042
Other comprehensive income (loss)	(41,574)	—	(24,927)	24,927	(41,574)
Comprehensive income	$389,469	$592,502	$82,661	$(675,164)	$389,468

(1) Interest expense (income) includes $21.5 million of intercompany interest income, net, for certain of the U.S. Broadline subsidiaries, which is intercompany interest expense for Sysco Corporation for the first quarter ended September 29, 2018. There is an immaterial amount of intercompany interest expense related to Sysco Corporation for the Other Non-Guarantor Subsidiaries.

	Condensed Consolidated Statement of Comprehensive Income For the 13-Week Period Ended Sep. 30, 2017				
	Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
	(In thousands)				
Sales	$—	$9,021,657	$6,120,313	$(491,546)	$14,650,424
Cost of sales	—	7,275,423	5,072,879	(491,546)	11,856,756
Gross profit	—	1,746,234	1,047,434	—	2,793,668
Operating expenses	202,956	1,006,152	965,195	—	2,174,303
Operating income (loss)	(202,956)	740,082	82,239	—	619,365
Interest expense (income) [(1)]	98,996	(23,351)	5,239	—	80,884
Other expense (income), net	(8,707)	785	(53)	—	(7,975)
Earnings (losses) before income taxes	(293,245)	762,648	77,053	—	546,456
Income tax (benefit) provision	(95,959)	249,561	25,214	—	178,816
Equity in earnings of subsidiaries	564,925	—	—	(564,925)	—
Net earnings	367,639	513,087	51,839	(564,925)	367,640
Other comprehensive income (loss)	120,159	—	121,329	(121,329)	120,159
Comprehensive income	$487,798	$513,087	$173,168	$(686,254)	$487,799

(1) Interest expense (income) includes $23.4 million of intercompany interest income, net, for certain of the U.S. Broadline subsidiaries, which is intercompany interest expense for Sysco Corporation for the first quarter ended September 30, 2017. There is an immaterial amount of intercompany interest expense related to Sysco Corporation for the Other Non-Guarantor Subsidiaries.

	Condensed Consolidated Cash Flows For the 13-Week Period Ended Sep. 29, 2018				
	Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Eliminations [(1)]	Consolidated Totals
	(In thousands)				
Cash flows provided by (used for):					
Operating activities	$167,767	$69,459	$33,919	$ —	$271,145
Investing activities	361,777	(42,188)	(12,229)	(406,931)	(99,571)
Financing activities	(332,988)	(1,581)	(3,974)	406,931	68,388
Effect of exchange rates on cash	—	—	(2,435)	—	(2,435)
Net increase (decrease) in cash, cash equivalents and restricted cash	196,556	25,690	15,281	—	237,527
Cash, cash equivalents and restricted cash at the beginning of period	29,144	111,843	574,857	—	715,844
Cash, cash equivalents and restricted cash at the end of period	$225,700	$137,533	$590,138	$ —	$953,371

(1) Represents primarily inter-company loans between the subsidiaries and the parent, Sysco Corporation.

	Condensed Consolidated Cash Flows				
	For the Sep. 30, 2017				
	Sysco	Certain U.S. Broadline Subsidiaries	Other Non-Guarantor Subsidiaries	Elimination	Consolidated Totals
	(In thousands)				
Cash flows provided by (used for):					
Operating activities	$(49,085)	$ 76,658	$ 55,202	$ —	$ 82,775
Investing activities	(18,365)	(53,281)	(62,893)	—	(134,539)
Financing activities	76,568	(4,872)	1,199	—	72,895
Effect of exchange rates on cash	—	—	18,570	—	18,570
Net increase (decrease) in cash and cash equivalents	9,118	18,505	12,078	—	39,701
Cash and cash equivalents at the beginning of period	111,576	18,788	739,138	—	869,502
Cash and cash equivalents at the end of period	$120,694	$ 37,293	$ 751,216	$ —	$ 909,203

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 30, 2018, and for 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 30, 2018 (our 2018 Form 10-K), as well as the consolidated financial statements (unaudited) and notes to the consolidated financial statements (unaudited) contained in this report.

Sysco’s results of operations for fiscal 2019 and 2018 are impacted by restructuring and transformational project costs consisting of: (1) expenses associated with our various transformation initiatives; (2) severance and facility closure charges; and (3) restructuring charges. Our results of operations for fiscal 2019 and 2018 are also impacted by the following acquisition-related items: (1) intangible amortization expense and (2) integration costs. All acquisition-related costs in fiscal 2019 and 2018 that have been excluded relate to the fiscal 2017 acquisition of Cucina Lux Investments Limited (the Brakes Acquisition). These fiscal 2019 and fiscal 2018 items are collectively referred to as “Certain Items.” Our 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 Certain Items.

More information on the rationale for the use of non-GAAP financial measures and reconciliations to generally accepted accounting principles (GAAP) numbers can be found under “Non-GAAP Reconciliations.”

Highlights and Trends

Highlights

Our first quarter performance reflects solid sales growth and improved operating performance as compared to the first quarter of fiscal 2018. These were driven by a variety of initiatives across each of our four strategic priorities. We experienced short-term challenges involving decreased inflation from several key product categories and the impact of Hurricane Florence, as well as more persistent operating expense challenges in the warehouse and transportation areas of our supply chain. We remain focused on working closely with our suppliers and customers to deliver disciplined, profitable growth to enable the achievement of our long-term objectives. Our net earnings and earnings per share, both including and excluding Certain Items, increased for the first quarter of fiscal 2019, as compared to the corresponding period in fiscal 2018, primarily due to operating income improvement and a reduced effective tax rate.

Comparisons of results from the first quarter of fiscal 2019 to the first quarter of fiscal 2018:

- Sales:
  increased 3.9%, or $564.9 million, to $15.2 billion;
- Operating income:
  increased 1.4%, or $8.8 million, to $628.1 million;
  adjusted operating income increased 5.1%, or $33.5 million, to $691.7 million;
- Net earnings:
  increased 17.2%, or $63.4 million, to $431.0 million;
  adjusted net earnings increased 21.5%, or $84.7 million, to $479.2 million;
- Basic earnings per share:

increased 18.6%, or $0.13, to $0.83 per share;

- Diluted earnings per share:

increased 17.4%, or $0.12, to $0.81 per share; and
adjusted diluted earnings per share increased 22.4%, or $0.17, to $0.91 per share.

See “Non-GAAP Reconciliations” for an explanation of the non-GAAP financial measures listed above.

Trends

The macroeconomic environment continues to be favorable in the U.S. as overall consumer confidence remains high, which has driven healthy consumer spending. According to Black Box Intelligence, the restaurant industry saw improved performance, particularly in same-store sales growth, despite lower same-store traffic. In addition, other data points reflect positive implications for longer-term consumer demand, such as faster than anticipated growth in U.S. GDP of 3.5% for the quarter and strength in the labor markets, all factors that historically have represented positive signs for the foodservice industry. The economic outlook in our international geographies, however, remains somewhat mixed. Canada’s economy is performing well, and foodservice sales are projected to continue growing. In the United Kingdom (U.K.), GDP and household consumption are both forecasted to grow over the next year, but consumer sentiment remains negative in the market, with further closures of restaurants and concerns about the food supply chain being driven by continued Brexit negotiations. The remainder of the European market continues to experience healthy foodservice growth and positive economic conditions, due to improving consumer confidence.

Our sales and gross profit growth during the first quarter of fiscal 2019 was driven by strong case growth, including growth in Sysco branded products among our local customers, despite moderating inflation. Our sales growth has been stronger in our U.S. Broadline operations, with slower growth experienced in our International businesses. We expect to have continued volume growth in our U.S. business, as a result of both a healthy macro environment and our initiatives to differentiate our capabilities from the competition. However, we expect to see some softening in year-over-year volume growth due to the annualization of both the HFM and Doerle acquisitions over the next couple of quarters, the annualization of two large national customers that were added in the prior year and the impact of Hurricane Michael. Due to these annualizations, along with the customer mix shift toward more growth with emerging concepts or micro chains, we expect our gross profit dollar growth to moderate.

Our operating expenses increased during the first quarter of fiscal 2019, driven by supply chain costs in both transportation and the warehouse, increased fuel costs and increased bad debt expense in our U.S. Operations. Additionally, we continue to make investments in transformation and integration in our International business. While the strength in the labor markets is a positive factor contributing to sales growth, it is also impacting our operating expenses due to the tightening labor market in the U.S. and Canada, including increased overtime expense and costs associated with hiring. We are addressing these challenges by continuing to drive productivity, putting tighter controls in place on how we manage costs and working with our teams to improve our hiring and training practices to better retain talent in our supply chain operations. Given some of these ongoing challenges, we are accelerating our focus on managing our overall costs and have in place multiple initiatives across the business that will drive cost improvement and enhanced customer service over the next several quarters. These initiatives include:

- A Finance Transformation Roadmap that increases centralization and standardization of our end-to-end global finance processes and workflow through a digital automation on a modern finance platform. This also allows for increased globalization of certain roles helping to lower our administrative costs;
- A Smart Spending initiative focused on reducing our overall general and administrative indirect spend in certain categories to drive productivity and savings; and
- A Canadian Regionalization project which is focused on streamlining our administrative support for our Canadian operations, while maintaining acute focus on our customers.

We expect modest operating income growth during our second fiscal quarter. However, we expect improved performance in the second half of fiscal 2019, partially from increased benefits from the initiatives noted above, and continue to believe that we will achieve the financial objectives associated with our three-year plan.

Strategy

Our objective to improve the overall customer experience is a core element of our success over the past few years and will continue to be a key focus as we move forward. We have identified four strategic priorities that will accelerate our current growth and guide us into the future. These priorities are to:

- enrich the customer experience;
- deliver operational excellence;
- optimize our business; and

- activate the power of our people.

Fiscal 2019 is the second year in our current three-year plan that was established in fiscal 2018 and includes our financial objectives through fiscal 2020, which will enable us to continue transforming our business, while improving the customer experience of doing business with Sysco. Our key strategic priorities are: enriching the customer experience, delivering operational excellence, optimizing the business and activating the power of our people. These strategies will help us achieve our new target financial objectives, including:

- reaching $650 million to $700 million of adjusted operating income growth as compared to fiscal 2017;
- growing earnings per share faster than operating income; and
- achieving 16% in adjusted return on invested capital for existing businesses.

In accomplishing these goals, we believe that, by fiscal 2020, we could achieve, as compared to fiscal 2017, (1) sales growth of 4% to 4.5%; (2) adjusted operating income growth of 9%; and (3) adjusted diluted earnings per share results in the range of $3.85 to $3.95 in fiscal 2020, representing an increase of approximately 16%. We do not expect our improvements to occur evenly on a quarterly basis. The key levers to achieve these targets include an emphasis on accelerating locally managed customer case growth and driving leverage between gross profit growth and adjusted expense growth. Our operating income goal was established on an adjusted basis given Certain Item charges that were applicable in fiscal 2018, which primarily were due to restructuring and Brakes-related acquisition costs.

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

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. 29, 2018	Sep. 30, 2017
Sales	100.0%	100.0 %
Cost of sales	80.9	80.9
Gross profit	19.1	19.1
Operating expenses	15.0	14.9
Operating income	4.1	4.2
Interest expense	0.6	0.6
Other expense (income), net	—	(0.1)
Earnings before income taxes	3.5	3.7
Income taxes	0.7	1.2
Net earnings	2.8 %	2.5 %

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 Ended Sep. 29, 2018
Sales	3.9 %
Cost of sales	3.8
Gross profit	3.9
Operating expenses	4.7
Operating income	1.4
Interest expense	10.1
Other expense (income), net [(1)]	(114.2)
Earnings before income taxes	(1.5)
Income taxes	(40.2)
Net earnings	17.2 %
Basic earnings per share	18.6 %
Diluted earnings per share	17.4
Average shares outstanding	(1.2)

Diluted shares outstanding	(0.8)

(1) Other expense (income), net was expense of $1.1 million in the first quarter of fiscal 2019 and income of $8.0 million in the first quarter of fiscal 2018.

The following represents our results by reportable segments:

	13-Week Period Ended Sep. 29, 2018					
	U.S. Foodservice Operations	International Foodservice Operations	SYGMA	Other	Corporate	Consolidated Totals
	(In thousands)					
Sales	$10,399,411	$2,920,950	$1,621,457	$273,461	$—	$15,215,279
Sales increase (decrease)	5.6 %	0.6 %	(1.2)%	6.2 %		3.9 %
Percentage of total	68.3 %	19.2 %	10.7 %	1.8 %		100.0 %
Operating income	$815,758	$66,772	$2,431	$10,335	$(267,156)	$628,140
Operating income increase (decrease)	4.3 %	(13.1)%	(49.8)%	49.1 %		1.4 %
Percentage of total segments	91.1 %	7.5 %	0.3 %	1.1 %		100.0 %
Operating income as a percentage of sales	7.8 %	2.3 %	0.1 %	3.8 %		4.1 %

	13-Week Period Ended Sep. 30, 2017					
	U.S. Foodservice Operations	International Foodservice Operations	SYGMA	Other	Corporate	Consolidated Totals
	(In thousands)					
Sales	$9,848,942	$2,903,255	$1,640,671	$257,556	$—	$14,650,424
Percentage of total	67.2 %	19.8 %	11.2 %	1.8 %		100.0 %
Operating income	$782,076	$76,804	$4,845	$6,932	$(251,292)	$619,365
Percentage of total segments	89.8 %	8.8 %	0.6 %	0.8 %		100.0 %
Operating income as a percentage of sales	7.9 %	2.6 %	0.3 %	2.7 %		4.2 %

Based on information in Note 14, "Business Segment Information," in the first quarter of fiscal 2019, U.S. Foodservice Operations and International Foodservice Operations, collectively, represented approximately 87.5% of Sysco's overall sales. In the first quarter of fiscal 2019, U.S. Foodservice Operations and International Foodservice Operations collectively represented approximately 98.6% of the total segment operating income. This illustrates that these segments represent the majority of our total segment results when compared to the other reportable segment.

Results of U.S. Foodservice Operations

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

	13-Week Period Ended Sep. 29, 2018	13-Week Period Ended Sep. 30, 2017	Change in Dollars	% Change
	(In thousands)			
Sales	$10,399,411	$9,848,942	$550,469	5.6 %
Gross profit	2,090,227	1,986,283	103,944	5.2
Operating expenses	1,274,469	1,204,207	70,262	5.8
Operating income	$815,758	$782,076	$33,682	4.3 %

Sales

The following table sets forth the percentage and dollar value increase or decrease in the major factors impacting sales as compared to the corresponding prior year period in order to demonstrate the cause and magnitude of change.

	Increase (Decrease) 13-Week Period (In millions)	
Cause of change	Percentage	Dollars
Case volume	3.9 %	$379.4
Inflation	—	(3.4)
Acquisitions	1.4	135.4
Other [(1)]	0.3	39.0
Total sales increase	5.6 %	$550.4

(1) Case volume excludes the volume impact from our custom-cut meat companies that do not measure volume in cases. Any impact in volumes from these operations is included within "Other."

Sales for the first quarter of fiscal 2019 were 5.6% higher than the first quarter of fiscal 2018. The primary driver of the increase was a mix of both local and national customer case volume growth in our U.S. Broadline operations. Case volumes from our U.S. Broadline operations, including acquisitions within the last 12 months, increased 5.7% in the first quarter of fiscal 2019 compared to the first quarter of fiscal 2018 and included a 5.2% improvement in locally managed customer case growth, along with an increase of 6.2% in national customer case volume, including chain restaurants and multi-locational restaurants. Sales from acquisitions within the last 12 months favorably impacted locally managed customer sales by 1.5% for the first quarter of fiscal 2019; therefore, organic local case volume, which excludes acquisitions, grew 3.7%.

Operating income increased 4.3% for the first quarter of fiscal 2019, as compared to the first quarter of fiscal 2018.

Gross profit dollars increased 5.2% in the first quarter of fiscal 2019, as compared to the first quarter of fiscal 2018, driven by growth in Sysco brand. Our Sysco brand sales to local customers increased by approximately 64 basis points for the first quarter of fiscal 2019. The estimated change in product costs, an internal measure of inflation or deflation, for the first quarter of fiscal 2019 for our U.S. Broadline operations was inflation of 0.1%, primarily driven by lower inflation in the meat, poultry and produce categories. Gross margin, which is gross profit as a percentage of sales, was 20.10% in the first quarter of fiscal 2019, a decline of 7 basis points from the gross margin of 20.17% in the first quarter of fiscal 2018, primarily from a decrease in the rate of inflation. We also continue to experience accelerating growth with local, emerging concepts, also known as micro-chains. A larger portion of our local growth is currently coming from this type of customer.

Operating expenses for the first quarter of fiscal 2019 increased 5.8%, or $70.3 million, compared to the first quarter of fiscal 2018. Our operating expense growth is primarily driven by increased supply chain costs, including significant overtime expense and costs associated with hiring, due to the tight labor market. Additionally, rising fuel prices and increased bad debt expense contributed to higher costs. The growth in operating expenses for the period included a $48.4 million increase in pay-related expenses in the first quarter of 2019, as compared to the first quarter of fiscal 2018.

Results of International Foodservice Operations

The following table sets forth a summary of 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. 29, 2018	13-Week Period Ended Sep. 30, 2017	Change in Dollars	% Change
	(In thousands)			
Sales	$2,920,950	$2,903,255	$17,695	0.6 %
Gross profit	615,505	615,103	402	0.1
Operating expenses	548,733	538,299	10,434	1.9
Operating income	$66,772	$76,804	$(10,032)	(13.1)%
Gross profit	$615,505	$615,103	$402	0.1 %
Adjusted operating expenses (Non-GAAP)	520,107	519,887	220	—
Adjusted operating income (Non-GAAP)	$95,398	$95,216	$182	0.2 %

Sales

The following table sets forth the percentage and dollar value increase or decrease in the major components impacting sales as compared to the corresponding prior year period in order to demonstrate the cause and magnitude of change.

	Increase (Decrease) 13-Week Period	
	(In millions)	
Cause of change	Percentage	Dollars
Inflation	2.3 %	$65.4
Acquisitions	1.1	30.4
Foreign currency	(2.1)	(61.8)
Other [1]	(0.7)	(16.3)
Total sales increase	0.6 %	$17.7

(1) The impact of volumes as a component of sales growth from international operations are included within "Other." Volume in our foreign operations includes volume metrics that differ from country to country and cannot be aggregated on a consistent, comparable basis.

Sales for the first quarter of fiscal 2019 were 0.6% higher than the first quarter of fiscal 2018, primarily due to product cost inflation in Europe, partially offset by changes in foreign exchange rates used to translate our foreign sales into U.S. dollars. First quarter sales growth in Canada moderated compared to the first quarter of fiscal 2018. Sales in the U.K. were impacted by rationalization of some customers, as we restructure our operations, along with a saturation of restaurants in the market, partially driven by uncertainty surrounding Brexit. We had moderate increases in sales within our Latin America operations, with solid performance in Costa Rica partially offset by a challenging operating environment in Mexico.

Operating income decreased by $10.0 million, or 13.1%, for the first quarter of fiscal 2019 as compared to the first quarter of fiscal 2018. Canada is experiencing increased transportation and warehouse costs, as well as one-time costs associated with our regionalization efforts. We continue to focus on executing against our long-term plans by investing in necessary capabilities across our International businesses and leveraging our position as a platform for future growth.

Gross profit dollars increased by 0.1% in the first quarter of fiscal 2019, as compared to the first quarter of fiscal 2018, primarily attributable to inflation, along with volume growth in our Europe and Latin America operations.

Operating expenses for the first quarter of fiscal 2019 increased 1.9%, or $10.4 million, compared to the first quarter of fiscal 2018. Our strategic transformation efforts across Europe continue with the integration of Sysco France, along with the final phases of cost synergies occurring in Ireland, as we combine Brakes and Pallas Foods. Additionally, our ongoing investment in the multi-temperature distribution in the U.K. is moving forward and will eventually enable us to improve our overall cost structure and customer experience, as we reconfigure the supply chain network across the country. Certain Items applicable to this segment include Brakes Acquisition-related costs and restructuring costs within our European and Canadian operations.

Results of SYGMA and Other Segment

For SYGMA, sales were 1.2% lower in the first quarter of fiscal 2019, as compared to the first quarter of fiscal 2018, primarily from a modest decline in case volume resulting from a decrease in volume from certain customers, as we take a disciplined approach to growing the business. Operating income decreased by $2.4 million in the first quarter of fiscal 2019, as compared to the first quarter of fiscal 2018, due to increased expenses, including transportation and warehouse costs in the supply chain. We continue to look for opportunities to improve our value proposition in this important chain restaurant segment, while also looking for synergistic opportunities for growth.

For the operations that are grouped within Other, operating income decreased 49.1%, or $3.4 million, in the first quarter of fiscal 2019, as compared to the first quarter of fiscal 2018. Guest Supply also experienced cost challenges, due to a combination of tariffs, which began to put pressure on certain product categories in the business, and increased cost of shipping products to our customers. Overall, sales growth in the hospitality segment is improving, and we are working on a variety of activities and initiatives to mitigate some of the increased operating expense associated with the business.

Corporate Expenses

Corporate expenses in the first quarter of fiscal 2019 increased $14.2 million, or 5.7%, as compared to the first quarter of fiscal 2018, due primarily to an increase in pay-related expenses driven by higher severance and relocation charges. The increase in expenses was partially offset by a decrease in insurance costs in the first quarter of fiscal 2019. Corporate expenses, on an adjusted basis, decreased $0.3 million, or 0.1%, as compared to the first quarter of fiscal 2018.

Included in corporate expenses are Certain Items that totaled $34.9 million in the first quarter of fiscal 2019, as compared to $20.4 million in the first quarter of fiscal 2018. Certain Items impacting the first quarter of fiscal 2019 were primarily expenses associated with our business transformation initiatives and severance charges. Certain Items for the first quarter of fiscal 2018 were primarily expenses associated with our business transformation projects, Brakes integration costs and severance charges.

Interest Expense

Interest expense increased $8.1 million for the first quarter of fiscal 2019, as compared to the first quarter of fiscal 2018, primarily due to higher floating interest rates.

Net Earnings

Net earnings increased 17.2% in the first quarter of fiscal 2019, as compared to the first quarter of the prior year, due primarily to the items noted above, as well as items impacting our income taxes that are discussed in Note 2, “Changes in Accounting,” and Note 12, “Income Taxes.” Adjusted net earnings, excluding Certain Items, increased 21.5% in the first quarter of fiscal 2019, primarily from gross profit growth and favorable expense comparisons, as well as tax benefits.

Earnings Per Share

Basic earnings per share in the first quarter of fiscal 2019 were $0.83, an 18.6% increase from the comparable prior year period amount of $0.70 per share. Diluted earnings per share in the first quarter of fiscal 2019 were $0.81, a 17.4% increase from the comparable prior year period amount of $0.69 per share. Adjusted diluted earnings per share, excluding Certain Items, in the first quarter of fiscal 2019 were $0.91, a 22.4% increase from the comparable prior year period amount of $0.74 per share. These results were primarily attributable to the factors discussed above related to net earnings in the first quarter of fiscal 2019.

Non-GAAP Reconciliations

Sysco’s results of operations for the first quarter of each of fiscal 2019 and 2018 were impacted by restructuring and transformational project costs consisting of: (1) expenses associated with our various transformation initiatives; (2) severance and facility closure charges; and (3) restructuring charges. Our results of operations for fiscal 2019 and 2018 were also impacted by the following acquisition-related items: (1) intangible amortization expense and (2) integration costs. All acquisition-related costs in fiscal 2019 and 2018 that have been excluded relate to the fiscal 2017 Brakes Acquisition.

The first quarter fiscal 2019 and fiscal 2018 items described above and excluded from our non-GAAP measures are collectively referred to as “Certain Items.” Management believes that adjusting its operating expenses, operating income, net earnings and diluted earnings per share to remove these Certain Items, provides an important perspective with respect to our underlying business trends and results and provides meaningful supplemental information to both management and investors that (1) is indicative of the performance of the company’s underlying operations, facilitating comparisons on a year-over-year basis and (2) removes those items that are difficult to predict and are often unanticipated and that, as a result, are difficult to include in analysts’ financial models and our investors’ expectations with any degree of specificity.

Although Sysco has a history of growth through acquisitions, the Brakes Group was significantly larger than the companies historically acquired by Sysco, with a proportionately greater impact on Sysco’s consolidated financial statements. Accordingly, Sysco is excluding from its non-GAAP financial measures for the relevant period solely those acquisition costs specific to the Brakes Acquisition. We believe this approach significantly enhances the comparability of Sysco’s results for fiscal 2019 and fiscal 2018.

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

	13-Week Period Ended Sep. 29, 2018	13-Week Period Ended Sep. 30, 2017	Change in Dollars	% Change
	(In thousands, except for share and per share data)			
Operating expenses (GAAP)	$2,275,645	$2,174,303	$101,342	4.7 %
Impact of restructuring and transformational project costs (1)	(40,903)	(19,053)	(21,850)	114.7
Impact of acquisition-related costs (2)	(22,636)	(19,745)	(2,891)	14.6
Operating expenses adjusted for Certain Items (Non-GAAP)	$2,212,106	$2,135,505	$76,601	3.6 %
Operating income (GAAP)	$628,140	$619,365	$8,775	1.4 %
Impact of restructuring and transformational project costs (1)	40,903	19,053	21,850	114.7
Impact of acquisition-related costs (2)	22,636	19,745	2,891	14.6
Operating income adjusted for Certain Items (Non-GAAP)	$691,679	$658,163	$33,516	5.1 %
Net earnings (GAAP)	$431,042	$367,640	$63,402	17.2 %
Impact of restructuring and transformational project costs (1)	40,903	19,053	21,850	114.7
Impact of acquisition-related costs (2)	22,636	19,745		