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# Performance Food Group Co. (PFGC)

Q1 2025 Earnings Call

# CORPORATE PARTICIPANTS

### William S. Marshall

Vice President-Investor Relations, Performance Food Group Co.

### George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

### **Patrick Hatcher**

Chief Financial Officer & Executive Vice President, Performance Food Group Co.

# OTHER PARTICIPANTS

### Mark Carden

Analyst, UBS Securities LLC

#### **Kelly Bania**

Analyst, BMO Capital Markets Corp.

### John Heinbockel

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good day, and welcome to PFG's Fiscal Year Q1 2025 Earnings Conference Call. [Operator Instructions]

I would now like to turn the call over to Bill Marshall, Vice President, Investor Relations for PFG. Please go ahead, sir

### William S. Marshall

Vice President-Investor Relations, Performance Food Group Co.

Thank you, Shelby, and good morning. We're here with George Holm, PFG's CEO; and Patrick Hatcher, PFG's CFO. We issued a press release this morning regarding our 2025 fiscal first quarter results, which can be found in the Investor Relations section of our website at pfgc.com.

During our call today, unless otherwise stated, we are comparing results to the results in the same period in fiscal 2024. The results discussed on this call will include GAAP and non-GAAP results adjusted for certain items. The reconciliation of these non-GAAP measures to the corresponding GAAP measures can be found in the back of the earnings release. Our remarks on this call and in the earnings release contain forward-looking statements and projections of future results. Please review the cautionary forward-looking statements section in today's earnings release and our SEC filings for various factors that could cause our actual results to differ materially from our forward-looking statements and projections.

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Now, I'd like to turn the call over to George.

George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Thanks, Bill. Good morning, everyone, and thank you for joining our call today. It has been a busy beginning to fiscal year 2025 as we have built business momentum, particularly in our Foodservice segment while closing two excellent acquisitions. This morning, I will discuss the early progress we have made on both José Santiago and Cheney Brothers, and then review some highlights from our fiscal first quarter. Patrick will then discuss our financial results and outlook for fiscal year 2025. I will then provide some closing comments before taking your questions.

We are proud of how our organization has performed over the past three months. Our three segments have executed our strategy very well and produced strong results. The consumer landscape has provided some challenges, but I am pleased to report that we have started to see signs of stability that we believe could put us on a solid foundation for the remainder of the fiscal year.

Before getting into more specifics on our business, I wanted to say a few words about our acquisition activity. As we discussed in August, we acquired José Santiago early in the fiscal year. José Santiago is a leading broadline foodservice distributor in Puerto Rico with good growth momentum and attractive margins. Over the past three-plus months, we have worked diligently to integrate their business into PFG's foodservice operations. This process has gone extremely well due largely to the hard work by the teams of both José Santiago and PFG. The team in Puerto Rico is proving to be an excellent cultural fit and has already contributed nicely to PFG's business results in the fiscal first quarter.

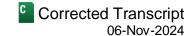
In early October, we closed the Cheney Brothers acquisition. I'd like to thank the team at Cheney Brothers as well as PFG for the long hours put in to get this deal across the finish line. We were ready for the early close raising \$1 billion through the issuance of new notes during September, which allowed us to pay down a portion of our ABL facility and provided us with additional borrowing capacity to fund the acquisition. Patrick will discuss the financial details shortly.

While it has only been one month since the close of the Cheney deal, we have already made a great deal of progress onboarding Cheney's organization. We welcome the roughly 3,600 associates from Cheney Brothers to PFG. The southeast region representing the majority of Cheney's operations has experienced a difficult few months due to the hurricane activity. The focus of our organization has been, first and foremost, on the well-being of our associates.

As a foodservice distributor, we also play an important role in the food supply chain. As an organization, we have been able to ship much-needed food supplies across the southeastern United States and Puerto Rico. While it will take some time for these areas to fully rebuild, our businesses are fully operational and continuing to service our customers. I'm proud of the active role our company and associates played in assisting areas impacted by the storms. In addition to supporting organizations like the American Red Cross, Mercy Chefs and World Central Kitchen, our associates stepped up to help each other and the communities where they live and work by volunteering to provide supplies, food and meals to first responders and those impacted.

Looking ahead, we are incredibly excited about the opportunity Cheney Brothers brings to PFG. As discussed in August, Cheney's operations complement our legacy business. Cheney's strength in Florida, particularly with broadline independent customers, enhances our existing business in the region, which skews more towards the

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specialty area of the business. Cheney Brothers distribution facility in North Carolina rounds out the portfolio, providing us with additional scale across the southeastern United States. Cheney Brothers assets, particularly their distribution facilities, are exceptionally high quality and state of the art. It is rare to find an asset that is operating at scale, but still has room to grow.

Cheney's excess capacity should enable us to accelerate growth, build scale and route density across the southeast region. In August, we provided data showing the positive demographic profile of this region, which is available on our website. Cheney Brothers exposure to independent restaurants is reflected in constant sales growth, high profit per case and EBITDA margin well above PFG's corporate average. At the same time, we believe that Cheney's relatively low private brand penetration provides a very attractive opportunity to enhance both top line growth and margins. Our legacy foodservice operations have been incredibly successful at expanding our Performance Brand offerings to independent restaurants.

In fiscal year 2014, Performance Brands represented just over 39% of independent brand share. In the most recent quarter, Performance Brands represented nearly 53% of total sales to independent restaurants. Many of you are familiar with the Reinhart acquisition and the value created from that transaction. Similar to Cheney, Reinhart was underpenetrated in private brands. But in the years since we have owned the operation, we have been able to expand Reinhart's private brand portfolio penetration to levels that are similar to legacy Performance Foodservice. We believe the private brand opportunity at Cheney is even larger.

In fact, our integration strategy for Cheney is very similar to that of Reinhart. We believe we have acquired a very high quality asset that is on excellent growth trajectory. Our initial efforts were focused on integrating the organization while minimizing any impact to Cheney's associates, customers and suppliers. Over time, we will share best practices across the two organizations and expect to accelerate sales and profit growth as a combined entity. Patrick will discuss some of our specific financial goals from the transaction in a moment.

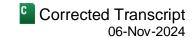
The Cheney Brothers transaction fits nicely with our total PFG strategy to continue to build upon a leading position in the food-away-from-home space. Cheney is another high-quality growth asset in the foodservice space, and we are excited to add this organization to PFG.

Foodservice is an important piece of the total PFG portfolio. However, what defines us are the additional avenues for growth, including Vistar and Core-Mark. The combination of these three units provides a powerful offering that we believe appeals to customers across the food-away-from-home landscape. As our organization continues to grow both organically and through targeted M&A opportunities, PFG is increasingly a leader in the food-away-from-home space.

In late October, IFDA held its National Championship event in Orlando, Florida. The event honored some of the industry's safest associates, allowing them to compete in a range of skill competitions. PFG had a fantastic showing, including 95 associates and over 300 PFG attendees, including family and friends to support the event. PFG's associates accepted a number of awards across multiple categories within warehouse and transportation events. Four of our competitors' children were recognized for their essays detailing why their PFG parent was their hero. It's a great event, and PFG is proud of participating in leading the industry forward.

In October, our Core-Mark business displayed its strength in the convenience space at the National Association of Convenience Stores Conference. Core-Mark's offerings, not only in traditional center-of-the-store convenience but in foodservice products, tailored to the convenience landscape set PFG apart. Our three segments are working together to create cross-selling opportunities that we believe will produce additional market share opportunities.

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Technology is an increasingly important part of our cross-segment collaboration and selling. One platform that we are particularly excited about is our CustomerFirst digital ordering application. We began discussing this initiative at our June 2022 Investor Day. Since then, we have expanded the offering across the organization and are seeing excellent progress.

At PFG, we believe that our sales force should always be at the front line of our selling efforts, a key competitive advantage that has allowed our company to consistently gain market share. At the same time, we have continued to provide our sales team and our customers with the tools, resources and knowledge to help them grow their businesses. Importantly, CustomerFirst will eventually be rolled out across all three business segments, allowing cross-selling opportunities that we believe will further enhance our value proposition.

Overall, I am proud of our organization's performance and believe that we are well positioned to continue executing our growth strategy.

I'll now turn it over to Patrick, who will review our financial performance and outlook. I will then return with some final comments on our quarter and the business environment. Patrick.

### **Patrick Hatcher**

Chief Financial Officer & Executive Vice President, Performance Food Group Co.

Thank you, George, and good morning. PFG is off to a strong start in fiscal 2025, with net sales results at the upper end of our previously disclosed guidance range and adjusted EBITDA just above the midpoint of our previously disclosed guidance range. We are very pleased with the top line momentum, which has slightly accelerated early in the fiscal second quarter, providing a high degree of confidence in our 2025 outlook.

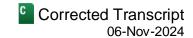
Before discussing our fiscal 2025 plan, let's review some highlights from our first quarter. PFG's net sales grew 3.2% in the fiscal first quarter, a 1 point acceleration compared to the fourth quarter of 2024. Our top line performance remains balanced between volume improvement and net price realization. Total case volume increased 2.6%, including a 7.8% increase in total independent restaurant volume. Excluding acquisitions, our total volume increased 1.2% in the fiscal first quarter, including a 4.3% gain in our independent restaurant cases.

As we enter the fiscal second quarter, we are seeing a slight acceleration in both total and independent case growth, which we believe is a reflection of our customers driving foot traffic and signs of stabilization from the consumer. The total company cost inflation was about 5% for the fiscal first quarter. Foodservice cost inflation was 3.8% in the quarter, an acceleration from the end of fiscal 2024 due to double-digit year-over-year inflation in poultry and cheese.

Cost inflation in the Convenience segment was 7%, consistent with the trends seen in the fiscal fourth quarter. Vistar's cost inflation continued to decelerate sequentially and was up 1.9% in the fiscal first quarter on a year-over-year basis. Inflation was slightly more than anticipated in the quarter, particularly in the Foodservice segment, though we believe we are well equipped to manage the price volatility as a normal course of business.

Total company gross profit increased 6.1% in the fiscal first quarter, representing a gross profit per case increase of \$0.23 in the first quarter as compared to the prior year's period. We have continued to see excellent cost control once again, led by an outstanding profit performance from Foodservice and Convenience segments. Both Foodservice and Convenience produced double-digit adjusted EBITDA growth in the quarter, increasing 13.8% and 11.2%, respectfully. Vistar did see a modest adjusted EBITDA decrease driven by continued lower foot traffic in some of our customers' channels. The balance across our three segments displays our strong diversification strategy. We anticipate Vistar's results to improve towards the back half of the fiscal year.

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We expect to build upon these strong profit results as we move through fiscal 2025, which I will address in a moment when I review our guidance. In the first quarter of fiscal 2025, PFG reported net income of \$108 million. Adjusted EBITDA increased 7.3% to approximately \$412 million, above the midpoint of the guidance we announced last quarter. Diluted earnings per share in the fiscal first quarter was \$0.69, while adjusted diluted earnings per share was \$1.16, a 0.9% improvement year-over-year. Our effective tax rate of 26.5% in the first quarter was up slightly compared to the 26.1% rate in the last year's comparable period.

Turning to our financial position and cash flow performance, in the first three months of fiscal 2025, PFG generated \$53.5 million of operating cash flow. This includes a sizable investment in candy and tobacco inventory during the quarter in anticipation of future potential price increases. We often invest in increasing the inventory of these two categories because of manufacturer pricing activity, which allows us to generate a holding gain profit. We believe that this is a very efficient use of our balance sheet and cash flow position, generating a high rate of return in future periods.

We also increased our capital spending in the quarter to \$96.5 million. We've been actively building new capacity and state-of-the-art warehouse facilities as well as building our fleet to support our long-term growth. Some of the capital spending is a catch-up from delays in building and fleet purchases due to disruption in the global supply chain following the pandemic. In fact, we expect over 10 new building projects to come online over the next 12 months. We believe these new facilities will not only support our consistent top line growth, but also incorporate designs and technologies to provide long-term cost efficiencies.

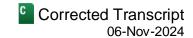
Our balance sheet remains healthy, supporting our capital projects and M&A activity. Our debt balance has increased during the fiscal first quarter, reflecting the ABL borrowings used to finance the José Santiago acquisition, putting our leverage just above the midpoint of our 2.5 times to 3.5 times target range. As you know, we closed the Cheney Brothers acquisition early in the fiscal second quarter. As a result, we expect our net leverage to be above the top end of our target range when we close the second quarter.

We expect to use available cash flow to pay down our ABL facility and bring our leverage back to within our target range over the next several quarters. We feel very comfortable with our debt balance at this time and have historically operated well above our current leverage. With that said, we believe our 2.5 times to 3.5 times target range provides future opportunities to use our balance sheet to finance reinvestment, including capital spending, M&A, and share repurchases.

On the topic of share repurchases, during the fiscal first quarter, we paid \$29.5 million to acquire 0.4 million shares of our company at an average price of \$74.69. There is about \$181 million remaining on the \$300 million share repurchase authorization. While our share repurchase activity remains active, we may execute lower levels of buybacks due to the early closing of the Cheney acquisition as we look to reduce our leverage in the short term. With that said, our share repurchases reflect several factors, including market conditions, our share price, and relative valuation, and we may become more active with our share repurchases depending on those conditions.

Turning to our guidance for fiscal 2025, for the full year, we expect net sales to be within the \$62.5 billion to \$63.5 billion range. We expect adjusted EBITDA to be in a range of \$1.7 billion to \$1.8 billion. We increased both our net sales and adjusted EBITDA outlook with the close of the Cheney acquisition early October. These ranges include estimated Cheney results representing approximately 12 of the 13 weeks in the fiscal second quarter and a full year's benefit from José Santiago. We feel very comfortable with our net sales and adjusted EBITDA targets and have become increasingly optimistic due to improving industry trends.

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For the second fiscal quarter of 2025, we anticipate net sales to be in a \$15.2 billion to \$15.6 billion range with adjusted EBITDA in a \$400 million to \$420 million range. As a reminder, the Cheney acquisition will only impact 12 weeks versus 13 weeks of the quarter's financial results. Our guidance includes the expected benefits from the Cheney acquisition that we discussed in August, notably \$50 million in annual run rate synergies by the third full fiscal year following closing, and accretion to adjusted diluted EPS by the end of the first full fiscal year, including year one synergies.

To summarize, we are very pleased with our start to fiscal 2025. Our underlying business is on a strong footing, setting us up well for the future. Meanwhile, we have closed two excellent acquisitions since the beginning of the fiscal year, and both are expected to add nicely to our growth and margins. Our balance sheet is healthy, and we intend to continue to use our financial position to create shareholder value through reinvestment in our businesses, along with selective M&A, share repurchase activity, and leverage reduction.

Our capital allocation decisions are always based on marketplace conditions, but at this time we would expect to emphasize debt reduction due to the timing of the Cheney close.

I would now like to turn it back to George, who will close with some thoughts about our results and industry.

### George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

As Patrick mentioned, we are excited about the future of our business. All three of our operating segments are executing well despite a challenging external environment. Our Foodservice segment has continued to build market share and grown cases ahead of the industry trends. Convenience continues to pick up momentum. Despite industry declines in convenience, our business outperformed all major categories and was able to increase sales and profit nicely.

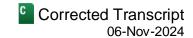
And as we look out across the landscape, we are starting to see a better backdrop. Vistar continues to experience a challenging macroeconomic environment, but we are pleased with the progress they have made on several emerging channels and are confident that they will resume the strong top and bottom line momentum that we are accustomed to seeing.

As we look across the landscape, we are pleased to report that over the past few weeks we have seen an uptick in our volume performance, particularly in independent restaurants, and expect our fiscal second quarter to improve sequentially. Keep in mind, we experienced a very strong December in fiscal 2024, but as we enter the back half of the year, we are increasingly confident that we will experience an acceleration in our top and bottom line trends.

Our results, both with our underlying businesses and the new opportunities that Cheney and José Santiago, are due to the hard work of our associates across the country. I believe we have some of the best talent in the foodservice industry, and I am confident that we will continue to build upon our position as a leading foodservice distribution company in the United States.

Before opening the line to take your questions, I wanted to take a moment to recognize Pat Hagerty ahead of his upcoming retirement. Pat has been part of the Vistar organization for over 30 years, most recently serving as PFG's Chief Commercial Officer. Pat has been an integral part of our company's success for decades. In 2008, he was named President and CEO of Vistar and went on to shape that organization into what it has become today. From the time Pat took the helm at Vistar through the end of fiscal 2024, the organization has expanded

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into a number of new channels, growing the top line by over 240%, and become the highest margin contributing segment to Performance Food Group's bottom line. I would like to personally thank Pat for his decades of service and dedication to our organization. I wish him the best in retirement.

Thank you for your time today. We appreciate your interest in Performance Food Group. And with that, we'd be happy to take your questions.

# QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And we'll take our first question from Mark Carden with UBS. Your line is open.

#### Mark Carden

Analyst, UBS Securities LLC

Good morning, guys. Thanks so much for taking the question. So to start, just on the sales force, are you guys seeing much of a normalization on your pace of hires at this point? And has compensation for these hires shifted at all, just given the tough macro? Thanks.

#### George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Yeah, we've been fairly consistent with the growth of our sales force. We're running in the 5% to 6% range, and that's about where our growth has been running of late. So, we feel good about what we're doing there, and really no big changes from a comp standpoint. Our people are commissioned salespeople, so they, to some degree, write their own paycheck.

### Mark Carden

Analyst, UBS Securities LLC

Okay. Great. And then just in terms of on your independent case growth, obviously, it picked up a little bit from July. It sounds like you exited the quarter on a high note. How did it play out throughout the quarter from a cadence perspective? And then, are you seeing any surprising pockets of strength or weakness from a category standpoint just within your business?

### George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Yeah, we're seeing 1 point to 2 point increase better than we ran in the first quarter so far. But I want to caution that the second fiscal quarter last year for us, we had 8.7% independent case growth, and December was 10.9%, a strong kind of party season, and the calendar fell very well as far as the amount of time between Thanksgiving and Christmas.

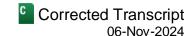
So that said, each week actually has gotten better since we've gotten into the second quarter. So, we're real confident and particularly confident about the back half of the year. And we're continuing to add people. We would like to get a little bit above that range we're at right now, that 5% to 6% and more to the 7-plus percent increase in salespeople, and we're determined to get there. We just have to find the right people.

### **Mark Carden**

Analyst, UBS Securities LLC



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Thanks so much. Good luck.

### George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Thanks.

Operator: Thank you. We'll take our next question from Kelly Bania with BMO Capital. Your line is open.

### **Kelly Bania**

Analyst, BMO Capital Markets Corp.

Good morning. Thanks for taking our questions. George, I was wondering if you could just kind of elaborate on the signs of the stability. I mean, you talked about a little acceleration here, I think it sounds like with independents. But can you maybe go channel by channel and what you're seeing in consumer behavior, what you think is changing? And then I just had a quick follow-up with respect to Cheney, if we have time.

# George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Okay. At this point, I don't know that how much of our increase that we're experiencing so far this quarter is us just doing a better job or the market itself. I think we'll get a better feel for that as we get some of our market share numbers. But our ability, I guess, to gain share in the independent has been quite consistent. It's just that the market has been down. From what we see, it's somewhere in that 3% negative to the previous year. If you look at last year, though, as we got through our fiscal second quarter, I'm sure everyone remembers that January was really tough. So, we expect to see some better increases as we get further into it.

As far as where that growth is coming from, for us, it certainly has not come from casual dining chains. We have some that are really struggling there. We've seen some fast food chains that we supply do better, but they're more at the high end of the QSR. And then our independent business is really more towards the high end, and I think that there's challenges probably in maybe that bottom 20% of income. And we're still seeing those – I would say, more price-sensitive QSR chains, we're seeing them continuing to be challenged, this year's numbers versus last year's numbers.

### **Kelly Bania**

Analyst, BMO Capital Markets Corp.

Can you talk a little bit about Convenience and Vistar on the same note?

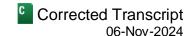
# George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Sure. I think that there's an adjustment going on there in Convenience with price increases. I mean, they're used to price increases. As we've said earlier, they have a 5% inflation rate, which to us is still high, and I think the consumers just adjusting to that. And we're running mid-single-digit same-store sales declines in that business. As far as Vistar goes, we have some challenges in the theater part of our business. Number one, it being somewhat soft; and number two, we have some competitive challenges there.

In retail, we've seen the same thing as far as the traffic not being there. Value stores more so not being there. And then we've had several closings of accounts where we had the, I guess I would call it, the impulse buy business,

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the product that's at the cash register. And then we've seen it in value stores where there's been some fairly heavy closings.

Kelly Bania

Analyst, BMO Capital Markets Corp.

That's helpful. And then just wanted to ask about Cheney and the integration timeline. Has anything changed with how you approach integrations of acquisitions of that size? And I guess, particularly, I was wondering if you had any color on the cadence of the synergies that you expect kind of year one, year two, year three.

George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Yeah. Well, the integration – I guess it depends on how you define integration, but we're doing our best to only do the things that we need to do. We put them through a lot, as you can imagine, with due diligence. They spent some long hours. We're just getting the integration done that we need to get done, I guess, as a public company would probably be a good way to put it.

And then as far as synergies, I think a lot of those will develop in the second and third year. We don't look at getting synergies from the people part of the business. They're running intact, and that's what we want. They're doing very well, by the way. I know it's only one month, but their sales growth has been really pleasing. And a lot of it will come from brands, as we mentioned.

But with those brands, first of all, we need to figure out what brands they have today that we would adopt as a company and consider them to be our brands. And then as we offer the product up to them, it's their decision as to whether or not they use our branded products. And that typically takes time, but no different than a Reinhart situation or a Core-Mark or Merchants, we'll get the synergies. They may come quick. They may come slow. And I mean that it could be either way. It just depends on what they want to adopt. And what's more important than when we get those synergies is how the company continues to perform as part of our company. Sometimes you can get so focused on getting those synergies that it has a negative impact on the company.

And going from a private company where they can pick up their cell phone and call the owner and have a conversation to being part of a large public company, we want to make that as seamless as possible for the people. So, we're not overly focused right now on synergies, but we're very confident that those will develop.

Kelly Bania

Analyst, BMO Capital Markets Corp.

Thank you.

Operator: Thank you. We'll take our next question from John Heinbockel with Guggenheim. Your line is open.

John Heinbockel

Analyst, Guggenheim Securities LLC

Hey, guys. I want to start with the 10 new buildings, right? So, can you sort of talk through what segments they're in. Are they net new facilities? Are they replacements, automation, right? And have you been capacity constrained, not from a salesperson standpoint but from a physical standpoint?

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### George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Yeah, we had physical constraints, that is for sure. We don't necessarily have 10 new buildings, okay? We have one that's a replacement building. We have several that are additions to existing buildings. Where we have these projects going up, they're almost all in Foodservice. We do have a new distribution center for Core-Mark, which will be in Houston, Texas. And I might have to turn to Pat on this, I think that's the only one we have that is not Foodservice.

**Patrick Hatcher** Chief Financial Officer & Executive Vice President, Performance Food Group Co. There's a Vistar expansion. George L. Holm Chairman & Chief Executive Officer, Performance Food Group Co. Okay. John Heinbockel Analyst, Guggenheim Securities LLC Okay. And then maybe... George L. Holm Chairman & Chief Executive Officer, Performance Food Group Co.

So, I would – make sure we're clear with this. So, we have 10 what we would call major projects going on, but not 10 new buildings.

### John Heinbockel

Analyst, Guggenheim Securities LLC

Okay. And then maybe the other thing, right, you've had good success, I think, over the past six months in all three segments of picking up a chunky business, right? I guess, non-independent. What's your outlook here, right, for the next, I don't know, 6 to 12 or 18 months along those lines? Similar opportunity in those three. And in particular, right, Core-Mark, I know there's chunky stuff out there in RFPs, how do you size that over the next year or two? Is it potentially much bigger than what we've gotten recently?

# George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

We have plenty in the pipeline. We typically don't respond to RFPs. We have a couple within that segment that we are. We would be showing some excellent growth in Core-Mark if the same-store sales weren't as negative as they are. So we're feeling very good there. We have business that we've already signed that we have coming in that we're not shipping yet, and we're experiencing double-digit growth in the foodservice part of not only our Core-Mark business, but of the business that we do in the convenience stores out of Performance Foodservice, and they've come a long way.

#### John Heinbockel

Analyst, Guggenheim Securities LLC

Thank you.

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### George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Yeah, our pipeline in Foodservice is also fairly good, but our focus right now is heavily on the independent customer. We've got some great national account customers that are new. We're continuing to be in conversation with people, but that part of our business, we do have some accounts that are showing some pretty serious declines, and I think it's great that we've been able to overcome that.

John Heinbockel

Analyst, Guggenheim Securities LLC

Thank you, guys.

George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Thanks, John.

**Operator**: Thank you. We'll take our next question from Lauren Silberman with Deutsche Bank. Your line is open.

Lauren Silberman

Analyst, Deutsche Bank Securities, Inc.

Thank you very much, and congrats on the quarter. I wanted to ask about the EBITDA guide, raised it about \$100 million for Cheney, interquarter. I think you guys are – it was closer to \$159 million on a TTM basis. So, is there any change in your expectation for the core business? Is there a relative conservatism in terms of Cheney expectations? So, any additional color there that would be helpful.

Patrick Hatcher

Chief Financial Officer & Executive Vice President, Performance Food Group Co.

Yeah, Lauren, this is Patrick. Thanks for the question. When we looked at the increase in the guidance, your numbers are correct. Obviously, we're going to get about 38 weeks of Cheney, but we feel very confident on how the core has been performing. And as we talked about, we've seen a good Q1, and then we've progressed nicely since Q1 on some of our key metrics like independent cases.

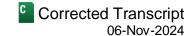
It's been very early. We just closed Cheney just about a month ago. As George mentioned, we've seen some early numbers, and they look good. José Santiago is performing exactly where we want them to be. So as I mentioned, we see a lot more confidence as we go throughout the progressing of the year. But if you look at that guidance range we gave you, we feel like it's ample room on both sides.

George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Yeah, I want to make a comment on that as well. At the time that we put that guidance out, we were dealing with a hurricane and another one came after. And that's basically had some effect on the entire distribution area for Cheney, so I thought it made a lot of sense for us to be cautious about that. They are performing extremely well, and we'll be looking at our guidance as we go through the year very closely. We also have this to deal with as far as we're seeing our growth accelerate, and we had such a big December last year, as I mentioned earlier. So, we're trying to be cautious about that. But as these weeks have been clipping down, we've just seen continued improvement, and we haven't seen much of an impact on Cheney from these hurricanes. They've done real well

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all the way through it. So, we'll keep looking at this. We'll continue to be cautious, but we'll update our guidance when we find it to be appropriate.

Lauren Silberman

Analyst, Deutsche Bank Securities, Inc.

Very helpful. Appreciate that. And then just to follow up on the private label penetration that you discussed. So, PFG is at, I think, 53%. Where is Cheney running currently? And just looking at Reinhart as a read-through, where was Reinhart when you first acquired it relative to where it's running now?

George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Well, Reinhart is a different situation than Cheney, so I'm not – going to try and not take too much time with this, but Reinhart's increased their penetration by about 10%. So, they were in the 40s, very low-40s, but they were in the 40s. And we've kept a good bit of their portfolio in place and adopted that as our branded products. And then, over time, they have made some pretty substantial moves into our product offering. With Cheney, we're not in a position where we really know what their percentage is, because we don't know which of those brands that we're going to adopt.

Now, Craig Hoskins and Joe Davi and myself, so three of our people, went to a recent food show that they had, and we saw a lot of product that we felt would be a good fit for the company as a whole. So, we're going to continue to work with them on that. But I want to emphasize again that it's their choice what of our brands they adopt, and it is our OpCo's, legacy Performance one's choice if they adopt some of the ones that are stocked at Cheney, but we have to get our arms around exactly what they have and what we want to offer up to them because you don't want to do too much at one time. And quite frankly, as they should be, they're very proud of the brand offerings that they have, and we don't want to disrupt that. So, I really can't give you a number as to what right now. By the time we have this next call, you can ask that question again, and we'll have it. We'll have a good answer.

Lauren Silberman

Analyst, Deutsche Bank Securities, Inc.

Great. We'll do. Thanks a lot. Appreciate it.

Great. We'll do. Thanks a lot. Appreciate it.

George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Thanks.

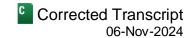
**Operator**: Thank you. We'll take our next question from Alex Slagle with Jefferies. Your line is open.

Alexander Slagle

Analyst, Jefferies LLC

Great. Thanks. Good morning. As a follow-up, I don't know if you could comment on the magnitude of the impacts from the hurricanes, if there was any. It sounded like you were pretty happy with how things progressed. And then just on Cheney, how fast that closed, which was faster than we expected. Were there certain dynamics that allowed for that, or how did that play out?

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# George L. Holm

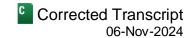
Chairman & Chief Executive Officer, Performance Food Group Co.

Well, if you look at our position, particularly in Florida, we've stayed pretty specialized. The bulk of our business in Florida is pizza business and then chain business. And there's other parts of the country where we're pretty cognizant about kind of sticking to what we can do well with our current facilities and our current position in the marketplace. And I think that led to us being able to get this done quickly.

And then as far as the impact from the hurricanes, it has been very little. Now, we're putting the numbers together as far as the number of accounts that we totally lost, and it's fairly substantial. But what often happens is it just helps the average unit volumes for the people that are still open. And because the biggest impacts are right on the coast, that tends to be a higher percentage of independent restaurants versus chain restaurants. So, we're seeing it greater in the independent world, not material though, surprisingly not material. They just did a great job of working their way through this.

of working their way through this.	it job
Alexander Slagle  Analyst, Jefferies LLC	Q
Got it. And the cheese inflation, what's your visibility look like on that for the year ahead, and if there are any potential implications, cheese or, I guess, anything else?	
George L. Holm Chairman & Chief Executive Officer, Performance Food Group Co.	A
Cheese is still inflated over the previous year, but sequentially cheese has been going down for a couple of months now.	
Patrick Hatcher Chief Financial Officer & Executive Vice President, Performance Food Group Co.	A
That's right.	
Alexander Slagle  Analyst, Jefferies LLC	Q
Thanks.	
George L. Holm Chairman & Chief Executive Officer, Performance Food Group Co.	A
Thank you.	
Operator: Thank you. We'll take our next question from Andrew Wolf with C.L. King. Your line is open.	
Andrew Wolf  Analyst, C.L. King & Associates, Inc.	Q
Thanks. Good morning. This question first is for George. Just looking at the two acquisitions combined, Cher and José Santiago, it's not as big as Reinhart, but they're big and it approaches that in size. So in a general sense, do you see these as similar to be sort of a catalyst for growth, both market share and otherwise in the that Reinhart was?	-

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### George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Yeah, I see both of them as being very good impactful acquisitions. If you put the two together, it does represent more EBITDA than Reinhart did at the time. Now, Reinhart, the EBITDA has doubled, and I don't expect to see that happen. These are more matured from a earnings standpoint. And actually, Cheney is very similar EBITDA margins to what we have in what we call our full broadline companies, very similar. But there is a big difference, and that's that they've been a better grower than some of our big companies have been.

I think that the other impact that we'll get from Cheney, and that's why it could prove to be the best one that we've done, in spite of the incredible earnings growth that Reinhart has put out, is I think it's going to have a great impact on our existing distribution centers in that area. We'll run them as kind of two separate go-to-market, but we do now have the opportunity to broaden our offerings in the distribution centers that we have that overlap with them. And we have a lot of experience in overlapping, not as much experience where we purchase someone that was bigger than us in the markets, but we had some of that in Reinhart. The Upper Midwest was a weak area for us. Reinhart did extremely well.

We've coexisted and with slightly different brand offerings and very different total product offerings. And I think that's the same thing that'll happen with Cheney. We will coexist. We'll add at least one more Cheney distribution center. And I just have just great feelings about where Cheney's going to head for us. Great management team. Going to their show, I was shocked at how many people that I met there that I've worked with in the past that are currently at Cheney. So, I think they, to some degree, know us, and we know them, and it's going to be a good mix.

#### **Andrew Wolf**

Analyst, C.L. King & Associates, Inc.

Okay. Thanks for that caller. Patrick, I wanted to ask about your CapEx, putting out CapEx in 10 projects in different phases, if you will. You did ramp up CapEx spending last year to nearly \$400 million and you've been running in the \$200 million. So, was that — obviously that must have been spending going into some of these projects. Could you just talk about what the CapEx budget is from here? Is it going to stay around that \$400 million or so?

# Patrick Hatcher

Chief Financial Officer & Executive Vice President, Performance Food Group Co.

Yeah, Alex, thanks for the question. You're right, we did ramp it up a little bit last year. I'm sorry, Andrew. Alex...

### George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Andrew.

#### **Patrick Hatcher**

Chief Financial Officer & Executive Vice President, Performance Food Group Co.

Andrew, sorry. I apologize.

### **Andrew Wolf**

Analyst, C.L. King & Associates, Inc.

Honest mistake. No worries.

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#### **Patrick Hatcher**

Chief Financial Officer & Executive Vice President, Performance Food Group Co.

I apologize. Yeah, so we did ramp it up last year, and these are our multiyear projects, and some of them are catch-up from our ability to get construction done post-pandemic where materials or availability of workers was harder to find. We're seeing that improve a lot lately, which is good, so that's also driving some of the additional expense as these projects start to move along a little faster. And we would expect that, as we go through the year, we'll see that taper off a little bit.

But we have, as we've been describing, a lot of opportunities for growth across all three segments, but particularly in foodservice. So, we're going to continue to evaluate each one of our locations and determine if we need to expand them or, in some cases, even build a new building. One thing we didn't touch on much is we are adding a lot of – I shouldn't say a lot – we are adding, where appropriate, some automation into these buildings. We're building into more state-of-the-art facilities when we do greenfield facilities. And that provides a lot of efficiencies as well for us. So, we take a lot of different things into consideration when we look to add or expand buildings.

Andrew Wolf

Analyst, C.L. King & Associates, Inc.

Got it. All right. So, one of the takeaways there is the increase in the run rate spending, some of it's catch-up, but there's a lot of opportunities. So, all right. I'll work with that. Thank you.

**Patrick Hatcher** 

Chief Financial Officer & Executive Vice President, Performance Food Group Co.

Thanks, Andrew.

**Operator**: Thank you. We'll take our next question from Jeffrey Bernstein with Barclays. Your line is open.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

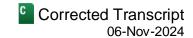
Great. Thank you very much. Two questions. The first one is just on the current trends. George, you seem increasingly optimistic in fiscal 2025, noting the improving trends in recent weeks. And I would assume that's already reflected in today's guidance, so it's not as if you're already expecting an upside to that. But just trying to reconcile, I think you said the independent case growth was 7.8% growth in the first quarter. It seems like you've already seen an acceleration in the fiscal second quarter, so presumably higher single digit. But I'm just trying to juxtapose that against – I think you made a comment that you're growing in line with the sales force, which is more like 5% to 6%. So, I'm just trying to flush out the differences in those numbers in terms of what your outlook is for independent case going forward from here, whether the sales force number is going to accelerate or the independent case growth is going to pull back, or how we should interpret those two comments? And then I had one follow-up.

George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Well – yeah, when I look at our current organic independent growth, we're running somewhere between 1% and 2% over what we ran in Q1, and it's accelerated each week, it's gotten slightly better. So, that gives us some good confidence. We recognize that we're up against tougher comparisons as we get into the end of November and the month of December. But we also recognize we're up against very easy, I guess, would be the way to put it,

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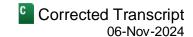
comparisons in January, unless there's just some extreme weather situations. So, it makes it a little bit tough for us to project.

As far as the growth in the sales force, right now, it is running about the same as our growth in that 5% to 6% range. That's not using Q1 organic. That's using where we're at so far in fiscal Q2. And those numbers are without Cheney and without José Santiago.

Jeffrey A. Bernstein	Q	
Analyst, Barclays Capital, Inc.  Got it. So, perhaps I was exaggerating, I guess – right, the independent case growth of 7.8%, you're saying if you just looked at the organic component of that, what would that number be?		
Patrick Hatcher Chief Financial Officer & Executive Vice President, Performance Food Group Co. 4.3%.	A	
George L. Holm  Chairman & Chief Executive Officer, Performance Food Group Co.  4.3%.	A	
Jeffrey A. Bernstein  Analyst, Barclays Capital, Inc.  Yeah. Okay. So, you're seeing a 1% to 2% increase off of that 4.3%, which would put yo	Q ou in kind of	
George L. Holm  Chairman & Chief Executive Officer, Performance Food Group Co.  Correct.	A	
Jeffrey A. Bernstein  Analyst, Barclays Capital, Inc. 5% to 6%. And that's roughly where you're running from a sales force perspective.	Q	
George L. Holm  Chairman & Chief Executive Officer, Performance Food Group Co.  Exactly.	A	
Jeffrey A. Bernstein  Analyst, Barclays Capital, Inc.	Q	

Understood. Thank you for the clarification. And then in terms of the cash usage outlook. Patrick, I know you said – well, with Cheney now your leverage is north of 3.5 times. I'm just curious if you'd quantify what it is. But your timeframe to get back within that 2.5 times to 3.5 times, it sounds like, I think, you've said a couple of quarters. I wasn't sure if that was implying you'd be within that range at that time. But if that's the case, I think last quarter you've said you plan to exhaust what is now, I guess, \$181 million left of share repurchase authorization by yearend fiscal 2025. Should we now assume, as you're focused more on debt, that you wouldn't necessarily exhaust that authorization this year anymore? How should we think about that cash usage and the leverage level?

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#### **Patrick Hatcher**

Chief Financial Officer & Executive Vice President, Performance Food Group Co.

Yeah. As I mentioned, the leverage level is exceeding our 3.5 times. I said several quarters we'll be back is what we're projecting into that 3.5-or-less times leverage. And as far as the share repurchase goes, as I mentioned as well, since we did close Cheney in October, which is a little earlier than what we had originally modeled, we'll probably focus – I mean, we will focus on debt reduction, and the share repurchase program will probably see less activity as a result.

### Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Got it. And just to clarify, for fiscal 2025, do you give interest expense and D&A guidance? I know the interest expense caught us a little off guard, but obviously you got moving pieces with your leverage levels. So, any directional color on interest expense and D&A for 2025?

### **Patrick Hatcher**

Chief Financial Officer & Executive Vice President, Performance Food Group Co.

Yeah, we don't give guidance for that. What's going on with the interest expense is really a – it's a function of obviously financing José Santiago, but that was more than offset by the EBITDA but also capital leases. In addition to investing in buildings, we've also been investing in our fleet, and that goes through capital leases, and that does come in as interest expense, and then just overall borrowings. And then on depreciation, it's also really a function of growth. It's, again, these new buildings coming online, and that's primarily the two drivers of those things.

### Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

We should assume what we saw in the fiscal first quarter as more of a reasonable run rate going forward, or was there some unusuals that drove that higher?

#### Patrick Hatcher

Chief Financial Officer & Executive Vice President, Performance Food Group Co.

No, we're experiencing somewhat similar – as I mentioned at the buildings and fleet, there were some backlogs due to availability of tractor trailers and units. We're seeing that supply chain improve now, so we are seeing delivery of larger number of units. So, there will be a catch-up here, and then it should again taper off.

### Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Thank you.

Operator: Thank you. We'll take our next question from Brian Harbour with Morgan Stanley. Your line is open.

#### Brian Harbour

Analyst, Morgan Stanley & Co. LLC

Thanks. Good morning, guys. Real quickly, you commented on cheese, but is your food inflation outlook any different for this year? Do you think it is more towards kind of the higher end of what you spoke about?

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#### **Patrick Hatcher**

Chief Financial Officer & Executive Vice President, Performance Food Group Co.

No, I really honestly – food inflation was a little higher in the guarter, but we're already seeing it taper off a little bit from there. I would expect that we're going to see low-single digits for food, similar for Vistar, and Convenience will be a little bit more elevated, but probably mid-single digits.

#### **Brian Harbour**

Analyst, Morgan Stanley & Co. LLC

Okay, thanks. And Vistar, I know this has sort of year-over-year margin pressure. I don't know if that was partly the business that was acquired or kind of the channel mix that you alluded to. Could you sort of talk more about that, just with regards to margin progression and also kind of what you think drives some of the improving sales trends in the second half?

### Patrick Hatcher

Chief Financial Officer & Executive Vice President, Performance Food Group Co.



Yeah, it's a lot to do with channel mix and also just the consumer trends that are out there and working with our customers. So, that's what's driving some of the margin pressure with Vistar. What we see in terms of, even the balance of this quarter, but going into the second half, is they are going to see some recovery in theater. As we mentioned, that was one of the things that was softer earlier. And then going forward, we do believe that they have a lot of things they're working on. They have a lot of potential new channels that they're exploring, new customers, and that's what's going to drive their improvement in the back half of the year.

### George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.



Yeah, I should comment on that a little bit, too. We're experiencing mix change with that business. Our Green Rabbit business is quite high on the gross margin area because we don't take possession of a lot of the product that we sell, and that's a business that we're real serious about. We like to get distribution centers such that we can get to almost all the country in one day. So, that's another one of those things down the road here that we'll be spending some more money on. Our theater business has been weak, but that is the lowest gross margin business that we have in Vistar. And the value business that has been weak. Our gross margin is okay on it, but the gross profit per case, because the case cost is so low, is also on the low end of what we do in Vistar. So, there's a whole lot of noise going on with it. But the mix is always going to have an impact there.

### **Brian Harbour**

Analyst, Morgan Stanley & Co. LLC



Thanks.

**Operator**: Thank you. We'll take our next question from Edward Kelly. Your line is open.

### Edward Kelly

Analyst, Wells Fargo Securities LLC



Hi. Good morning, guys. I was curious on the convenience business, could you maybe talk a little bit about your ability to grow EBITDA in that business on the decline that you're seeing in case volumes? And then how do you think about the outlook for the rest of this year if volumes are going to remain soft, the drivers potentially continuing to grow EBITDA, if that's possible in that backdrop?

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### George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Yeah. I mean, I don't have a great crystal ball in this one, but I'll give you where I think I see us going. Our ability to grow EBITDA in spite of low sales growth has been because of mix. Once again, I guess it's my favorite word today, but our foodservice business is growing very well. It's at a higher margin. The tobacco business is experiencing about double the decline that it had for several years. I think part of that is just that we got through that COVID period of time and the volumes did not go down during the heavy stay-at-home periods, and I think they're making up, I guess, a little bit for lost time.

So, as far as an outlook, we have more new business coming on. We're doing much better in independent within convenience. We're doing much better in foodservice. The volumes, I think, will come back as people get used to a little higher price point. And I guess, the only potential headwind is that we made great progress as far as our expense ratios and our productivity in both warehouse and delivery. And I think that we're going to continue to do that, but from a comparison standpoint, not at the rate that we did last year. So, I see us continuing to do well on the EBITDA line. It will come more from growth in the future here, and it will come less from expense ratio declines.

### Edward Kelly

Analyst, Wells Fargo Securities LLC

Great. Just a follow-up on independent case volumes. So, it seems like momentum in the business is improving. Just curious as to how you think about getting back to that 6% to 10% organic independent case volume growth. I mean, you do have that tougher December compare, but we're coming off an election and then comparisons look like they get quite a bit easier as you get into the back half of this year. Just curious as to how you're thinking about that target, George?

#### George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Well, the way I model it out, okay, which is a little bit back of the envelope, but last year we hit our 6% just barely, and it was front-end loaded. And this year, I see us getting to that again, it'll just be a little bit more back-end loaded. But of late, I have developed a lot of [audio gap] (01:00:12) 6% to 10%, because we don't have that much ground to make up, and we're experiencing some nice increases.

### **Edward Kelly**

Analyst, Wells Fargo Securities LLC

All right. Great. Thanks, guys.

### George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Thanks.

### **Patrick Hatcher**

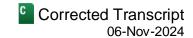
Chief Financial Officer & Executive Vice President, Performance Food Group Co.

Thank you.

Operator: [Operator Instructions] We'll take our next question from Peter Saleh with BTIG. Your line is open.

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#### Peter Saleh

Analyst, BTIG LLC

Hey, great. Thanks for taking the question. George, I wanted to ask if you could elaborate a little bit more on digital ordering tool, how broad-based it is today, maybe the penetration and adoption today. And what you're expecting as you go through 2025 or fiscal 2025? And just some of the benefits, if you can highlight some of those, that would be helpful. Thank you very much.

George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

Yeah, I'm going to just give you a couple comments. I'm going to turn that over to Patrick, he's a little closer to it than I am. We continue to see a higher percentage of our foodservice independent customers that want to enter their own orders. We were probably a little late to the game as far as getting the right digital program in place, but we feel real good about what we're doing. And if you go to our other businesses, they're getting close to having everybody on the system. So, it's really been beneficial for us that it saves some time for the salespeople. We make sure they're still out there and still doing their job, and it's really been helpful in our Vistar part of the business.

So with that, Pat, I'll have you give maybe some better numbers.

**Patrick Hatcher** 

Chief Financial Officer & Executive Vice President, Performance Food Group Co.

Yeah, I'll just add a little more color. One, as you go to – again, we track in multiple different ways. One, we're converting off of older legacy systems in each of our segments, and then we're also tracking how many new customers that weren't ordering on one of our platforms are now converting to the platform. And we've been really pleased, especially around Vistar, they've converted almost 100%. They're just waiting for some additional capabilities to be added to the system so they can convert the balance of their customers that were traditionally on the system, and then they're continuing to add more and more new customers every day, with the downloads we're seeing from the mobile app are very pleasing.

And then on the foodservice side, it's a very similar story. They've done an excellent job of converting the independent customers that were ordering on one of our legacy systems. They are also converting other regionals and nationals as well, and we're continuing to see more and more adopt the new system. And we expect convenience to go live with their platform, which is, I'll call it, CustomerFirst, in Q1. And the difference of those two is they're just adding some additional capabilities on the convenience side that don't exist currently in the platform for Vistar, foodservice. But all in all, we're really pleased with the progress. The feedback from the customers has been very positive, and we will continue to just continue to add capabilities based on customer feedback and salespeople's feedback.

Peter Saleh

Analyst, BTIG LLC

Can I just follow up? Does Cheney have its own digital ordering tool, or will they be adopting yours?

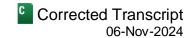
George L. Holm

Chairman & Chief Executive Officer, Performance Food Group Co.

They have their own. They're somewhat similar to us in that their salespeople control a good bit of the ordering process. But today, just to give you how wide the difference is, I've recently have had conversations where I've talked to a salesperson who 100% of his orders come in through the digital program generated by the customer,

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and we have several that it's 0%. So, our salespeople have a little different go-to-market strategies. What I see over time is slow, but steady adoption of the customer using the system and placing their order digitally.

**Peter Saleh** 

Analyst, BTIG LLC

Thank you very much.

**Operator**: Thank you. And it appears that we have no further questions at this time. I will now turn the program back over to Bill Marshall for any additional or closing remarks.

### William S. Marshall

Vice President-Investor Relations, Performance Food Group Co.

Thank you for joining our call today. If you have any follow-up questions, please contact us at Investor Relations.

**Operator**: That concludes today's teleconference. Thank you for your participation. You may now disconnect.

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