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Performance Food Group Co. (PFGC)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to PFG Fiscal Year Q1 2020 Earnings Conference Call. [Operator Instructions] I would now like to turn the call over to Michael Neese, Vice President, Investor Relations for PFG. Please go ahead, sir.

Michael D. Neese

Vice President-Investor Relations, Performance Food Group Co.

Thank you, Pasha, and good morning. We're here this morning with George Holm, PFG's CEO; and Jim Hope, Performance Food Group's CFO. We issued a press release regarding our 2020 fiscal first quarter results this morning.

The results discussed in 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 at the back of the earnings release. You can find our earnings release in the Investor Relations section of our website at pfgc.com.

Our remarks 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. And finally, our fiscal 2020 outlook does not include any benefit from the acquisition of Reinhart.

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

George L. Holm

Chairman, President & Chief Executive Officer, Performance Food Group Co.

Thanks, Michael. Good morning, everyone, and thanks for joining our call today. I'd like to go over a few first quarter business results. Jim will discuss our financial results and annual outlook in more detail. And then, finally, I'll provide a quick update on the Reinhart acquisition. And then we will take your questions. Now, let's turn to our results.

After a successful fiscal 2019, we're pleased to share that our strong growth continued in the first quarter of fiscal year 2020. Total case volume increased by 10.7%, driven by Eby-Brown broad-based growth across Vistar sales channels, 5.6% increase in independent cases, and growth in Performance Brands.

Our Foodservice segment generated EBITDA growth of 13%, driven by its customer-centric focus and continued strategic investments in both people and technology. In fact, the Foodservice segment grew its EBITDA by double-digit the past two quarters and our fiscal 2020 Q1 represents our fourth consecutive quarter of sequential adjusted EBITDA growth. I think this demonstrates the strong execution of our Performance Foodservice team.

The mid-single independent case growth for the quarter was in line with our expectations. We are pleased to report that the trend is continuing into the early weeks of our second quarter. And this growth is quite strong against a backdrop of flat same-store sales growth for independent restaurants during the quarter. We continue to believe the overall health of the independent restaurants remain strong.

Shifting to Vistar, we delivered another quarter of strong top and bottom line results fueled by broad-based growth across their sales channels. Also happy to report that Pat Hagerty and his team were recognized by the International Food Service Manufacturers Association last night and given an Excellence in Distribution Award. Based on our strong start to the year, we are pleased to increase our full year adjusted EBITDA outlook. Jim will further discuss our outlook later during this call.

Let's turn to our two segments for the first quarter. Net sales for Vistar increased 158.9% to \$2.3 billion compared to the prior year period. This increase was driven by the acquisition of Eby-Brown and sales growth in the segment's of corrections, vending, theater, and office coffee. First quarter EBITDA for Vistar increased 63% to \$51.5 million versus the prior year period. Gross profit dollar growth of 67.1% in the quarter was fueled by the acquisition of Eby-Brown and an increase in the number of cases sold.

Our Eby-Brown business integration continues to go well. There have been some modest operating cost savings realized immediately post-close. The teams are working on developing more opportunities over time. One thing that is quite exciting is that Performance Foodservice and Eby-Brown developed two new foodservice programs for the convenience retail trade, and we debuted these programs at the NACS industry tradeshow in October in Atlanta.

The programs had very high levels of interest among our customers. We believe this acquisition will allow PFG's Vistar segment to strategically expand in the fast-growing convenience store channel, where there are significant opportunities to use PFG brands for unique solutions in what is today a \$40 billion convenience foodservice market. We believe our strategic growth investments in people and technology are paying off and continue to be on track to support our long-term objectives, as demonstrated by the consistent financial results in both the Foodservice and Vistar business segments.

Each quarter during these calls we like to highlight one associate who goes above and beyond to serve our customers and colleagues. In September, one of our Performance Foodservice truck drivers was among 200 stranded motorists in Southeast Texas when Tropical Storm Imelda made landfall. Our CDL delivery driver named Reggie McCoy, who was on his way to deliver food and staples to a customer called his manager and got support to share what was on his truck with the stranded motorists. He had from water to milk to paper goods.

With the assistance of another driver who had a grill, Reggie served up chicken wings, chips, and more to feed those who would not have had anything to eat during what ended up being a multi-day road closure. I think it was great that Reggie had the confidence to call and ask for permission to do that, and that the transportation supervisor was comfortable to approve that.

With that, I'm going to turn things over to Jim, and he will give you more detail on our first quarter.

James D. Hope

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

Thank you, George, and good morning, everyone. Our first quarter results were strong, with the top line and bottom line growing at a healthy pace. Total case volume increased 10.7% for the first quarter compared to the prior-year period with underlying organic growth of 3.2%.

Net sales for the first quarter of fiscal 2020 grew 37.5% to \$6.2 billion compared to the prior-year period. The increase in net sales was primarily attributable to Eby-Brown, broad-based growth across sales channels in Vistar, and case growth in Foodservice, specifically in the independent restaurant channel.

The acquisition of Eby-Brown contributed \$1.4 billion to net sales for the quarter, including \$291.7 million related to tobacco excise taxes. The increase in net sales was also attributable to an increase in selling price per case as a result of inflation and mix. Overall, food cost inflation was approximately 2.8%, especially in the center of the plate items, such as cheese, meats, poultry, and produce.

Gross profit for the first quarter of fiscal 2020 increased 19.8% compared to the prior year period to \$711.4 million. The strong gross profit increase was led by recent acquisitions, as well as case growth from an improved mix of customer channels and products specifically in Vistar's channels and to the independent restaurant channel.

Gross profit per case was up \$0.37 in the first quarter versus the prior year period. Gross profit margin as a percentage of net sales was 11.4% for the first quarter compared to 13.1% for the prior year period. The gross margin decline was driven by Eby-Brown, who experienced lower margins as a result of tobacco. Gross margins would have been up slightly excluding Eby-Brown.

Operating expenses rose by 19.3% to \$647.9 million in the first quarter compared to the prior year period. The increase in operating expenses was primarily due to the acquisition of Eby-Brown, an increase in case volume, and the resulting impact on variable operational expenses. Operating expenses also increased in the first quarter as a result of increases in personnel expenses and professional and legal fees resulting from the Reinhart acquisition.

Net income for the first quarter grew 28% year-over-year to \$36.1 million. The growth was primarily a result of the \$12.9 million increase in operating profit, which was driven by our gross profit increase partially offset by a \$3.1 million increase in income tax expense.

The effective tax rate in the quarter was approximately 21.9% compared to 20% in the first quarter of fiscal 2019. The increase in the tax rate versus the prior year was due to an increase in nondeductible expenses and state income taxes.

EBITDA increased 23.1% to \$106.2 million in the first quarter. For the quarter, adjusted EBITDA rose 33.7% to \$127.7 million compared to the prior year period. Diluted EPS grew 25.9% to \$0.34 in the first quarter over the prior year period, and adjusted diluted EPS increased 47.1% to \$0.50 per share over the prior year period.

Turning to our cash flow. PFG generated \$84.2 million in cash flow from operating activities, an increase of \$51.9 million versus the prior year period. The improvement in cash flow from operating activities was largely driven by higher operating income and improvements in working capital. For the first quarter, PFG invested \$22.8 million in capital expenditures, a decrease of \$2.2 million versus the prior year period. PFG delivered free cash flow of \$61.4 million, an increase of approximately \$54.1 million versus the prior year period.

Turning to our fiscal 2020 outlook. We increased our adjusted EBITDA growth to be in a range of 10% to 14% versus our previously announced range of 9% to 13%. Fiscal 2020 organic adjusted EBITDA is now projected to grow 8% to 10% versus its previously announced range of 7% to 10%. The increase in adjusted EBITDA guidance is driven by stronger fiscal first quarter results in Foodservice and in Vistar.

PFG adjusts its fiscal 2020 adjusted diluted EPS to increase in a range of 5% to 10% versus its previously announced range of 4% to 10%. The adjusted diluted EPS forecast includes carrying costs associated with the notes offering for the Reinhart acquisition. The increased carrying costs, net of taxes, impacts adjusted diluted EPS by approximately \$0.07 per quarter.

I'd like to briefly share where we are in terms of the FTC review with our Reinhart acquisition. We filed for HSR approval at the end of July and received a second request from the FTC on October 1. We have had good engagement with the FTC throughout the process and are responding to their remaining questions. The process is moving forward as anticipated and we still expect to close the transaction by the end of the calendar year or in early 2020. We feel good about how the process is moving along at this point and we believe we will meet our expected closing schedule.

In summary, our first quarter financial results were solid. We are pleased with the strong top line growth in our businesses and the sequential improvement in Foodservice's EBITDA results. We expect Vistar to have another year of solid top line and EBITDA growth. And although it's early in our fiscal year, I feel confident that PFG will deliver another consistent year of strong growth.

And with that, I'm going to turn the call back to George.

George L. Holm

Chairman, President & Chief Executive Officer, Performance Food Group Co.

Thanks so much, Jim. So to wrap-up, we've had a strong start to fiscal 2020. Our strategic initiatives are on schedule and our operational execution is at the highest it's been over the past several years. Foodservice and Vistar hitting on all cylinders both segments are executing their strategies. We remain excited about our Reinhart acquisition. We continue to expect it to close by the end of this calendar year or early in 2020. And we believe there will be meaningful opportunities to deliver synergies with our Eby-Brown acquisition and with our Reinhart acquisition. Our businesses are continuing to perform at or ahead of our expectations. Finally, I want to thank all of our associates for their focus on our customers and the potential growth we have in front of us.

With that, we'd be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question is from the line of John Heinbockel with Guggenheim Securities.

John Heinbockel
Analyst, Guggenheim Securities LLC

Q

George, let me start with, roughly speaking, salesperson, the growth of the sales force, where is that now? Where would you like it to be by year end? And are you seeing any change in quality of person that you're interviewing from your competition or outside the industry?

George L. Holm
Chairman, President & Chief Executive Officer, Performance Food Group Co.

A

I wouldn't say that we're seeing any difference in the quality of the people. I would say that kind of the last group that we brought on to really get caught up where we wanted to be in our growth in people took a little longer than we had expected to get to the level of productivity we're used to. But I think that if we can grow our people at a rate in which 50% above that rate we can grow as a company, we'll be in very good shape to continue with this mid-single-digit case growth.

John Heinbockel
Analyst, Guggenheim Securities LLC

Q

Okay. And then maybe secondly, I know this year you guys made some changes to the incentive compensation effort, putting in – or moving from EBITDA to EBIT, and then putting in a free cash component. Maybe just talk about the balance, right, between growing top line, being stewards of CapEx, and improving ROI as you balance that going forward?

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

A

Yeah, John, I don't think anything changes in the balance. We are heavily focused on sales growth. It's important to us. The quality of sales growth has always mattered as well. The changes in the comp system and the program just give a little nod to making sure we do what's right for our shareholders and look at the financial statements more holistically and we deliver on free cash flow as we want to de-lever.

John Heinbockel
Analyst, Guggenheim Securities LLC

Q

Okay. Thank you.

Operator: Your next question is from the line of Edward Kelly with Wells Fargo.

Edward J. Kelly
Analyst, Wells Fargo Securities LLC

Q

Hi, guys. Good morning and congratulations on the nice quarter. The first thing I wanted to ask you about is gross profit per case. I feel like maybe I didn't even hear this number right when you said \$0.37. Can you just maybe unpack what's driving that? And then, how should we think about that going forward?

George L. Holm

Chairman, President & Chief Executive Officer, Performance Food Group Co.

A

Yeah, I'll take that question. We did have an improvement in our gross profit per case excluding the acquisition of Eby-Brown, but it was a modest improvement. And we've always improved that number and it's been primarily through the change in mix of business, and this quarter was really not much different. But when you go to the convenience business, it's highly impacted by tobacco, and tobacco is such an expensive product that the gross profit per case is just so much higher.

Edward J. Kelly

Analyst, Wells Fargo Securities LLC

Q

Okay. But the – or, I guess, if we were thinking about organic gross profit per case progress there, similar to what you've been doing?

George L. Holm

Chairman, President & Chief Executive Officer, Performance Food Group Co.

A

Yes, it is. And we'll live with this unusual comparison for two more full quarters, and then for a partial quarter, and then the comparisons will be a little bit easier to determine.

Edward J. Kelly

Analyst, Wells Fargo Securities LLC

Q

Okay. And then I wanted to ask you about guidance. I mean, you obviously had a great Q1, EBITDA growth north of 30% well exceeded expectations, but you only raised the full-year EBITDA guide by 1%. Is there anything that makes you more cautious for the rest of the year than maybe what you thought a quarter ago or is this just a function of it's Q1 and you're typically conservative? If you could just sort of help us understand that, that'll be great.

James D. Hope

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

A

Yeah, it's more the latter. It's early in the year. It's Q1 and it's a long year. We've been in the industry a long time and, look, we came out with 7% to 10% as we usually do and we took 7% off the table. It's now 8% to 10% organic and we feel good about that. If we see a change, we'll definitely come back and modify it, but it is early in the year. They were coming off – Ed, I think the other thing I'd add is, we're coming off a really strong Q1. We feel great about our business fundamentals. And, as George mentioned, our independent customers continue to perform well. We're in a good spot.

Edward J. Kelly

Analyst, Wells Fargo Securities LLC

Q

Okay. And then just one other thing on the guidance that I wanted to clarify here, Jim. You raised EBITDA and then you raised EPS also by kind of a little bit, but you introduced \$0.07 per quarter of carrying costs on the debt. And I'm just trying to understand how EBITDA and EPS both kind of go up by the same amount, even though \$0.07 is a lot. Are you basically saying that it's \$0.07 of added costs until the deal closes? Is that what you're saying here?

James D. Hope

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

That's right. It's \$0.07 carry cost on the bonds that we secured.

A

Edward J. Kelly

Analyst, Wells Fargo Securities LLC

Okay. So if it closes at the end of this year, it's really just sort of like probably around \$0.07 or a touch higher is what you're saying?

Q

James D. Hope

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

You're thinking about that correctly.

A

Edward J. Kelly

Analyst, Wells Fargo Securities LLC

Okay, great. Thanks guys.

Q

George L. Holm

Chairman, President & Chief Executive Officer, Performance Food Group Co.

Thanks, Ed.

A

Operator: And your next question comes from the line of Judah Frommer with Credit Suisse.

Judah C. Frommer

Analyst, Credit Suisse Securities (USA) LLC

Good morning, guys. Thanks for taking the question. I just wanted to see if you could help us with color specifically on kind of the local side of the business and any changes you're seeing there. Churn has always been an important part of the opportunity to sell into new doors and the balance of new customers and penetration of existing ones.

Q

George L. Holm

Chairman, President & Chief Executive Officer, Performance Food Group Co.

Yeah, we've seen very little change there. The only thing I would say is that we're adding new business at a slightly less rate than we used to, and our lost business is at a slightly less rate than it has been in the past. But you put the three together, the new business and the lost business and the penetration, and we're running about where we have been, for the last six quarters it's been fairly consistent and we're seeing that same consistency so far this quarter.

A

Judah C. Frommer

Analyst, Credit Suisse Securities (USA) LLC

Okay. And then just anything on pricing, both from a competitive standpoint and with inflation flowing through to customers, is there any pushback on that side?

Q

George L. Holm

Chairman, President & Chief Executive Officer, Performance Food Group Co.

A

No. I mean, we've always been in a real competitive industry. I don't think there's really been any change per se. The inflation rate is probably a little bit higher than we'd like to see. When you get close to 3%, it can be a little bit more difficult to get those prices into the customer, but so far so good.

Judah C. Frommer

Analyst, Credit Suisse Securities (USA) LLC

Okay, great. Thanks and good luck.

Operator: And your next question is from the line of Jeffrey Bernstein with Barclays.

Jeff Priester

Analyst, Barclays Capital, Inc.

Hi. This is actually Jeff Priester on for Jeff Bernstein. Thanks for the question. Just on the sequential trends through the quarter, both your main public competitors mentioned softness at different points in the quarter and you guys mentioned last quarter that you were off to a very strong start this quarter. I was just wondering if you could give us a little more color as to what you saw throughout the quarter and, obviously, you said next quarter is already off to a strong start as well, so.

James D. Hope

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

Yeah. It was pretty consistent through the quarter. July and September a little bit stronger with independent than August was, but it's pretty consistent.

Jeff Priester

Analyst, Barclays Capital, Inc.

Great. And then just on the Eby-Brown business, just with all of the headlines surrounding the vaping illnesses in the quarter, were you seeing any negative trends in the tobacco business for the Eby-Brown business overall?

James D. Hope

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

Yeah. No, we aren't and we're continuing to run that company. We're pleased with the results we see out of Eby-Brown and I look forward to a good year from them.

Jeff Priester

Analyst, Barclays Capital, Inc.

Appreciate it.

Operator: Your next question comes from the line of Christopher Mandeville with Jefferies.

Christopher Mandeville

Analyst, Jefferies LLC

Hey, good morning. George, can we start off with Foodservice in the quarter itself? It showed some nice quarter-over-quarter improvement, independent cases that is, and then overall segment's EBITDA moved nicely sequentially as well. But total organic cases actually slowed a bit on two years. So if you could just help us understand what's going on with the casual dining environment relative to prior quarters and expectations there?

George L. Holm

Chairman, President & Chief Executive Officer, Performance Food Group Co.

A

Well, our casual dining business was difficult. Now, once again, I say this all the time, because it's really important to us, we don't comment on individual customers, but as a whole our chain casual dining business, it was a somewhat difficult quarter.

Christopher Mandeville

Analyst, Jefferies LLC

Q

More so than it has been in prior quarters or...?

George L. Holm

Chairman, President & Chief Executive Officer, Performance Food Group Co.

A

No, actually similar.

Christopher Mandeville

Analyst, Jefferies LLC

Q

Okay. And then, Jim, I apologize if I missed this, but can you maybe help parse out the overall EBITDA growth in Vistar? So the \$20 million in year-on-year improvement, maybe break that down between the organic performance, Eby-Brown, and any type of one-time benefits realized.

James D. Hope

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

A

Yeah, sure. First, I think you know that we don't separate Eby-Brown and Vistar. We report them as a segment. And we've just closed the top line on Eby-Brown for you. I think it'll be important to know that there's \$5.6 million gain on tobacco excise stamps in the quarter. That happens occasionally and to the extent it's material, we'll disclose it. We don't expect it again anytime soon, and I'll probably leave it at that. I think that gives you the color around it. I would say, though, that Vistar itself has really performed well, the organic business has performed well, and we expect that to continue.

Christopher Mandeville

Analyst, Jefferies LLC

Q

Okay. If I could just follow-up really quickly, can you just remind us how that excise tax stamp flows through the P&L? And then also you can correct me if I'm wrong here, but I believe there's going to be a third cigarette price increase that takes place in calendar Q4. So should we be looking forward to that? And does that, in fact, reflect the new updated guidance?

James D. Hope

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

A

So, in the latter, it's not reflected in updated guidance and I certainly am not at a spot where I can predict or count on that to happen. I know in the past folks have thought it would happen, and it happened sooner or later. So it's really hard to put a pin on when that will occur. The tobacco excise tax stamp gain flows through the P&L in OpEx, and that \$5.6 million is disclosed in our Q and, yes, that is included in our guidance.

Christopher Mandeville

Analyst, Jefferies LLC

Q

Great. Thanks, guys.

Operator: Your next question is from the line of Marisa Sullivan with Bank of America.

Marisa Sullivan

Analyst, Bank of America Merrill Lynch

Q

Good morning. Thanks for taking my question. I wanted just to pick up with Vistar's organic growth and just [ph] maybe give (00:26:38) a little bit more color on some of the drivers there. I know you called out corrections in the press release at the beginning. I know it's a small part of your business, but you did call it out. So are you seeing anything different there? And then on the new programs that you've announced with Foodservice, convenience Foodservice, when do you think you'll start to see an impact from that? Thanks.

George L. Holm

Chairman, President & Chief Executive Officer, Performance Food Group Co.

A

Well, I'll start with the first question – no, actually let me start with the second one. The programs we've put together, I mean it's really early. We had tremendous amount of traffic at our booth. A lot of that was driven by a pizza program that we were introducing. And we have some early wins with that, but it's not anything that I would call significant at this point.

Then as far as where Vistar has been growing, we're fortunate there that all of the channels right now are in different levels of growth from very low single-digit to double-digit growth. Our share is probably less in corrections than anywhere else, so that's getting a little bit better growth, but every channel we have today is in a growth mode.

Marisa Sullivan

Analyst, Bank of America Merrill Lynch

Q

Got you. And have you seen any changes in your theater business, given the movie release calendar and performance?

George L. Holm

Chairman, President & Chief Executive Officer, Performance Food Group Co.

A

Yeah. It was very, very slow growth, and there's been less, I guess I would say, big name movies that have come out and there's been a couple that haven't done as well as expected. But we are anticipating a very good holiday season with both a Frozen movie coming out, that's always been a big hit or at least the first one was and we believe the second one will be. And, of course, we have another Star Wars coming, which usually is very good for our Vistar company.

Marisa Sullivan

Analyst, Bank of America Merrill Lynch

Q

Great. Thanks so much.

Operator: Your next question is from the line of Kelly Bania with BMO Capital.

Kelly Bania

Analyst, BMO Capital Markets (United States)

Q

Hi. Good morning. Thanks for taking the questions. Just wanted to, George, ask about the technology. You mentioned it in your opening remarks. And so, I was just curious if you could just give us an update on where you are with online ordering, with the automated facilities. I think the second one is coming online this year. And anything else you would want to note.

George L. Holm

Chairman, President & Chief Executive Officer, Performance Food Group Co.

A

Well, we've put some warehouse and delivery systems in that have helped us, the biggest one being what we call TruckBuilder. It's something that has been around the industry for a while. We thought we were at a point where our people were ready for it and the system was where it needed to be, and that's been a big help for us. Our online ordering, it typically goes up as the percentage of orders coming in about 1% to 2% quarterly, and we're right in that same range again this quarter.

And then when – that's for independent. When you get outside of the independent, we're very close to 100% of our business being online. The automated facilities, we have one today, it was a little problematic getting up and going. Once we did, it's been very successful for us and that facility is at a higher level of profitability than our average Vistar facility. So we have one that's fairly far along. We'll talk more about it on our next call. And then we have a third one that we're actually in the early stages of as well. It's something that we're excited about. We've always wanted to be real effective in Vistar with deliveries all the way from FedEx/UPS delivery to a 52 footer, and we have reached that point where we're very effective all the way along that path from a very small order to a very large order.

Kelly Bania

Analyst, BMO Capital Markets (United States)

Q

Perfect. And also just maybe an update on wages, particularly that warehouse and driver employee and what you're seeing, is that stabilizing or do you anticipate any more investments in that area going forward?

George L. Holm

Chairman, President & Chief Executive Officer, Performance Food Group Co.

A

We don't anticipate any more investments, but certainly if we're having issues getting people, we're going to address that and we're going to address it immediately. We're doing well right now. Our turnover has been better, particularly better with drivers. I think we're doing some things that have helped with our driver base, but I wouldn't say it's easy by any means. I mean, there's still a shortage. We could still use more drivers, but it's getting better.

Kelly Bania

Analyst, BMO Capital Markets (United States)

Q

Thank you.

Operator: The final question is from the line of Bob Summers with Buckingham.

Bob Summers

Analyst, The Buckingham Research Group, Inc.

Q

Good morning, guys. So just on the convenience space, look, a lot has been written again about Amazon entering that sector. I feel like we just got done disproving it on the Foodservice side. I'm curious if the barriers to entry are the same with respect to having to operate multi-temperature trucks, high service components, SKU size, drop

size, route optimization. I mean, clearly you never want to underestimate Amazon, but I'm just wondering if it's the same issues, just a different subset of the sector.

George L. Holm

Chairman, President & Chief Executive Officer, Performance Food Group Co.

A

Well, I'll second that, that you don't want to underestimate them. That is for sure. But if you look at the – the delivery is different in a convenience store than it is to, say, a foodservice operator, but it's still very complex. Delivery time is very important. Three temperatures are important. So there's not a great deal of difference between the two and we just don't underestimate it. We just need to get better and better at what we do and I think we'll be fine.

Bob Summers

Analyst, The Buckingham Research Group, Inc.

Q

Okay. And then just circling back to the guidance one point of clarification. In the current outlook, are you looking at one quarter of the carry cost or multiple quarters? Because I think it's basically, what, almost a 4 percentage point drag to the current growth rate if it's one quarter, but clearly more if not.

James D. Hope

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

A

Yeah, our outlook reflects the same perspective we have on the closing timing of the deal, which is close end of the calendar year, early 2020, and we're looking at one quarter.

Bob Summers

Analyst, The Buckingham Research Group, Inc.

Q

Okay. Thank you.

George L. Holm

Chairman, President & Chief Executive Officer, Performance Food Group Co.

A

Thanks, Bob.

Operator: Ladies and gentlemen, there are no further questions. I'd like to turn the back over to you, sir.

George L. Holm

Chairman, President & Chief Executive Officer, Performance Food Group Co.

Thank you. Have a great day. Bye-bye.

Operator: Thank you. Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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