SYSCO CORP
Form 10-K
August 30, 2017

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

Form 10-K
(Mark One)

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

For the fiscal year ended July 1, 2017
OR

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

Commission File Number 1-6544

Sysco Corporation
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	74-1648137 (I.R.S. Employer Identification No.)
1390 Enclave Parkway Houston, Texas (Address of principal executive offices)	77077-2099 (Zip Code)

Registrant's Telephone Number, Including Area Code:
(281) 584-1390

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock, $1.00 Par Value	New York Stock Exchange
1.25% Notes due June 2023	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the voting stock of the registrant held by stockholders who were not affiliates (as defined by regulations of the Securities and Exchange Commission) of the registrant was approximately $27,403,829,196 as of December 31, 2016 (based on the closing sales price on the New York Stock Exchange Composite Tape on December 30, 2016, as reported by The Wall Street Journal (Southwest Edition)). As of August 11, 2017, the registrant had issued and outstanding an aggregate of 527,881,766 shares of its common stock.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the company's 2017 Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K are incorporated by reference into Part III.

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PART I

Item 1. Business

Unless this Form 10-K indicates otherwise or the context otherwise requires, the terms “we,” “our,” “us,” “Sysco,” or “the company” as used in this Form 10-K refer to Sysco Corporation together with its consolidated subsidiaries and divisions.

Overview

Sysco Corporation, acting through its subsidiaries and divisions, is the largest global distributor of food and related products primarily to the foodservice or food-away-from-home industry. We provide products and related services to over 500,000 customer locations, including restaurants, healthcare and educational facilities, lodging establishments and other foodservice customers.

Founded in 1969, Sysco commenced operations as a public company in March 1970 when the stockholders of nine companies exchanged their stock for Sysco common stock. Since our formation, we have grown from $115 million to $55.4 billion in annual sales, both through internal expansion of existing operations and through acquisitions.

Sysco’s fiscal year ends on the Saturday nearest to June 30th. This resulted in a 52-week year ending July 1, 2017 for fiscal 2017, a 53-week year ending July 2, 2016 for fiscal 2016, and a 52-week year ending June 27, 2015 for fiscal 2015. We will have a 52-week year ending June 30, 2018 for fiscal 2018.

Sysco Corporation is organized under the laws of Delaware. The address and telephone number of our executive offices are 1390 Enclave Parkway, Houston, Texas 77077-2099, (281) 584-1390. This annual report on Form 10-K, as well as all other reports filed or furnished by Sysco pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available free of charge on Sysco’s website at www.sysco.com as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission.

Acquisition of Brakes Group

In February 2016, Sysco entered into a share sale and purchase agreement (the Purchase Agreement) to acquire Cucina Lux Investments Limited, the parent holding company of the Brakes Group (the Brakes Acquisition). On July 5, 2016, following the end of fiscal year 2016, Sysco closed the Brakes Acquisition. The consideration paid by Sysco in connection with the Brakes Acquisition was approximately £2.3 billion (approximately $3.1 billion based on exchange rates on July 5, 2016), and included the repayment of approximately $2.3 billion of the Brakes Group’s then outstanding debt. The purchase price was paid primarily in cash using the proceeds from recent debt issuances and other cash on hand, and was subject to certain adjustments as provided in the Purchase Agreement. The Brakes Group is now wholly owned by Sysco.

The Brakes Group is a large European foodservice business supplying fresh, refrigerated and frozen food products, as well as non-food products and supplies, to foodservice customers ranging from large customers, including leisure, pub, restaurant, hotel and contract catering groups, to smaller customers, including independent restaurants, hotels, fast food outlets, schools and hospitals. The Brakes Group’s largest businesses are in the United Kingdom (U.K.), France, and Sweden, in addition to a presence in Ireland, Belgium, Spain, and Luxembourg. The Brakes Acquisition significantly strengthens Sysco’s position as the global leader in selling, marketing and distributing food products and offers attractive opportunities for organic growth and future expansion in European markets.

The Brakes Group supplies a broad variety of products, including a portfolio of privately branded products, which are generally delivered through its distribution networks, consisting of central distribution hubs, satellite depots and its fleet of delivery vehicles. The Brakes Group also has separate divisions specializing in catering supplies and equipment. Brakes Group companies include: Brakes, Brakes Catering Equipment, Brake France, Country Choice, Davigel, Fresh Direct, Freshfayre, M&J Seafood, Menigo Foodservice, Pauley's, Wild Harvest and Woodward Foodservice.

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Reporting Segments

Sysco distributes food and related products to restaurants, healthcare and educational facilities, lodging establishments and other foodservice customers. Our primary operations are located in North America and Europe. Under the accounting provisions related to disclosures about segments of an enterprise, we have aggregated our operating segments into three reportable segments. "Other" financial information is attributable to the company's other operating segments that do not meet the quantitative disclosure thresholds.

- U.S. Foodservice Operations - primarily includes U.S. Broadline operations, custom-cut meat and seafood companies, FreshPoint (our specialty produce companies) and European Imports (a specialty import company);
- International Foodservice Operations - includes broadline operations in Canada and Europe, including the Brakes Group (which was acquired in fiscal 2017), Bahamas, Mexico, Costa Rica and Panama, as well as a company that distributes to international customers;
- SYGMA - our customized distribution subsidiary; and
- Other - primarily our hotel supply operations and Sysco Labs, which includes our suite of technology solutions that help support the business needs of our customers and provides support for some of our business technology needs.

Broadline operating companies distribute a full line of food products and a wide variety of non-food products to both traditional and chain restaurant customers, hospitals, schools, hotels, industrial caterers and other venues where foodservice products are served. SYGMA operating companies distribute a full line of food products and a wide variety of non-food products to certain chain restaurant customer locations. Selected financial data for each of our reportable segments, as well as financial information concerning geographic areas, can be found in Note 21, "Business Segment Information," in the Notes to Consolidated Financial Statements in Item 8.

Customers and Products

Sysco's customers in the foodservice industry include restaurants, hospitals and nursing homes, schools and colleges, hotels and motels, industrial caterers and other similar venues where foodservice products are served. Services to our customers are supported by similar physical facilities, vehicles, material handling equipment and techniques, and administrative and operating staffs.

The products we distribute include:
- a full line of frozen foods, such as meats, seafood, fully prepared entrées, fruits, vegetables and desserts;
- a full line of canned and dry foods;
- fresh meats and seafood;
- dairy products;
- beverage products;
- imported specialties; and
- fresh produce.

We also supply a wide variety of non-food items, including:
- paper products such as disposable napkins, plates and cups;
- tableware such as china and silverware;
- cookware such as pots, pans and utensils;
- restaurant and kitchen equipment and supplies; and
- cleaning supplies.

A comparison of the sales mix in the principal product categories during the last three years is presented below:

Principal product categories	2017	2016	2015
Fresh and frozen meats	19 %	20 %	21 %
Canned and dry products	16	17	16
Frozen fruits, vegetables, bakery and other	15	13	13
Poultry	11	11	11
Dairy products	11	11	11
Fresh produce	8	8	8
Paper and disposables	6	7	7
Seafood	6	5	5
Beverage products	4	4	4
Janitorial products	2	2	2
Equipment and smallwares	1	1	1
Medical supplies	1	1	1
Totals	100%	100%	100%

Our distribution centers, which we refer to as operating companies, distribute branded merchandise, as well as products packaged under our private brands. Products packaged under our private brands have been manufactured for Sysco according to specifications that have been developed by our quality assurance team. In addition, our quality assurance team certifies the manufacturing and processing plants where these products are packaged, enforces our quality control standards and identifies supply sources that satisfy our requirements.

We believe that prompt and accurate delivery of orders, competitive pricing, close contact with customers and the ability to provide a full array of products and services to assist customers in their foodservice operations are of primary importance in the marketing and distribution of foodservice products to our customers. Our operating companies offer daily delivery to certain customer locations and have the capability of delivering special orders on short notice. Through the sales and marketing representatives and support staff of Sysco and our operating companies, we stay informed of the needs of our customers and acquaint them with new products and services. Our operating companies also provide ancillary services relating to foodservice distribution, such as providing customers with product usage reports and other data, menu-planning advice, food safety training and assistance in inventory control, as well as access to various third party services designed to add value to our customers' businesses.

No single customer accounted for 10% or more of Sysco's total sales for the fiscal year ended July 1, 2017.

We estimate that our sales by type of customer during the past three fiscal years were as follows:

Type of Customer	2017	2016	2015
Restaurants	61 %	63 %	64 %
Healthcare	9	9	9
Education, government	9	8	8
Travel, leisure, retail	9	8	8
Other (1)	12	12	11
Totals	100%	100%	100%

(1) Other includes cafeterias that are not stand alone restaurants, bakeries, caterers, churches, civic and fraternal organizations, vending distributors, other distributors and international exports. None of these types of customers, as a group, exceeded 5% of total sales in any of the years for which information is presented.

Sources of Supply

We purchase from thousands of suppliers, both domestic and international, none of which individually accounts for more than 10% of our purchases. These suppliers consist generally of large corporations selling brand name and private label merchandise, as well as independent regional brand and private label processors and packers. Purchasing is generally carried out

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through both centrally developed purchasing programs, domestically and internationally, and direct purchasing programs established by our various operating companies.

We administer a consolidated product procurement program designed to develop, obtain and ensure consistent quality food and non-food products. The program covers the purchasing and marketing of branded merchandise, as well as products from a number of national brand suppliers, encompassing substantially all product lines. Some of our products are purchased internationally within global procurement centers in order to build strategic relationships with international suppliers and to optimize our supply chain network. Sysco's operating companies purchase product from the suppliers participating in these consolidated programs and from other suppliers, although Sysco Brand products are only available to the operating companies through these consolidated programs. We also focus on increasing profitability by lowering operating costs and by lowering aggregate inventory levels, which reduces future facility expansion needs at our Broadline operating companies, while providing greater value to our suppliers and customers.

Working Capital Practices

Our growth is funded through a combination of cash flow from operations, commercial paper issuances and long-term borrowings. See the discussion in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources" regarding our liquidity, financial position and sources and uses of funds.

Credit terms we extend to our customers can vary from cash on delivery to 30 days or more based on our assessment of each customer's credit worthiness. We monitor each customer's account and will suspend shipments if necessary.

A majority of our sales orders are filled within 24 hours of when customer orders are placed. We generally maintain inventory on hand to be able to meet customer demand. The level of inventory on hand will vary by product depending on shelf-life, supplier order fulfillment lead times and customer demand. We also make purchases of additional volumes of certain products based on supply or pricing opportunities.

We take advantage of suppliers' cash discounts where appropriate and otherwise generally receive payment terms from our suppliers ranging from weekly to 45 days or more.

Corporate Headquarters and Shared Services Center

Our corporate staff makes available a number of services to our operating companies and our shared services center performs support services for employees, suppliers and customers. Members of these groups possess experience and expertise in, among other areas, customer and vendor contract administration, accounting and finance, treasury, legal, information technology, payroll and employee benefits, risk management and insurance, sales and marketing, human resources, strategy, and tax compliance services. The corporate office also makes available warehousing and distribution services, which provide assistance in operational best practices including space utilization, energy conservation, fleet management and work flow.

Capital Improvements

During fiscal 2017, 2016 and 2015, approximately $686.4 million, $527.3 million and $542.8 million, respectively, were invested in delivery fleet, facilities, technology and other capital asset enhancements. From time to time, we dispose of assets in the normal course of business; we consider proceeds from these asset sales to be an offset to capital expenditures. During fiscal 2017, 2016 and 2015, capital expenditures, net of proceeds from sales of assets, were $662.7 million, $503.8 million and $518.4 million, respectively. Capital expenditures as a percentage of sales during fiscal 2017, 2016 and 2015 were 1.2%, 1.0% and 1.1%, respectively. We estimate our capital expenditures, net of proceeds from sales of assets, in fiscal 2018 should be approximately 1.3% to 1.4% of sales. During the three years ended July 1, 2017, capital expenditures were financed primarily by internally generated funds, our commercial paper program and bank and other borrowings. We expect to finance our fiscal 2018 capital expenditures from the same sources.

Employees

As of July 1, 2017, we had approximately 66,500 employees, approximately 15% of whom were represented by unions, primarily the International Brotherhood of Teamsters and unions in France and Sweden. Contract negotiations are handled by each individual operating company. Approximately 14% of our union employees who are covered by collective bargaining agreements have or will have expired contracts during fiscal 2018, which contracts are subject to renegotiation. Since July 1, 2017, there have been 3 contract renegotiations. We consider our labor relations to be satisfactory.

Competition

We believe there are a large number of companies engaged in the distribution of food and non-food products to the foodservice industry in the United States (U.S.). Our customers may also choose to purchase products directly from wholesale or retail outlets, including club, cash and carry and grocery stores, online retailers, or negotiate prices directly with our suppliers. Online retailers and e-commerce companies are also participants in the foodservice industry. While we compete primarily in the U.S. with local and regional distributors, some organizations compete with us on a multi-region basis. In addition, these local, regional and multi-regional distributors can create purchasing cooperatives and marketing groups to enhance their competitive abilities by expanding their product mix, improving purchasing power and extending their geographic capabilities. We believe that the principal competitive factors in the foodservice industry are effective customer contacts, the ability to deliver a wide range of quality products and related services on a timely and dependable basis and competitive prices. Our customers are accustomed to purchasing from multiple suppliers and channels concurrently. Product needs, service requirements and price are just a few of the factors they evaluate when deciding where to purchase. Customers can choose from many broadline foodservice distributors, specialty distributors that focus on specific categories such as produce, meat or seafood, other wholesale channels, club stores, cash and carry stores, grocery stores and numerous online retailers. Since switching costs are very low, customers can make supplier and channel changes very quickly. There are few barriers to market entry. Existing foodservice competitors can extend their shipping distances and add truck routes and warehouses relatively quickly to serve new markets or customers.

We estimate that we serve about 16% of an approximately $280 billion annual foodservice market in the U.S. based on a measurement as of the end of calendar 2016, based on industry data obtained from Technomic, Inc. We also serve certain international geographies that vary in size and amount of market share. We believe, based upon industry trade data, that our sales to the U.S. and Canada food-away-from-home industry were the highest of any foodservice distributor during fiscal 2017. While comprehensive industry statistics are not available, we believe that, in most instances, our operations in the U.S. and Canada are among the leading distributors of food and related non-food products to foodservice customers in those trading areas. We believe our competitive advantages include our marketing associates; our diversified product base, which includes quality-assured Sysco brand products; the suite of services we provide to our customers such as business reviews and menu analysis; and our multi-regional presence in North America and Europe, which mitigates some of the impact of regional economic declines that may occur over time.

Through our acquisition of the Brakes Group, we are also a large distributor of food and non-food products to the foodservice sector in Europe. Our largest businesses in Europe are in the U.K., France, Sweden and Ireland, and we also have a presence in Belgium, Spain and Luxembourg. Foodservice distribution is highly competitive in the different European countries. Across Europe, we face competition from other national broadline distributors, as well as a large number of regional, local and specialty distributors.

We believe our liquidity and access to capital provides us the ability to continuously invest in business improvements. There are a small number of companies competing in the food-away-from-home industry in the U.S. with publicly traded equity. While our public company status provides us with some advantages over many of our competitors, including access to capital, we believe it also puts us at a disadvantage, in that most of our competitors do not face the obligations and additional costs related to complying with regulatory requirements.

Government Regulation

Our company is required to comply, and it is our policy to comply, with all applicable laws in the numerous countries throughout the world in which we do business.

In the U.S., as a marketer and distributor of food products, we are subject to the Federal Food, Drug and Cosmetic Act and regulations promulgated thereunder by the U.S. Food and Drug Administration (FDA). The FDA regulates food safety and quality through various statutory and regulatory mandates, including manufacturing and holding requirements for foods through good manufacturing practice regulations, hazard analysis and critical control point (HACCP) requirements for certain foods, and the food and color additive approval process. The agency also specifies the standards of identity for certain foods, prescribes the format and content of information required to appear on food product labels, regulates food contact packaging and materials, and maintains a Reportable Food Registry for the industry to report when there is a reasonable probability that an article of food will cause serious adverse health consequences. For certain product lines, we are also subject to the Federal Meat Inspection Act, the Poultry Products Inspection Act, the Perishable Agricultural Commodities Act, the Packers and Stockyard Act and regulations promulgated by the U.S. Department of Agriculture (USDA) to interpret and implement these statutory provisions. The USDA imposes standards for product safety, quality and sanitation through the federal meat and poultry inspection program. The USDA reviews and approves the labeling of these products and also establishes standards for the grading and commercial acceptance of produce shipments from our suppliers. We are also subject to the Public Health Security and Bioterrorism Preparedness and

Response Act of 2002, which imposes certain registration and record keeping requirements on facilities that manufacture, process, pack or hold food for human or animal consumption.

The recently published and pending rules under the Food Safety Modernization Act (FSMA) will significantly expand our food safety requirements. Among other things, FDA regulations implementing the FSMA require us to establish and maintain comprehensive, prevention-based controls across the food supply chain that are both verified and validated. The FSMA further imposes new requirements for food products imported into the U.S. and provides the FDA with mandatory recall authority. In particular, the final rule on the sanitary transportation of food, which became effective for Sysco in the fourth quarter of fiscal 2017, required us to enhance certain of our systems to ensure that we met the rule’s new standards for maintaining the safety of food during transportation.

We and our products are also subject to state and local regulation through such measures as the licensing of our facilities; enforcement by state and local health agencies of state and local standards for our products; and regulation of our trade practices in connection with the sale of our products. Our facilities are subject to regulations issued pursuant to the U.S. Occupational Safety and Health Act by the U.S. Department of Labor. These regulations require us to comply with certain manufacturing, health and safety standards to protect our employees from accidents and to establish hazard communication programs to transmit information on the hazards of certain chemicals present in products we distribute.

Our processing and distribution facilities must be registered with the FDA biennially and are subject to periodic government agency inspections by the FDA and USDA. Our facilities are generally inspected at least annually by federal and/or state authorities. We also must establish communication programs to transmit information about the hazards of certain chemicals present in some of the products we distribute.

Our customers include several departments of the federal government, including the Department of Defense and Department of Veterans Affairs facilities, as well as certain state and local entities. These customer relationships subject us to additional regulations applicable to government contractors.

We are also subject to regulation by numerous federal, state and local regulatory agencies, including, but not limited to, the U.S. Department of Labor, which sets employment practice standards for workers, and the U.S. Department of Transportation, as well as its agencies, the Surface Transportation Board, the Federal Highway Administration, the Federal Motor Carrier Safety Administration, and the National Highway Traffic Safety Administration, which collectively regulate our trucking operations through the regulation of operations, safety, insurance and hazardous materials. We must comply with the safety and fitness regulations promulgated by the Federal Motor Carrier Safety Administration, including those relating to drug and alcohol testing and hours-of service. Such matters as weight and dimension of equipment also fall under federal and state regulations. In addition, we are subject to the U.S. False Claims Act, and similar state statutes, which prohibit the submission of claims for payment to the government that are false and the knowing retention of overpayments.

The U.S. Foreign Corrupt Practices Act (FCPA) prohibits bribery of public officials to obtain or retain business in foreign jurisdictions. The FCPA also requires us to keep accurate books and records and to maintain internal accounting controls to detect and prevent bribery and to ensure that transactions are properly authorized. We have implemented and continue to develop a robust anti-corruption compliance program applicable to our global operations to detect and prevent bribery and to comply with these and other anti-corruption laws in countries where we operate.

Our business is subject to competition laws in the various jurisdictions where we operate, including the Sherman Antitrust Act and related federal and state antitrust laws in the U.S. These laws and regulations generally prohibit competitors from fixing prices, boycotting competitors, or engaging in other conduct that unreasonably restrains competition. In many jurisdictions, compliance with these competition laws is of special importance to us, and our operations may come under special scrutiny by competition law authorities, due to our competitive position in those jurisdictions.

Outside the U.S., our business is subject to numerous similar statutes and regulations, as well as other legal and regulatory requirements. For example, as a result of our acquisition of the Brakes Group on July 5, 2016, we became subject to legal and regulatory requirements of the principal regions where Brakes conducts its business (including in the U.K., Ireland, France and Sweden (the Brakes Principal Regions), as well as those of the European Union, which requirements relate to, among other things, competition, product composition, packaging, labeling, advertisement and the safety of food products, as well as the health, safety and working conditions of employees. In addition, following the acquisition of the Brakes Group, our business became subject to the U.K. Modern Slavery Act 2015, which requires certain companies that operate in the U.K. to prepare a report describing steps taken to ensure that slavery and human trafficking is not taking place in its supply chain or business, as well as the U.K. Bribery Act 2010, an anti-corruption law that restricts the offer or payment of anything of value to both government officials as well as to other non-governmental persons with the intent of gaining favorable government action, business or an advantage.

All of our company's facilities and other operations in the U.S. and elsewhere around the world are subject to various environmental protection statutes and regulations, including those in the U.S., the European Union and the Brakes Principal Regions, relating to: (1) the use of water resources and the discharge of wastewater; (2) the discharge of pollutants into the air, including vehicle emissions; (3) proper handling, treatment and disposing of solid and hazardous wastes; and (4) protecting against and appropriately investigating and remediating spills and releases. Further, most of our distribution facilities have ammonia-based refrigeration systems and tanks for the storage of diesel fuel and other petroleum products which are subject to laws regulating such systems and storage tanks (including the investigation and remediation of soil and groundwater contamination associated with the use of underground storage tanks). See “Item1A. Risk Factors - Business and Operational Risks - We may incur significant costs to comply with environmental laws and regulations, and we may be subject to substantial fines, penalties, or third-party claims for non-compliance.”

General

We have numerous trademarks that are of significant importance, including the SYSCO® and Brakes® trademarks, in addition to our privately branded product trademarks that include these trademarks. These trademarks and the private brands on which they are used are widely recognized within the foodservice industry. In North America, approximately half of our privately branded sales are from products labeled with our SYSCO® trademark without any other trademark. We believe the loss of the SYSCO® trademark would have a material adverse effect on our results of operations. In Europe, approximately 25% of our privately branded European sales are from products labeled with the Brakes® trademark. Both our U.S. and European trademarks are effective for a ten-year period and the company generally renews its trademarks before their expiration dates unless a particular trademark is no longer in use. The company does not have any material patents or licenses.

We are not engaged in material research and development activities relating to the development of new products or the improvement of existing products.

Our sales do not generally fluctuate significantly on a seasonal basis; therefore, the business of the company is not deemed to be seasonal.

As of July 1, 2017, we operated 324 distribution facilities throughout North America and Europe.

Item 1A. Risk Factors

The following discussion of “risk factors” identifies the most significant factors that may adversely affect our business, operations, financial position or future financial performance. This information should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes contained in this report. The following discussion of risks is not all inclusive, but is designed to highlight what we believe are the most significant factors to consider when evaluating our business. These factors could cause our future results to differ from our expectations expressed in the forward-looking statements identified within "Management's Discussion and Analysis of Financial Condition and Results of Operations," and from historical trends.

Industry and General Economic Risks

Periods of significant or prolonged inflation or deflation affect our product costs and may negatively impact our profitability.

Volatile food costs have a direct impact on our industry. Periods of significant product cost inflation may have a negative impact on our results of operations to the extent that we are unable to pass on all or a portion of such product cost increases to our customers. In addition, periods of rapidly increasing inflation may negatively impact our business due to the timing needed to pass on such increases, the impact of such inflation on discretionary spending by consumers and our limited ability to increase prices in the current, highly competitive environment. Conversely, our business may be adversely impacted by periods of product cost deflation, because we make a significant portion of our sales at prices that are based on the cost of products we sell plus a percentage margin. As a result, our results of operations may be negatively impacted during periods of product cost deflation, even though our gross profit percentage may remain relatively constant.

Unfavorable macroeconomic conditions in the U.S., Canada and Europe, as well as unfavorable conditions in particular local markets, may adversely affect our results of operations and financial condition.

The foodservice distribution industry, which is characterized by relatively low profit margins with limited demand growth expected in the near-term, is especially susceptible to negative trends and economic uncertainty. North America and Europe have each experienced an uneven economic environment over the past several years. In addition, our results of operations are substantially affected by regional operating and economic conditions, which can vary substantially by market. Economic conditions can affect us in the following ways:

- Unfavorable conditions can depress sales and/or gross margins in a given market.
- Food cost and fuel cost inflation experienced by the consumer can lead to reductions in the frequency of dining out and the amount spent by consumers for food-away-from-home purchases, which could negatively impact our business by reducing demand for our products.
- Heightened uncertainty in the financial markets negatively affects consumer confidence and discretionary spending, which can cause disruptions with our customers and suppliers.
- Liquidity issues and the inability of our customers to consistently access credit markets to obtain cash to support their operations can cause temporary interruptions in our ability to conduct day-to-day transactions involving the collection of funds from such customers.
- Liquidity issues and the inability of our suppliers to consistently access credit markets to obtain cash to support their operations can cause temporary interruptions in our ability to obtain the foodservice products and supplies needed by us in the quantities and at the prices requested.

We believe that uncertainty in the economic environment over the past several years has adversely affected the rate of improvement in both business and consumer confidence and spending, and uncertainty about the long-term investment environment could further depress capital investment and economic activity in the future.

Economic and political instability and potential unfavorable changes in laws and regulations resulting from the U.K.'s exit from the European Union could adversely affect our results of operations and financial condition.

The U.K.'s anticipated exit from the European Union (the EU) and the resulting significant change to the U.K.'s relationship with the EU and with countries outside the EU (and its laws and regulations impacting business conducted between them) could disrupt the overall stability of the U.K. and the EU given the diverse economic and political circumstances of the U.K. and individual EU countries and otherwise negatively impact our European operations, including the Brakes Group. If changes occur in laws and regulations impacting the flow of goods, services and workers between the U.K. and the EU, our European operations could also be negatively impacted. The completion of the U.K.'s exit from the EU could have less severe, but still significant, implications. Such exit could adversely affect the value of our euro- and pound-denominated assets and obligations. Exchange rates related to the British pound sterling have been more volatile since the U.K. announced it would exit the EU and such volatility may continue in the future. Future fluctuations in the exchange rate between the British pound sterling and the local currencies of our suppliers may have the effect of increasing our cost of goods sold in the U.K., which increases we may not be able to pass on to our customers. In addition, the U.K.'s exit from the EU could cause financial and capital markets within and outside the EU to constrict, thereby negatively impacting our ability to finance our business, and also could cause a substantial dip in consumer confidence and spending that could negatively impact the foodservice distribution industry. Any one of these impacts could have an adverse effect on our financial condition and results of operations.

Competition in our industry may adversely impact our margins and our ability to retain customers, and makes it difficult for us to maintain our market share, growth rate and profitability.

The foodservice distribution industry is fragmented and highly competitive, with local, regional, multi-regional distributors and specialty competitors. Local and regional companies often align themselves with other smaller distributors through purchasing cooperatives and marketing groups, with the goal of enhancing their geographic reach, private label offerings, overall purchasing power, cost efficiencies, and ability to meet customer distribution requirements. These suppliers may also rely on local presence as a source of competitive advantage, and they may have lower costs and other competitive advantages due to geographic proximity. Furthermore, barriers to entry by new competitors, or geographic or product line expansion by existing competitors, are low. Additionally, increased competition from non-traditional sources (such as club stores and commercial wholesale outlets with lower cost structures), cash and carry operations and group purchasing organizations have served to further increase pressure on the industry's profit margins, and continued margin pressure within the industry may have a material adverse effect on our results of operations. We are also experiencing growing competition from online direct food wholesalers. Finally, demand for food-away-from-home products is volatile and price sensitive, imposing limits on our customers' ability to absorb cost increases. New and increasing competitive sources may result in increased focus on pricing and on limiting price increases, or may require increased discounting or other concessions. Such competition or other industry pressures may result in margin erosion and/or make it difficult for us to attract and retain customers.

If we are unable to effectively differentiate ourselves from our competitors, our results of operations could be adversely impacted. In addition, even if we are able to effectively differentiate ourselves, we may only be able to do so through increased expenditures or decreased prices, which could also adversely impact our results of operations.

We may not be able to fully compensate for increases in fuel costs, and fuel hedging arrangements intended to contain fuel costs could result in above market fuel costs.

Volatile fuel prices have a direct impact on our industry. We require significant quantities of fuel for our delivery vehicles and are exposed to the risk associated with fluctuations in the market price for fuel. The price and supply of fuel can fluctuate significantly based on international, political and economic circumstances, as well as other factors outside our control, such as actions by the Organization of the Petroleum Exporting Countries, or OPEC, and other oil and gas producers, regional production patterns, weather conditions and environmental concerns. The cost of fuel affects the price paid by us for products, as well as the costs we incur to deliver products to our customers. Although we have been able to pass along a portion of increased fuel costs to our customers in the past, there is no guarantee that we will be able to do so in the future. If fuel costs increase in the future, we may experience difficulties in passing all or a portion of these costs along to our customers, which may have a negative impact on our results of operations.

We routinely enter into fuel hedging arrangements, including fuel derivatives, to hedge our exposure to volatile fuel prices. There can be no assurance that our fuel hedging transactions will be effective to protect us from changes in fuel prices, and if fuel prices decrease significantly, these hedging arrangements would result in our paying higher than market costs for a portion of our diesel fuel. In addition, our future use of fuel derivatives would expose us to the risk that one of our counterparties fails to perform its obligations, whether due to its insolvency or otherwise, which could result in financial losses.

Business and Operational Risks

Conditions beyond our control can interrupt our supplies and increase our product costs.

We obtain substantially all of our foodservice and related products from third-party suppliers. Although our purchasing volume can provide benefits when dealing with suppliers, suppliers may not provide the foodservice products and supplies needed by us in the quantities and at the prices requested. We are also subject to delays caused by interruptions in production and increases in product costs based on conditions outside of our control. These conditions include work slowdowns, work interruptions, strikes or other job actions by employees of suppliers, short-term weather conditions or more prolonged climate change, crop and other agricultural conditions, water shortages, animal disease outbreaks, transportation interruptions, unavailability of fuel or increases in fuel costs, product recalls, competitive demands, terrorist attacks or international hostilities and natural disasters or other catastrophic events (including, but not limited to, food-borne illnesses). Further, increased frequency or duration of extreme weather conditions could also impair production capabilities, disrupt our supply chain or impact demand for our products. Input costs could increase at any point in time for a large portion of the products that we sell for a prolonged period. Our inability to obtain adequate supplies of foodservice and related products as a result of any of the foregoing factors or otherwise could mean that we could not fulfill our obligations to customers, and customers may turn to other distributors.

In addition, as a foodservice distributor, it is necessary for us to maintain an inventory of products, and declines in product pricing levels between the time we purchase the product from our suppliers and the time we sell the product to our customers could reduce our margin on that inventory, adversely affecting our results of operations.

Adverse publicity about us or lack of confidence in our products could negatively impact our reputation and reduce earnings.

Maintaining a good reputation and public confidence in the safety of the products we distribute is critical to our business. Sysco's brand names, trademarks and logos and our reputation are powerful sales and marketing tools, and we devote significant resources to promoting and protecting them. Anything that damages our reputation or public confidence in our products, whether or not justified, including adverse publicity about the quality, safety, sustainability or integrity of our products or relating to illegal or unethical activities by our employees, suppliers or agents, could tarnish our reputation and diminish the value of our brand, which could adversely affect our results of operations.

Reports, whether true or not, of food-borne illnesses (such as e-coli, avian flu, bovine spongiform encephalopathy, hepatitis A, trichinosis, salmonella, listeria or swine flu) or injuries caused by food tampering could also severely injure our reputation or negatively impact public confidence in our products. If patrons of our restaurant customers become ill from food-borne illnesses, our customers could be forced to temporarily close restaurant locations and our sales and profitability would be correspondingly decreased. In addition, instances of food-borne illnesses or food tampering or other health concerns (even those unrelated to the use of Sysco products) or public concern regarding the safety of our products, can result in negative publicity about the food service distribution industry and cause our results of operations to decrease dramatically.

Damage to our reputation and loss of brand equity could reduce demand for our products and services. This reduction in demand, together with the dedication of time and expense necessary to defend our reputation, would have an adverse effect on our financial condition and results of operations, as well as require additional resources to rebuild our reputation and restore the value of our brand. Our business prospects, financial condition and results of operations could be adversely affected if our public image or reputation were to be tarnished by negative publicity, including dissemination via print, broadcast or social media, or other forms of Internet-based communications. Adverse publicity about regulatory or legal action against us could damage our reputation and image, undermine our customers' confidence and reduce short-term or long-term demand for our products and services, even if the regulatory or legal action is unfounded or not material to our operations. Any of these events could have a material adverse effect on our results of operations and financial condition.

Our relationships with long-term customers may be materially diminished or terminated.

We have long-standing relationships with a number of our customers, many of whom could unilaterally terminate their relationship with us or materially reduce the amount of business they conduct with us at any time. Market competition, customer requirements, customer financial condition and customer consolidation through mergers or acquisitions also could adversely affect our ability to continue or expand these relationships. There is no guarantee that we will be able to retain or renew existing agreements, maintain relationships with any of our customers on acceptable terms, or at all, or collect amounts owed to us from insolvent customers. Our customer agreements are generally terminable upon advance written notice (typically ranging from 30 days to six months) by either us or the customer, which provides our customers with the opportunity to renegotiate their contracts with us on less favorable terms or to award more business to our competitors. The loss of one or more of our major customers could adversely affect our business, financial condition, and results of operations.

Unfavorable changes to the mix of locally managed customers versus multi-unit customers could have a material adverse effect on our results of operations and financial condition.

Increasing the volume of our sales to locally managed customers is very important for our business and our results of operations. Gross margin from our multi-unit customers is generally lower than that of our locally managed customers because we typically sell higher volumes of products to these customers and provide a relatively lower level of value-added services than we do to locally managed customers. If sales to our locally managed customers do not grow at the same or a greater rate as sales to our multi-unit customers, our operating margins may decline.

Moreover, if sales to our multi-unit customers increase at a faster pace of growth than sales to our locally-managed customers, we will become more dependent on multi-unit customers as they begin to represent a greater proportion of our total sales. Additionally, the loss of sales to the larger of these multi-unit customers could have a material negative impact on our results of operations and financial condition. Additionally, as a result of our greater dependence on these customers, we could be pressured by them to lower our prices and/or offer expanded or additional services at the same prices. In that event, if we were unable to achieve additional cost savings to offset these price reductions and/or cost increases, our results of operations could be materially adversely affected. We may be unable to change our cost structure and pricing practices rapidly enough to successfully compete in such an environment.

Changes in consumer eating habits could materially and adversely affect our business, financial condition, or results of operations.

Changes in consumer eating habits (such as a decline in consuming food away from home, a decline in portion sizes, or a shift in preferences toward restaurants that are not our customers) could reduce demand for our products. Consumer eating habits could be affected by a number of factors, including changes in attitudes regarding diet and health or new information regarding the health effects of consuming certain foods. There is a growing consumer preference for sustainable, organic and locally grown products, and a shift towards plant-based proteins and/or animal proteins derived from animals that were humanely treated and anti-biotic free. Changing consumer eating habits also occur due to generational shifts. Millennials, the largest demographic group in terms of spend, seek new and different, as well as more ethnic, menu options and menu innovation. If consumer eating habits change significantly, we may be required to modify or discontinue sales of certain items in our product portfolio, and we may experience higher costs and/or supply shortages associated with our efforts to accommodate those changes as our suppliers adapt to the new eating preferences. Changing consumer eating habits may reduce the frequency with which consumers purchase meals outside of the home. Additionally, changes in consumer eating habits may result in the enactment or amendment of laws and regulations that impact the ingredients and nutritional content of our food products, or laws and regulations requiring us to disclose the nutritional content of our food products. Compliance with these laws and regulations, as well as others regarding the ingredients and nutritional content of our food products, may be costly and time-consuming. We cannot make any assurances regarding our ability to effectively respond to changes in consumer health perceptions or resulting new laws or regulations or to adapt our menu offerings to trends in eating habits.

We may not be able to achieve our three-year financial targets by the end of fiscal year 2018.

In fiscal 2016, we set new three-year financial targets to grow operating income, accelerate earnings per share growth faster than operating income growth and improve return on invested capital. Our ability to meet these financial targets depends largely on our successful execution of our business plan including various related initiatives. There are various risks related to these efforts, including the risk that these efforts may not provide the expected benefits in our anticipated time frame, if at all, and may prove costlier than expected; and the risk of adverse effects to our business, results of operations and liquidity if past and future undertakings, and the associated changes to our business, do not prove to be cost effective or do not result in the cost savings and other benefits at the levels that we anticipate. Our intentions and expectations with regard to the execution of our business plan, and the timing of any related initiatives, are subject to change at any time based on management’s subjective evaluation of our overall business needs. If we are unable to successfully execute our business plan, whether due to our failure to realize the anticipated benefits from our various business initiatives in the anticipated time frame or otherwise, we may be unable to achieve our three-year financial targets.

Expanding into international markets and complementary lines of business presents unique challenges, and our expansion efforts with respect to international operations and complementary lines of business may not be successful.

As demonstrated by our acquisition of the Brakes Group, an element of our strategy includes further expansion of operations into international markets and the establishment of international procurement organizations. Our ability to successfully operate in international markets may be adversely affected by political, economic and social conditions beyond our control, local laws and customs, and legal and regulatory constraints, including compliance with applicable anti-corruption and currency laws and regulations, of the countries or regions in which we currently operate or intend to operate in the future. Risks inherent in our existing and future international operations also include, among others, the costs and difficulties of managing international operations, difficulties in identifying and gaining access to local suppliers, suffering possible adverse tax consequences from changes in tax laws or the unfavorable resolution of tax assessments or audits, maintaining product quality and greater difficulty in enforcing intellectual property rights. Additionally, foreign currency exchange rates and fluctuations thereof may have an adverse effect on the financial results of our international operations.

Another element of our strategy includes the possibility of expansion into businesses that are closely related or complementary to, but not currently part of, our core foodservice distribution business. Our ability to successfully operate in these complementary business markets may be adversely affected by legal and regulatory constraints, including compliance with regulatory programs to which we become subject. Risks inherent in branching out into such complementary markets also include the costs and difficulties of managing operations outside of our core business, which may require additional skills and competencies, as well as difficulties in identifying and gaining access to suppliers or customers in new markets.

We may have exposure to additional tax liabilities.

As a multinational corporation, we are subject to income taxes as well as non-income based taxes, in both the U.S. and various foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. Changes in tax laws or tax rulings may have a significant adverse impact on our effective tax rate. For example, the U.S. and many countries in the EU where we do business, are actively considering or have enacted changes in relevant tax, accounting and other laws, regulations and interpretations, including changes to tax laws applicable to corporate multinationals. In particular, reforming the taxation of international businesses has been a priority for U.S. politicians, and key members of the legislative and executive branches have proposed a wide variety of potential changes, some of which could have a significant adverse impact on our effective tax rate. Further, in the ordinary course of a global business, there are many intercompany transactions and calculations where the ultimate tax determination could change if tax laws or tax rulings were to be modified. We are also subject to non-income based taxes, such as payroll, sales, use, value-added, net worth, property and goods and services taxes, in both the U.S. and various foreign jurisdictions. Although we believe that our income and non-income based tax estimates are appropriate, there is no assurance that the final determination of tax audits or tax disputes will not be different from what is reflected in our historical income tax provisions and accruals.

If the products distributed by us are alleged to have caused injury or illness, or to have failed to comply with governmental regulations, we may need to recall our products and may experience product liability claims.

We, like any other foodservice distributor, may be subject to product recalls, including voluntary recalls or withdrawals, if the products we distribute are alleged to have caused injury or illness, to have been mislabeled, misbranded, or adulterated or to otherwise have violated applicable governmental regulations. We may also choose to voluntarily recall or withdraw products that we determine do not satisfy our quality standards, whether for taste, appearance, or otherwise, in order to protect our brand and reputation. Any future product recall or withdrawal that results in substantial and unexpected expenditures, destruction of product inventory, damage to our reputation, and/or lost sales due to the unavailability of the product for a period of time, could materially adversely affect our results of operations and financial condition.

We also face the risk of exposure to product liability claims in the event that the use of products sold by Sysco are alleged to have caused injury or illness. We cannot be sure that consumption of our products will not cause a health-related illness in the future or that we will not be subject to claims or lawsuits relating to such matters. Further, even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential customers and our corporate and brand image. With respect to product liability claims, we believe we have sufficient primary or excess umbrella liability insurance. However, this insurance may not continue to be available at a reasonable cost or, if available, may not be adequate to cover all of our liabilities. We generally seek contractual indemnification and insurance coverage from parties supplying our products, but this indemnification or insurance coverage is limited, as a practical matter, to the creditworthiness of the indemnifying party and the insured limits of any insurance provided by suppliers. If Sysco does not have adequate insurance or contractual indemnification available, product liability relating to defective products could materially adversely affect our results of operations and financial condition.

If we fail to comply with requirements imposed by applicable law or other governmental regulations, we could become subject to lawsuits, investigations and other liabilities and restrictions on our operations that could significantly and adversely affect our business.

We are subject to regulation by various federal, state, provincial, regional and local governments in the countries in which we operate with respect to many aspects of our business, such as food safety and sanitation, ethical business practices, transportation, minimum wage, overtime, wage payment, wage and hour and employment discrimination, immigration, human health and safety, and due to the services we provide in connection with governmentally funded entitlement programs. For a detailed discussion of the laws and regulations to which our business is subject, please refer to “Business - Government Regulation” in Part I, Item 1 of this Annual Report on Form 10-K.

From time to time, both federal and state governmental agencies have conducted audits of our billing practices as part of investigations of providers of services under governmental contracts, or otherwise. We also receive requests for information from governmental agencies in connection with these audits. While we attempt to comply with all applicable laws and regulations, we cannot represent that we are in full compliance with all applicable laws and regulations or interpretations of these laws and regulations at all times or that we will be able to comply with any future laws, regulations or interpretations of these laws and regulations.

If we fail to comply with applicable laws and regulations or encounter disagreements with respect to our contracts subject to governmental regulations, including those referred to above, we may be subject to investigations, criminal sanctions or civil remedies, including fines, injunctions, prohibitions on exporting, or seizures or debarments from contracting with such government. The cost of compliance or the consequences of non-compliance, including debarments, could have an adverse effect on our results of operations. In addition, governmental units may make changes in the regulatory frameworks within which we operate that may require us to incur substantial increases in costs in order to comply with such laws and regulations.

We may incur significant costs to comply with environmental laws and regulations, and we may be subject to substantial fines, penalties or third-party claims for non-compliance.

Our operations are subject to various federal, state, provincial, regional and local laws, rules and regulations in the various countries in which we operate relating to the protection of the environment, including those governing:

- the discharge of pollutants into the air, soil, and water;
- the management and disposal of solid and hazardous materials and wastes;
- employee exposure to hazards in the workplace; and
- the investigation and remediation of contamination resulting from releases of petroleum products and other regulated materials.

In the course of our operations, we operate, maintain, and fuel fleet vehicles; store fuel in on-site above and underground storage tanks; operate refrigeration systems, and use and dispose of hazardous substances and food wastes. We could incur substantial costs, including fines or penalties and third-party claims for property damage or personal injury, as a result of any violations of environmental or workplace safety laws and regulations or releases of regulated materials into the environment. In addition, we could incur investigation, remediation or other costs related to environmental conditions at our currently or formerly owned or operated properties.

For example, most of our distribution facilities have ammonia-based refrigeration systems and tanks for the storage of diesel fuel and other petroleum products, which are subject to laws regulating such systems and storage tanks (including the investigation and remediation of soil and groundwater contamination associated with the use of underground storage tanks). Certain of these laws and regulations in the European Union and the Brakes Principal Regions may impose liability for costs (which could be material) of investigation or remediation of contamination regardless of fault or the legality of the original disposal, and even if such contamination was present prior to the commencement of Brakes' operations at the site and was not caused by its activities. In addition, many of our facilities have propane and battery powered forklifts. Proposed or recently enacted legal requirements, such as those requiring the phase-out of certain ozone-depleting substances, and proposals for the regulation of greenhouse gas emissions, may require us to upgrade or replace equipment, or may increase our transportation or other operating costs.

We must finance and integrate acquired businesses effectively.

Historically, a portion of our growth has come through acquisitions. If we are unable to integrate acquired businesses successfully or realize anticipated economic, operational and other benefits and synergies in a timely manner, our earnings per share may be materially adversely affected. Integration of an acquired business may be more difficult when we acquire a business in a market in which we have limited expertise, or with a culture different from Sysco's. A significant expansion of our business and operations, in terms of geography or magnitude, could strain our administrative and operational resources. Significant acquisitions may also require the issuance of material additional amounts of debt or equity, which could materially alter our debt-to-equity ratio, increase our interest expense and decrease earnings per share, and make it difficult for us to obtain favorable financing for other acquisitions or capital investments. In addition, our failure to implement effective internal control over financial reporting and disclosure controls and procedures with respect to a significant acquired business, such as the Brakes Group, could result in material weaknesses and/or a failure to file our periodic reports with the SEC on a timely basis.

We need access to borrowed funds to grow, and any default by us under our indebtedness could have a material adverse effect on our cash flow and liquidity.

A substantial part of our growth historically has been the result of acquisitions and capital expansion. We anticipate additional acquisitions and capital expansion in the future. As a result, our inability to finance acquisitions and capital expenditures through borrowed funds could restrict our ability to expand. Moreover, any default under the documents governing our indebtedness could have a significant adverse effect on our cash flows, as well as the market value of our common stock.

Our level of indebtedness and the terms of our indebtedness could adversely affect our business and liquidity position.

As described in Note 11, "Debt and Other Financing Arrangements," as of July 1, 2017, we had approximately $8.2 billion of total indebtedness which included a commercial paper program allowing us to issue short-term unsecured notes in an aggregate amount not to exceed $2.0 billion; a revolving credit facility supporting our U.S. commercial paper program in the amount of $2.0 billion scheduled to expire on November 2, 2021, and various other smaller bank facilities.

Our substantial amount of debt could have important consequences for us, including:

- limiting our ability to obtain additional financing, if needed, for working capital, capital expenditures, acquisitions, debt service requirements or other purposes;
- increasing our vulnerability to adverse economic, industry or competitive developments;
- limiting our flexibility in planning for, or reacting to, changes in our business and our industry; and
- placing us at a competitive disadvantage compared to our competitors that have less debt.

Our indebtedness may further increase from time to time for various reasons, including fluctuations in operating results, working capital needs, capital expenditures, potential acquisitions, joint ventures and/or share repurchase programs. Our increased level of indebtedness and the ultimate cost of such indebtedness could have a negative impact on our liquidity, cost of future debt financing and financial results, and our credit ratings may be adversely affected as a result of the incurrence of additional indebtedness. In the future, our cash flow and capital resources may not be sufficient for payments of interest on and principal of our debt, and any alternative financing measures available may not be successful and may not permit us to meet our scheduled debt service obligations.

We rely on technology in our business and any cybersecurity incident, other technology disruption or delay in implementing new technology could negatively affect our business and our relationships with customers.

We use technology in substantially all aspects of our business operations, and our ability to serve customers most effectively depends on the reliability of our technology systems. We use software and other technology systems, among other things, to generate and select orders, to load and route trucks, to make purchases, to manage our warehouses and to monitor and manage our business on a day-to-day basis. We also use mobile devices, social networking and other online platforms to connect with our employees, suppliers, business partners and customers. Further, our business involves the storage and transmission of numerous classes of sensitive and/or confidential information and intellectual property, including customers' and suppliers' personal information, private information about employees, and financial and strategic information about the company and our business partners.

These technology systems and our uses thereof are vulnerable to disruption from circumstances beyond our control, including fire, natural disasters, power outages, systems failures, security breaches, espionage, cyber-attacks, viruses, theft and inadvertent release of information. Any such disruption to these software and other technology systems, or the technology systems of third parties on which we rely, the failure of these systems to otherwise perform as anticipated, or the theft, destruction, loss, misappropriation, or release of sensitive and/or confidential information or intellectual property, could result in business disruption, negative publicity, brand damage, violation of privacy laws, loss of customers, potential liability and competitive disadvantage, any or all of which would potentially adversely affect our customer service, decrease the volume of our business and result in increased costs and lower profits.

Further, as we pursue our strategy to grow through acquisitions and to pursue new initiatives that improve our operations and cost structure, we are also expanding and improving our information technologies, resulting in a larger technological presence and corresponding exposure to cybersecurity risk. If we fail to assess and identify cybersecurity risks associated with acquisitions and new initiatives, we may become increasingly vulnerable to such risks.

While Sysco has invested, and continues to invest, in technology security initiatives and other measures to prevent security breaches and cyber incidents, as well as disaster recovery plans, these initiatives and measures may not be entirely effective to insulate us from technology disruption that could result in adverse effects on our results of operations. Additionally, information technology systems continue to evolve and, in order to remain competitive, we must implement new technologies in a timely and efficient manner. If our competitors implement new technologies more quickly or successfully than we do, such competitors may be able to provide lower cost or enhanced services of superior quality compared to those we provide, which could have an adverse effect on our results of operations.

We may be required to pay material amounts under multiemployer defined benefit pension plans.

We contribute to several multiemployer defined benefit pension plans based on obligations arising under collective bargaining agreements covering union-represented employees. Approximately 13% of our current U.S. employees are participants in such multiemployer plans. In fiscal 2017, our total contributions to these plans were approximately $44.6 million and, in May 2017, a Sysco subsidiary voluntarily withdrew from a multiemployer pension plan and recorded a $35.6 million withdrawal liability. The costs of providing benefits through such plans have increased in recent years. The amount of any increase or decrease in our required contributions to these multiemployer plans will depend upon many factors, including the outcome of collective bargaining, actions taken by trustees who manage the plans, government regulations, the actual return on assets held in the plans and the potential payment of a withdrawal liability if we choose to exit. Based upon the information available to us from plan administrators, we believe that several of these multiemployer plans are underfunded. The unfunded liabilities of these plans may result in increased future payments by us and the other participating employers. Underfunded multiemployer pension plans may impose a surcharge requiring additional pension contributions. Our risk of such increased payments may be greater if any of the participating employers in these underfunded plans withdraws from the plan due to insolvency and is not able to contribute an amount sufficient to fund the unfunded liabilities associated with its participants in the plan. We could also be treated as partially withdrawing from participation in one of these plans if the number of our employees participating in a given plan is reduced to a certain degree over a certain period of time. Such reductions in the number of employees participating in these plans could occur as a result of changes in our business operations, such as facility closures or consolidations. Based on the latest information available from plan administrators, we estimate our share of the aggregate withdrawal liability on the multiemployer plans in which we participate could have been as much as $147.9 million as of July 1, 2017. A significant increase to funding requirements could adversely affect the company's financial condition, results of operations or cash flows.

Our funding requirements for our company-sponsored qualified pension plan may increase should financial markets experience future declines.

At the end of fiscal 2012, we decided to freeze future benefit accruals under the company-sponsored qualified pension plan (Retirement Plan) as of December 31, 2012 for all U.S. based salaried and non-union hourly employees. Effective January 1, 2013, these employees were eligible for additional contributions under an enhanced, defined contribution plan. While these actions will serve to limit future growth in our pension liabilities, we had a sizable pension obligation of $4.2 billion as of July 1, 2017; therefore, financial market factors could impact our funding requirements. Although recent pension funding relief legislation has served to defer some required funding, additional contributions may be required if our plan is not fully funded when the provisions that provided the relief are phased out. See Note 14, "Company-Sponsored Employee Benefit Plans" to the Consolidated Financial Statements in Item 8 for a discussion of the funded status of the Retirement Plan.

The amount of our annual contribution to the Retirement Plan is dependent upon, among other things, the returns on the Retirement Plan’s assets and discount rates used to calculate the plan’s liability. Our Retirement Plan holds investments in both equity and fixed income securities. Fluctuations in asset values can cause the amount of our anticipated future contributions to the plan to increase. The projected liability of the Retirement Plan will be impacted by the fluctuations of interest rates on high quality bonds in the public markets as these are inputs in determining our minimum funding requirements. Specifically, decreases in these interest rates may have an adverse effect on our funding obligations. To the extent financial markets experience future declines similar to those experienced in fiscal 2008 through the beginning of fiscal 2010, and/or interest rates on high quality bonds in the public markets decline, our required contributions may increase for future years as our funded status decreases, which could have an adverse effect on our financial condition.

Failure to successfully renegotiate union contracts could result in work stoppages.

As of July 1, 2017, approximately 9,813 employees at 55 operating companies were members of 53 different local unions associated with the International Brotherhood of Teamsters and other labor organizations. Moreover, labor organizing activities could result in additional employees becoming unionized, which could increase our labor costs. In fiscal 2018, 12 agreements covering approximately 1,367 employees have expired or will expire. Failure of our operating companies to effectively renegotiate these contracts could result in work stoppages. Although our operating subsidiaries have not experienced any significant labor disputes or work stoppages to date, and we believe they have satisfactory relationships with their unions, a work stoppage due to failure of multiple operating subsidiaries to renegotiate union contracts could have a material adverse effect on us.

A shortage of qualified labor could negatively affect our business and materially reduce earnings.

The future success of our operations, including the achievement of our strategic objectives, depends on our ability to identify, recruit, develop and retain qualified and talented individuals, and any shortage of qualified labor could significantly affect our business. Our employee recruitment, development and retention efforts may not be successful, resulting in a shortage of qualified individuals in future periods. Any such shortage would decrease Sysco’s ability to effectively serve our customers and achieve our strategic objectives. Such a shortage would also likely lead to higher wages for employees and a corresponding reduction in our results of operations.

Our authorized preferred stock provides anti-takeover benefits that may not be viewed as beneficial to stockholders.

Under our Restated Certificate of Incorporation, Sysco’s Board of Directors is authorized to issue up to 1,500,000 shares of preferred stock without stockholder approval. Issuance of these shares could make it more difficult for anyone to acquire Sysco without approval of the Board of Directors, depending on the rights and preferences of the stock issued. In addition, if anyone attempts to acquire Sysco without approval of the Board of Directors of Sysco, the existence of this undesignated preferred stock could allow the Board of Directors to adopt a shareholder rights plan without obtaining stockholder approval, which could result in substantial dilution to a potential acquirer. As a result, hostile takeover attempts that might result in an acquisition of Sysco, which could otherwise have been financially beneficial to our stockholders, could be deterred.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The table below shows the number of distribution facilities occupied by Sysco in each country and the aggregate square footage devoted to cold and dry storage as of July 1, 2017.

Location	Number of Facilities	Square Feet (in thousands)	Segment Served [1]
Bahamas	1	200	I
Canada	37	4,597	I, O
Costa Rica	4	317	I
France	38	1,192	I
Ireland and Northern Ireland	3	587	I
Mexico	4	192	I
Panama	1	44	I
Spain	2	26	I
Sweden	7	742	I
United Kingdom	65	2,855	I, O
United States and its territories [2]	162	37,970	U, I, S, O
Totals	324	48,722	

[1] Segments served include U.S. Foodservice (U), International Foodservice (I), SYGMA (S), and Other (O).
[2] Texas, California, and Florida account for 17, 18, and 19, respectively, of the facilities located in the U.S.

We own approximately 38,086,000 square feet of our distribution facilities (or 78.2% of the total square feet), and the remainder is occupied under leases expiring at various dates from fiscal 2018 to fiscal 2063, exclusive of renewal options.

We own our approximately 625,000 square foot headquarters office complex in Houston, Texas. In addition, we own our approximately 669,000 square foot complex in Cypress, Texas that houses shared business services and other corporate services.

We are currently constructing expansions or build-outs for our distribution facilities in Maryland, Missouri and Texas. These operating companies, in the aggregate, accounted for 4% of fiscal 2017 sales.

As of July 1, 2017, our fleet of approximately 13,400 delivery vehicles consisted of tractor and trailer combinations, vans and panel trucks, most of which are either wholly or partially refrigerated for the transportation of frozen or perishable foods. We own approximately 87% of these vehicles and lease the remainder.

Item 3. Legal Proceedings

None.

Item 4. Mine Safety Disclosures

Not applicable.

PART II – FINANCIAL INFORMATION

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Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Repurchases of Equity Securities

The principal market for Sysco's common stock (SYY) is the New York Stock Exchange. The table below sets forth the high and low sales prices per share for our common stock as reported on the New York Stock Exchange Composite Tape and the cash dividends declared for the periods indicated.

	Common Stock Prices High	Low	Dividends Declared Per Share
Fiscal 2016:			
First Quarter	$41.87	$35.45	$ 0.30
Second Quarter	42.03	38.34	0.31
Third Quarter	46.69	38.84	0.31
Fourth Quarter	50.94	45.19	0.31
Fiscal 2017:			
First Quarter	$53.97	$48.70	$ 0.31
Second Quarter	57.07	47.14	0.33
Third Quarter	55.95	49.90	0.33
Fourth Quarter	56.10	49.22	0.33

The number of record owners of Sysco's common stock as of August 11, 2017 was 9,751.

We currently expect that comparable quarterly cash dividends will continue to be paid in the future; however, future declarations of dividends and the establishment of future record and payment dates are subject to the final determination of our Board of Directors.

We made the following share repurchases during the fourth quarter of fiscal 2017:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased [(1)]	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1				
April 2 – April 29	2,013,592	$ 52.12	2,013,592	—
Month #2				
April 30 – May 27	1,853,126	54.09	1,849,499	—
Month #3				
May 28 – July 1	2,840,637	53.88	2,840,637	—
Total	6,707,355	$ 53.41	6,703,728	—

(1) The total number of shares purchased includes zero, 3,627, and zero shares tendered by individuals in connection with stock option exercised in month #1, month #2, and month #3, respectively. All other shares were purchased pursuant to the publicly announced program described below.

In June 2015, our Board of Directors approved a program to repurchase, from time to time in the open market, through an accelerated share repurchase program or through privately negotiated transactions, shares of the company's common stock in an amount not to exceed $3.0 billion during the two-year period ending July 1, 2017, in addition to amounts normally repurchased to offset benefit plan and stock option dilution. In August 2015, our Board of Directors approved the repurchase of up to 20,000,000 shares for an aggregate purchase price not to exceed $800 million. We repurchased all shares under the $3.0 billion authorization that expired on July 1, 2017. We also repurchased all $800 million in shares under the August 2015 authorization, which expired on August 21, 2017. In February 2017, our Board of Directors approved a separate repurchase program authorizing the repurchase of shares of the company's common stock not to exceed $1.0 billion through the end of fiscal 2019. This share repurchase program was approved using a dollar value limit and, therefore, is not included in the table above for "Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs."

We purchased 35,744,589 shares under these plans in fiscal 2017, resulting in a remaining authorization under these programs of $988.4 million. There were 44,716,180 shares repurchased under our then outstanding plans in fiscal 2016. We purchased an additional 3,026,737 shares through August 11, 2017.

The Board of Directors has authorized us to enter into agreements from time to time to extend our ongoing repurchase program to include repurchases during company announced "blackout periods" of such securities in compliance with Rule 10b5-1 promulgated under the Securities Exchange Act of 1934 (Exchange Act).

Stock Performance Graph

The following performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or the Exchange Act, each as amended, except to the extent that Sysco specifically incorporates such information by reference into such filing.

The following stock performance graph compares the performance of Sysco's Common Stock to the S&P 500 Index and to the S&P 500 Food/Staple Retail Index for Sysco's last five fiscal years.

The graph assumes that the value of the investment in our Common Stock, the S&P 500 Index, and the S&P 500 Food/Staple Retail Index was $100 on the last trading day of fiscal 2012, and that all dividends were reinvested. Performance data for Sysco, the S&P 500 Index and the S&P 500 Food/Staple Retail Index is provided as of the last trading day of each of our last five fiscal years.

	6/30/2012	6/29/2013	6/28/2014	6/27/2015	7/2/2016	7/1/2017
Sysco Corporation	$100	$119	$136	$142	$195	$197
S&P 500	100	121	150	164	168	198
S&P 500 Food/Staple Retail Index	100	121	146	173	176	171

Item 6. Selected Financial Data

	Fiscal Year 2017 [1]	2016 [1][2]	2015 [1]	2014 [1]	2013
	(In thousands except for per share data)				
Sales	$55,371,139	$50,366,919	$48,680,752	$46,516,712	$44,411,233
Operating income	2,053,171	1,850,500	1,229,362	1,587,122	1,658,478
Earnings before income taxes	1,766,230	1,433,007	1,008,147	1,475,624	1,547,455
Income taxes	623,727	483,385	321,374	544,091	555,028
Net earnings	$1,142,503	$949,622	$686,773	$931,533	$992,427
Net earnings:					
Basic earnings per share	$2.10	$1.66	$1.16	$1.59	$1.68
Diluted earnings per share	2.08	1.64	1.15	1.58	1.67
Dividends declared per share	$1.30	$1.23	$1.19	$1.15	$1.11
Total assets	$17,756,655	$16,721,804	$17,989,281	$13,141,113	$12,678,208
Capital expenditures	686,378	527,346	542,830	523,206	511,862
Current maturities of long-term debt [3]	$530,075	$8,909	$4,979,301	$304,777	$207,301
Long-term debt	7,660,877	7,336,930	2,271,825	2,357,330	2,627,544
Total long-term debt	8,190,952	7,345,839	7,251,126	2,662,107	2,834,845
Shareholders' equity	2,381,516	3,479,608	5,260,224	5,266,695	5,191,810
Total capitalization	$10,572,468	$10,825,447	$12,511,350	$7,928,802	$8,026,655
Ratio of long-term debt to capitalization [3]	77.5 %	67.9 %	58.0 %	33.6 %	35.3 %

(1) Our results of operations are impacted by Certain Items that have resulted in reduced earnings on a GAAP basis. See "Non-GAAP Reconciliations," within Management's Discussion and Analysis of Financial Condition and Results of Operations, for a description of these items and our results on an adjusted basis that exclude Certain Items.

(2) Sysco's fiscal year ends on the Saturday nearest to June 30th. This resulted in a 53-week year ending July 2, 2016 for fiscal 2016.

(3) Specific to fiscal 2015, our current maturities of long-term debt included senior notes issued for the proposed merger with US Foods that were required to be redeemed due to the termination of the merger agreement. We redeemed these notes in July 2015.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our discussion below of our results includes certain non-GAAP financial measures that we believe provide important perspective with respect to underlying business trends. Other than free cash flow, any non-GAAP financial measures will be denoted as adjusted measures and exclude the impact from restructuring costs consisting of (1) expenses associated with our revised business technology strategy announced in fiscal 2016, as a result of which we recorded accelerated depreciation on our then-existing system and incurred costs to convert to a modernized version of our established platform, (2) professional fees related to our three-year strategic plan, (3) restructuring expenses within our Brakes Group operations, and (4) severance charges related to restructuring. Our results of operations are also impacted by the following acquisition-related items: (1) intangible amortization expense, (2) transaction costs, and (3) integration costs. All acquisition-related costs in fiscal 2017 that have been excluded relate to the Brakes Group acquisition (the Brakes Acquisition). Sysco's results of operations are also impacted by multiemployer pension (MEPP) withdrawal charges. Fiscal 2016 acquisition-related costs, however, include (i) Brakes Acquisition related costs, (ii) termination costs in connection with the merger that had been proposed with US Foods, Inc. (US Foods) and (iii) financing costs related to the senior notes that were issued in fiscal 2015 to fund the proposed US Foods merger. These senior notes were redeemed in the first quarter of fiscal 2016, triggering a redemption loss of $86.5 million, and we incurred interest on these notes through the redemption date. The Brakes Acquisition also resulted in non-recurring tax expense in fiscal 2017, primarily from non-deductible transaction costs. Additionally, our results of operations were impacted by multiemployer pension plan withdrawal costs in fiscal 2017. These fiscal 2017 and fiscal 2016 items are collectively referred to as "Certain Items," and they have been excluded from our non-GAAP financial measures. With respect to the adjusted return on invested capital targets, our invested capital is adjusted for the accumulation of debt incurred for the Brakes Acquisition that would not have been borrowed absent this acquisition.

Sysco’s fiscal year ends on the Saturday nearest to June 30th. This resulted in a 52-week year ending July 1, 2017 for fiscal 2017, a 53-week year ending July 2, 2016 for fiscal 2016, and a 52-week year ending June 27, 2015 for fiscal 2015. Because fiscal 2017 contained one fewer week as compared to fiscal 2016, our Consolidated Results of Operations for fiscal 2017 are not directly comparable to the prior year. Management believes that adjusting the fiscal 2016 Consolidated Results of Operations for the estimated impact of the additional week provides more comparable financial results on a year-over-year basis. Sysco’s results of operations and related metrics within this section will be disclosed on both a 52-week and 53-week basis for fiscal 2017 as compared to fiscal 2016. This is calculated by deducting one-fourteenth of the total metric for the fourth quarter of fiscal 2016.

Any metric within this section referred to as “adjusted” will reflect the applicable impact of both Certain Items and the extra week in fiscal 2016. More information on the rationale for the use of these measures and reconciliations to GAAP numbers can be found under “Non-GAAP Reconciliations.”

Overview

Sysco distributes food and related products to restaurants, healthcare and educational facilities, lodging establishments and other foodservice customers. Our primary operations are located in North America and Europe. The company has aggregated certain of its operating segments into three reportable segments. “Other” financial information is attributable to the company’s other operating segments that do not meet the quantitative disclosure thresholds.

- U.S. Foodservice Operations - primarily includes U.S. Broadline, custom-cut meat and seafood companies, FreshPoint (our specialty produce companies) and European Imports (a specialty import company);
- International Foodservice Operations - primarily includes broadline operations in Canada and Europe (including the Brakes Group, which was acquired in fiscal 2017), Bahamas, Mexico, Costa Rica and Panama, as well as a company that distributes to international customers;
- SYGMA - our customized distribution subsidiary; and
- Other - primarily our hotel supply operations and Sysco Labs, which includes our suite of technology solutions that help support the business needs of our customers and provides support for some of our business technology needs.

Broadline operating companies distribute a full line of food products and a wide variety of non-food products to both traditional and chain restaurant customers, hospitals, schools, hotels, industrial caterers and other venues where foodservice products are served. SYGMA operating companies distribute a full line of food products and a wide variety of non-food products to certain chain restaurant customer locations.

We estimate that we serve approximately 16% of the $280 billion annual foodservice market in the United States (U.S.) based on industry data obtained from Technomic, Inc. From time to time, Technomic may revise the methodology used to calculate the size of the foodservice market and, as a result, our percentage can change not only from our sales results, but also from such revisions. We also serve certain international geographies that vary in size and amount of market share.

According to industry sources, the foodservice, or food-away-from-home, market represents approximately 51% of the total dollars spent on food purchases made at the consumer level in the U.S. as of the end of calendar 2016. Industry sources estimate the total foodservice market in the U.S. experienced a real sales increase of approximately 1.4% in calendar year 2016 and 2.3% in calendar year 2015. Real sales changes do not include the impact of inflation or deflation.

Acquisition of Brakes Group

On July 5, 2016, Sysco consummated its acquisition of Cucina Lux Investments Limited (a private company limited by shares organized under the laws of England and Wales), a holding company of the Brakes Group, pursuant to an agreement for the sale and purchase of securities in the capital of the Brakes Group, dated as of February 19, 2016 (the Purchase Agreement), by and among Sysco, entities affiliated with Bain Capital Investors, LLC, and members of management of the Brakes Group. Following the closing of the Brakes Acquisition, the Brakes Group became a wholly owned subsidiary of Sysco.

The Brakes Group is a large European foodservice business, supplying fresh, refrigerated and frozen food products, as well as non-food products and supplies, to foodservice customers. The Brakes Group's largest businesses are in the United Kingdom (U.K.), France, and Sweden, in addition to a presence in Ireland, Belgium, Spain, and Luxembourg. The Brakes Acquisition significantly strengthens Sysco's position as the global leader in selling, marketing and distributing food products and offers attractive opportunities for organic growth and future expansion in European markets.

Highlights and Trends

Comparison of results from fiscal 2017 to fiscal 2016:

- Sales:
  - increased 9.9%, or $5.0 billion, to $55.4 billion;
  - adjusted sales, on a comparable 52-week basis and excluding Brakes, increased 1.6%;
- Operating income:
  - increased 11.0%, or $202.7 million, to $2.1 billion;
  - adjusted operating income increased 17.1%, or $343 million, to $2.4 billion;
  - adjusted operating income, on a comparable 52-week basis and excluding Brakes, increased 12.4%;
- Net earnings:
  - increased 20.3%, or $192.9 million, to $1.1 billion;
  - adjusted net earnings increased 11.9%, or $145 million, to $1.4 billion;
  - adjusted net earnings, on a comparable 52-week basis and excluding Brakes, increased 8.0%;
- Basic earnings per share:
  - increased 26.5%, or $0.44, to $2.10 from the comparable prior year amount of $1.66 per share;
- Diluted earnings per share:
  - increased 26.8%, or $0.44, to $2.08 from the comparable prior year amount of $1.64 per share;
  - adjusted diluted earnings per share were $2.48 in fiscal 2017, an 18.1% increase from the comparable prior year amount of $2.10 per share and a 20.4% increase on a comparable 52-week basis;
  - adjusted diluted earnings per share, on a comparable 52-week basis and excluding Brakes, were $2.34 in fiscal 2017, a 13.6% increase.

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

The general foodservice market environment since the beginning of fiscal 2017 has reflected a modestly growing U.S. economy, disparate regional economic conditions in Canada, and mixed economic backdrops in the U.K., Ireland, France and Sweden. While we continue to transition some large contract customers in our U.S. Foodservice Operations, our case growth with local customers in that business segment improved during the second half of the year. Favorable consumer confidence throughout much of the U.S. contributed to restaurant check size increases, even though year-over-year traffic trends were unfavorable in certain customer segments. Throughout fiscal 2017, we provided our customers with excellent service, delivered case growth through a focus on local customers, improved our gross profit dollars and effectively managed overall expenses. These are all important steps towards achieving our three-year plan financial objectives. We also completed the Brakes Acquisition, which added positively to our results.

Our sales and gross profit performance can be influenced by multiple factors including price, volume and product mix. The modest level of growth in the foodservice market has created additional competitive pricing pressures, which can impact our profitability. The majority of our sales are to locally managed customers and multi-unit customers. Our locally managed customers, including independent restaurant customers, comprise a greater percentage of our profitability as compared to multi-unit customers. Case growth with our locally managed broadline business is important to drive gross profit dollar growth. Our sales to multi-unit customers, including chain restaurants and multi-locational restaurants, also comprise a significant portion of our overall volumes. Gross margin on sales to our multi-unit customers is generally lower than on sales to other types of customers due to the higher volumes we sell to these customers. In fiscal 2017, we grew our cases with local customers; however, case growth for our multi-unit customers declined due in part to our efforts to deliver disciplined, profitable growth. We will continue to focus on local customer growth by providing value through innovative product offerings and value-added services, along with improved e-commerce capabilities. We also expect case growth trends for multi-unit customers to begin to improve as we progress through fiscal 2018. We offer an assortment of Sysco-branded products that we can differentiate from privately branded products, which enables us to achieve higher gross profits. As a result, we focus on sales growth for these products, especially with locally managed customers. Inflation is a factor that contributes to the level of sales and gross profit growth and can be a factor that contributes to gross margin pressure. We experienced deflation at a rate of 0.6% for fiscal 2017. Deflation in fiscal 2017 occurred primarily in the meat, dairy and produce categories, partially offset by modest inflation in other categories. We saw modest overall inflation during the last quarter of the year, driven by poultry, produce, dairy and seafood categories. We expect inflation to continue for the balance of calendar 2017. Periods of high inflation, either overall or in certain product categories, can have an unfavorable effect on us and our customers, as high food costs can be difficult to pass on to our customers.

We have experienced higher operating expenses in fiscal 2017, as compared to fiscal 2016, that are attributable to higher case volumes and the addition of the Brakes Group. While these costs are increasing, certain of our expenses declined, including fuel costs attributable to lower fuel prices in fiscal 2017, as compared to fiscal 2016. We expect operating expenses to increase in fiscal 2018, primarily driven by anticipated growth in case volume. We also expect transportation costs to increase due to higher fuel prices. We intend to make increased investments in the sales team, which will drive local case growth. We have also incurred Certain Items in fiscal 2017 for restructuring costs, currently consisting of the impact of changes to our business technology strategy, restructuring expenses within our Brakes Group operations, professional fees incurred related to our three-year strategic plan, and severance charges. Additionally, we incurred costs associated with a withdrawal from a multiemployer pension plan in fiscal 2017.

During the year, Brakes performed reasonably well amidst a challenging environment in the U.K., exceeding our expectations for earnings per share accretion by contributing $0.09 per share for fiscal 2017. On an adjusted basis, our Brakes Group operations contributed approximately $0.14 per share to our adjusted consolidated earnings per share for fiscal 2017. The Brakes Group is progressing in its supply chain transformational efforts as it moves to multi-temperature capability across the U.K. Growth in France remains steady. Additionally we continue to see long term opportunities for growth across our new European business. See “Non-GAAP Reconciliations” for an explanation of these non-GAAP financial measures.

Strategy

We are focused on optimizing our core foodservice business through our customer centric strategy with a “One Sysco” approach that is being executed at a high level and that positions us to deliver disciplined, profitable and sustainable growth moving forward. We aspire to be the most valued and trusted business partner for all of our customers and are committed to delivering on our targeted financial objectives for Sysco’s shareholders. We will continue to develop and refine current key strategic initiatives, such as category management, revenue management, enhanced customer facing technology and multiple productivity improvement measures, in our ongoing effort to create competitive advantage. We will do this by deepening our customer insight work, continually enhancing our technology capabilities and by attracting and developing highly capable and increasingly diverse leaders and associates. We have identified five components of our strategy to help us achieve our mission and vision as follows:

- Partnership - Profoundly enrich the experience of doing business with Sysco: Our primary focus is to help our customers succeed. We believe that by building on our current competitive advantages, we will be able to further differentiate our offering to customers. Our competitive advantages include our marketing associates; our diversified product base, which includes quality-assured Sysco brand products; the suite of services we provide to our customers such as business reviews and menu analysis; and our multi-regional presence in North America and Europe. In addition, we have a portfolio of businesses spanning broadline, chain restaurant distribution, specialty produce, specialty meat, hotel amenities, specialty import and export which serves our customers’ needs across a wide array of business segments. We believe this strategy of enriching the experience of doing business with Sysco will increase customer retention and profitably accelerate sales growth with both existing and new customers.
- Productivity - Continuously improve productivity in all areas of our business: We continually strive to improve productivity and improve cost management. From modernizing software systems to leveraging the power of our end-to-end supply chain, we continue to invest in ways to improve our service to our customers.
-

Products - Enhance our portfolio of products and services by initiating a customer-centric innovation program: We continually explore opportunities to provide new and improved products, technologies and services to our customers.

- People - Leverage talent, structure, and culture to drive performance: Our ability to drive results and grow our business is directly linked to having the best talent in the industry. We are committed to the continued enhancement of our talent management programs in terms of how we recruit, select, train and develop our associates throughout Sysco, as well as succession planning. Our ultimate objective is to provide all of our associates with an inclusive environment and outstanding opportunities for professional growth and career development.
- Portfolio - Explore, assess and pursue new businesses and markets: This strategy is focused on identifying opportunities to expand within our core business, which could include growth in new international markets, and in adjacent areas that complement our core foodservice distribution business. As a part of our ongoing strategic analysis,

we regularly evaluate business opportunities, including potential acquisitions, joint ventures and sales of assets and businesses.

In fiscal 2016, we set three-year financial targets to be achieved by the end of fiscal 2018:

- Improve adjusted operating income by at least $500 million using fiscal 2015 as the base year. This was subsequently increased to a range of $600 million to $650 million;
- Grow adjusted earnings per share faster than operating income; and
- Achieve 15% in return on invested capital improvement for existing businesses.

Because our original targets were set without the contemplation of the Brakes Acquisition, our Brakes Group operations are not included in our adjusted operating income improvement or earnings per share goals.

The key strategic levers of our three-year plan include delivering accelerated case growth through a focus on local customers, growing gross profit dollars and managing overall expenses. Our strategic focus on accelerating growth with local customers utilizes an insights-based, customer-centric approach that permeates everything we do. We have improved the capabilities of our sales force through investments made in training, technology and targeted specialized resources and, as a result, our marketing associates are spending more time working with our customers on value-added activities and consultative services, such as menu analysis, inventory management, and business reviews. These services foster a deeper relationship with our customers and further enforces the role that the sales force plays in helping our customers succeed. We have seen improvements in our return on invested capital, as net working capital performance continues to improve, driven by improvements in payables, receivables and inventory.

During fiscal 2017, we delivered the following results against these objectives, as compared to fiscal 2016:

- Total sales grew 9.9%; and increased 1.6% on a comparable 52-week basis and excluding Brakes;
- Gross profit dollars grew by 16.8% and expanded gross margin by 112 basis points; and adjusted gross profit dollars, on a comparable 52-week basis and excluding Brakes, grew by 4.1%, which included gross margin expansion of 43 basis points;
- Operating expenses grew by 18.3%; and adjusted operating expenses, on a comparable 52-week basis and excluding Brakes, grew by 1.7%;
- Operating income grew by 11.0%; and adjusted operating income, on a comparable 52-week basis and excluding Brakes, grew by 12.4%; and
- Diluted earnings per share grew 26.8%; and adjusted diluted earnings per share, on a comparable 52-week basis and excluding Brakes, grew 13.6%.

Over this two-year period since establishing our three-year financial targets, we have grown our operating income by $823.8 million and our adjusted operating income by $416.9 million. The difference between our reported amount and adjusted amount includes the impact of the Brakes Acquisition. Additionally, our operating income goal was established on an adjusted basis given Certain Item charges that were applicable in fiscal 2015, which were primarily due to termination costs in connection with the merger that had been proposed with US Foods and financing costs related to the senior notes that were issued in fiscal 2015 to fund the proposed US Foods merger. We expect to continue to drive leverage between gross profit growth and expense growth and believe that we will achieve the high end of our $600 million to $650 million adjusted operating income goal.

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

Results of Operations

The following table sets forth the components of our consolidated results of operations expressed as a percentage of sales for the periods indicated:

	2017		2016		2015	
Sales	100	%	100.0	%	100.0	%
Cost of sales	80.9		82.1		82.4	
Gross profit	19.1		17.9		17.6	
Operating expenses	15.4		14.3		15.0	
Operating income	3.7		3.7		2.5	
Interest expense	0.5		0.6		0.5	
Other expense (income), net	—		0.2		(0.1	)
Earnings before income taxes	3.2		2.8		2.1	
Income taxes	1.1		1.0		0.7	
Net earnings	2.1	%	1.9	%	1.4	%

The following table sets forth the change in the components of our consolidated results of operations expressed as a percentage increase or decrease over the comparable period in the prior year:

	2017		2016	
Sales	9.9	%	3.5	%
Cost of sales	8.4		3.0	
Gross profit	16.8		5.7	
Operating expenses	18.3		(1.8	)
Operating income	11.0		50.5	
Interest expense	(1.1	)	20.1	
Other expense (income), net [1]	(114.3	)	(431.5	)
Earnings before income taxes	23.3		42.1	
Income taxes	29.0		50.4	
Net earnings	20.3	%	38.3	%
Basic earnings per share	26.5	%	43.1	%
Diluted earnings per share	26.8		42.6	
Average shares outstanding	(5.2	)	(3.2	)
Diluted shares outstanding	(5.0	)	(3.3	)

(1) Other expense (income), net was income of $15.9 million in fiscal 2017 and expense of $111.3 million in fiscal 2016.

Segment Results

We have aggregated certain of our operating segments into three reportable segments. “Other” financial information is attributable to the company’s other operating segments that do not meet the quantitative disclosure thresholds.

- U.S. Foodservice Operations - primarily includes U.S. Broadline operations, custom-cut meat and seafood companies, FreshPoint (our specialty produce companies) and European Imports (a specialty import company);
- International Foodservice Operations - includes broadline operations in Canada and Europe, including the Brakes Group (which was acquired in fiscal 2017), Bahamas, Mexico, Costa Rica and Panama, as well as a company that distributes to international customers;
- SYGMA - our customized distribution subsidiary; and

- Other - primarily our hotel supply operations and our Sysco Ventures platform, which includes our suite of technology solutions that help support the business needs of our customers.

Broadline operating companies distribute a full line of food products and a wide variety of non-food products to both traditional and chain restaurant customers, hospitals, schools, hotels, industrial caterers and other venues where foodservice products are served. SYGMA operating companies distribute a full line of food products and a wide variety of non-food products to certain chain restaurant customer locations.

Management evaluates the performance of each of our operating segments based on its respective operating income results. Corporate expenses generally include all expenses of the corporate office and Sysco's shared services center. These also include all share-based compensation costs. While a segment's operating income may be impacted in the short-term by increases or decreases in gross profits, expenses, or a combination thereof, over the long-term, each business segment is expected to increase its operating income at a greater rate than sales growth. This is consistent with our long-term goal of leveraging earnings growth at a greater rate than sales growth.

The following represents our results by reportable segments, and also demonstrates the impact of the Brakes Group's results on our international foodservice operations segment:

	52-Week Period Ended July 1, 2017					
	U.S. Foodservice Operations	International Foodservice Operations	SYGMA	Other	Corporate	Consolidated Totals
	(In thousands)					
Sales	$37,604,698	$10,613,059	$6,178,909	$974,473	$—	$55,371,139
Sales increase (decrease)	(0.5)%	95.2 %	1.3 %	(7.4)%		9.9 %
Percentage of total	67.9 %	19.2 %	11.2 %	1.7 %		100.0 %
Operating income	$2,891,612	$243,116	$23,299	$20,279	$(1,125,135)	$2,053,171
Operating income increase (decrease)	4.3 %	37.2 %	(15.2)%	(37.8)%		11.0 %
Percentage of total segments	91.0 %	7.6 %	0.7 %	0.6 %		100.0 %
Operating income as a percentage of sales	7.7 %	2.3 %	0.4 %	2.1 %		3.7 %

	53-Week Period Ended July 2, 2016					
	U.S. Foodservice Operations	International Foodservice Operations	SYGMA	Other	Corporate	Consolidated Totals
	(In thousands)					
Sales	$37,776,443	$5,436,209	$6,102,328	$1,051,939	$—	$50,366,919
Sales increase (decrease)	4.6 %	(2.8)%	0.4 %	15.2 %		3.5 %
Percentage of total	75.0 %	10.8 %	12.1 %	2.1 %		100.0 %
Operating income	$2,771,932	$177,159	$27,469	$32,586	$(1,158,646)	$1,850,500
Operating income increase (decrease)	11.2 %	3.7 %	34.8 %	22.5 %		50.5 %
Percentage of total segments	92.1 %	5.9 %	0.9 %	1.1 %		100.0 %
Operating income as a percentage of sales	7.3 %	3.3 %	0.5 %	3.1 %		3.7 %

	52-Week Period Ended June 27, 2015					
	U.S. Foodservice Operations	International Foodservice Operations	SYGMA	Other	Corporate	Consolidated Totals
	(In thousands)					
Sales	$36,098,977	$5,592,137	$6,076,215	$913,423	$—	$48,680,752
Percentage of total	74.2 %	11.5 %	12.5 %	1.8 %		100.0 %
Operating income	$2,493,210	$170,913	$20,381	$26,596	$(1,481,738)	$1,229,362
Percentage of total segments	92.0 %	6.3 %	0.8 %	1.0 %		100.0 %
Operating income as a percentage of sales	6.9 %	3.1 %	0.3 %	2.9 %		2.5 %

NM represent that the percentage change is not meaningful.

Based on information in Note 21, "Business Segment Information" in fiscal 2017 and fiscal 2016, U.S. Foodservice Operations and International Foodservice Operations represented approximately 67.9% and 19.2%, respectively, of Sysco’s overall sales. In fiscal 2017 and fiscal 2016, U.S. Foodservice Operations and International Foodservice Operations collectively represented approximately 91.0% and 7.6%, respectively, of the total segment operating income. This illustrates that these segments represent a substantial majority of our total segment results when compared to other reportable segments.

Cost of sales primarily includes our product costs, net of vendor consideration, and includes in-bound freight. Operating expenses include the costs of facilities, product handling, delivery, selling and general and administrative activities. Fuel surcharges are reflected within sales and gross profit; fuel costs are reflected within operating expenses.

Results of U.S. Foodservice Operations

In fiscal 2017, the U.S. Foodservice Operations operating results represented approximately 67.9% of Sysco’s overall sales and 91.0% of the aggregated operating income of Sysco’s reporting segments. There are several factors that contribute to these higher operating results as compared to the other operating segments. We have invested substantial amounts in assets, operating methods, technology and management expertise in this segment. The breadth of its sales force, geographic reach of its distribution area and its purchasing power enable this segment to generate its relatively stronger results of operations.

The following tables set forth a summary of the components of operating income and adjusted operating income expressed as a percentage increase or decrease over the prior year:

	2017	2016	Change in Dollars	% Change
	(In thousands)			
Sales	$37,604,698	$37,776,443	$(171,745)	(0.5)%
Gross profit	7,556,392	7,413,436	142,956	1.9
Operating expenses	4,664,780	4,641,504	23,276	0.5
Operating income	$2,891,612	$2,771,932	$119,680	4.3 %
Adjusted Gross profit (Non-GAAP)	$7,556,392	$7,266,692	$289,700	4.0 %
Adjusted operating expenses (Non-GAAP)	4,628,710	4,549,830	78,880	1.7
Adjusted operating income (Non-GAAP)	$2,927,682	$2,716,862	$210,820	7.8 %

	2016	2015	Change in Dollars	% Change
	(In thousands)			
Sales	$37,776,443	$36,098,977	$1,677,466	4.6 %
Gross profit	7,413,436	6,934,223	479,213	6.9
Operating expenses	4,641,504	4,441,013	200,491	4.5
Operating income	$2,771,932	$2,493,210	$278,722	11.2 %
Adjusted Gross profit (Non-GAAP)	$7,266,692	$6,934,223	$332,469	4.8 %
Adjusted operating expenses (Non-GAAP)	4,549,830	4,438,172	111,658	2.5
Adjusted operating income (Non-GAAP)	$2,716,862	$2,496,051	$220,811	8.8 %

Sales

The following table sets forth the percentage and dollar value increase or decrease in sales over the prior year in order to demonstrate the cause and magnitude of change.

	Increase (Decrease) 2017 (in millions)		Increase (Decrease) 2016	
Cause of change	Percentage	Dollars	Percentage	Dollars
Case volume	1.0 %	$377.7	3.1 %	$1,108.1
Deflation	(0.4)	(134.6)	(0.9)	(333.7)
Acquisitions	0.3	100.7	0.3	88.7
Extra week in fiscal 2016	(0.8)	(287.0)	1.9	728.3
Other [1]	(0.6)	(228.5)	0.2	86.1
Total sales increase	(0.5)%	$(171.7)	4.6 %	$1,677.5

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

Sales were 0.5% lower in fiscal 2017 than in fiscal 2016. The largest driver of the 0.5% decrease was the extra week in fiscal 2016, which we estimate contributed 0.8% of the sales decline in fiscal 2017. Case volumes for the company's U.S. Broadline operations including acquisitions within the last 12 months declined 1.0% in fiscal 2017 compared to fiscal 2016. We estimate that the extra week contributed 2.0% of the 1.0% case decline. Absent the impact of the extra week in fiscal 2016, case volume grew primarily from locally managed customers. Other items impacting the change in sales, but to a lesser extent, were pricing management of product cost deflation and product mix.

	Increase (Decrease) 2016 (in millions)		Increase (Decrease) 2015	
Cause of change	Percentage	Dollars	Percentage	Dollars
Case volume	3.1 %	$1,108.1	3.0 %	$1,020.6
(Deflation) inflation	(0.9)	(333.7)	3.7	1,249.6
Acquisitions	0.3	88.7	0.4	142.0
Extra week in fiscal 2016	1.9	728.3	—	—
Other [1]	0.2	86.1	(0.4)	(145.6)
Total sales increase	4.6 %	$1,677.5	6.7 %	$2,266.6

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

Sales for fiscal 2016 were 4.6% higher than fiscal 2015. The largest drivers of the increases were case volume growth, an extra week in fiscal 2016 and sales from acquisitions that occurred within fiscal 2016.

Operating Income

Operating income increased by 4.3% in fiscal 2017 over fiscal 2016, primarily due to our gross profits growing at a faster pace than operating expenses. Higher gross profits were achieved as we managed the deflationary environment in the first part of the year and operating expense increases were limited, reflecting favorable expense management. We estimate that the extra week in fiscal 2016 partially offset, by 2.0%, the year-over-year operating income growth.

Gross profit dollars increased in fiscal 2017, as compared to fiscal 2016, primarily due to effective management of deflation, a more beneficial mix of local customer case growth and increased sales of Sysco branded products to local customers. Our case growth for Sysco branded sales to local customers increased 62 basis points for fiscal 2017. The change in product costs, an internal measure of inflation or deflation, was estimated as deflation of 0.4% during fiscal 2017 for our U.S. Broadline operations. Deflation in fiscal 2017 occurred primarily in the meat, dairy and produce categories, partially offset by modest inflation in other categories.

Operating expenses increased in 2017, as compared to fiscal 2016, primarily due to costs associated with multiemployer pension plan withdrawal costs in fiscal 2017 and indirect spend. These increases were partially offset by the impact of the extra week in fiscal 2016, reduced fuel costs and pay-related expenses. Indirect spend includes costs such as fleet maintenance and supplies. For our U.S. Broadline operations, our cost per case and adjusted cost per case increased $0.02 per case and decreased $0.01 per case, respectively, in fiscal 2017 as compared to fiscal 2016. The decrease on an adjusted basis reflects improved productivity in the warehouse and execution of our functional standard organizational design, including a solid territory planning effort in sales. The portion of the decrease attributable to lower fuel prices was a $0.02 benefit per case. Additionally, the impact of the extra week in fiscal 2016 was not large enough to produce a different result on a 52-week basis.

Operating income increased by 11.2% in fiscal 2016 over fiscal 2015, primarily due to the extra week in fiscal 2016 and higher gross profits, partially offset by higher operating expenses attributable to higher case volumes. We estimate that the extra week contributed 2.3% of the 11.2% operating income growth. Our gross profit grew at a faster pace than operating expenses, reflecting favorable expense management.

Gross profit dollars increased in fiscal 2016 as compared to fiscal 2015 primarily due to the extra week in fiscal 2016, sales volumes, including a more beneficial mix of local customer case growth, higher sales of Sysco branded products to local customers, benefits of category management and revenue management and effective management of deflation. Our focus on center of plate categories, such as beef, pork and poultry, and our emphasis on fresh produce helped drive gross profit growth. Our case growth for Sysco brand sales to local customers increased 82 basis points for fiscal 2016. The change in product costs, an internal measure of inflation or deflation, was estimated as deflation of 0.9% during fiscal 2016 for our U.S. Broadline operations. Deflation in fiscal 2016 occurred primarily in the meat, seafood, dairy and poultry categories for both periods, partially offset by modest inflation in other categories.

Operating expenses increased in 2016, as compared to fiscal 2015, primarily due to the extra week in fiscal 2016 and expenses attributable to higher case volumes. These increases were partially offset by reduced indirect spend and fuel costs and administrative expense. Indirect spend includes costs such as fleet maintenance and supplies. For our U.S. Broadline operations, our cost per case and adjusted cost per case decreased $0.04 per case in fiscal 2016 as compared to the corresponding periods of fiscal 2015. The decrease reflects progress in productivity improvements and cost reductions in our supply chain including reduced fuel costs and indirect spend. The decrease attributable to lower fuel prices was a $0.04 benefit per case. Adjustments to operating expenses were not large enough to produce a different result on an adjusted cost per case basis for fiscal 2016. Additionally, the impact of the extra week in fiscal 2016 was not large enough to produce a different result on a 52-week basis.

Results of International Foodservice Operations

In fiscal 2017, the International Foodservice Operations operating results represented approximately 19.2% of Sysco's overall sales and 7.6% of the aggregated operating income of Sysco's segments, which excludes corporate expenses and adjustments.

The following tables set forth a summary of the components of operating income and adjusted operating income expressed as a percentage increase or decrease over the prior year:

	2017	2016	Change in Dollars	% Change
	(In thousands)			
Sales	$10,613,059	$5,436,209	$5,176,850	95.2 %
Gross profit	2,275,819	938,942	1,336,877	142.4
Operating expenses	2,032,703	761,783	1,270,920	166.8
Operating income	$243,116	$177,159	$65,957	37.2 %
Adjusted Gross profit (Non-GAAP)	$941,967	$920,256	$21,711	2.4 %
Adjusted operating expenses (Non-GAAP)	738,555	738,210	345	—

Adjusted operating income (Non-GAAP)	$203,412	$182,046	$21,366	11.7 %

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	2016	2015	Change in Dollars	% Change
	(In thousands)			
Sales	$5,436,209	$5,592,137	$(155,928)	(2.8)%
Gross profit	938,942	969,433	(30,491)	(3.1)
Operating expenses	761,783	798,520	(36,737)	(4.6)
Operating income	$177,159	$170,913	$6,246	3.7 %
Adjusted Gross profit (Non-GAAP)	$920,256	$969,433	$(49,177)	(5.1)%
Adjusted operating expenses (Non-GAAP)	738,210	793,976	(55,766)	(7.0)
Adjusted operating income (Non-GAAP)	$182,046	$175,457	$6,589	3.8 %

Sales

The following table sets forth the percentage and dollar value increase or decrease in sales over the comparable prior year period in order to demonstrate the cause and magnitude of change.

	Increase (Decrease) 2017		Increase (Decrease) 2016	
	(in millions)			
Cause of change	Percentage	Dollars	Percentage	Dollars
Case volume	(0.3)%	$(13.3)	(2.0)%	$(111.0)
Acquisitions [1]	99.0	5,273.8	3.7	204.2
Foreign currency	(0.7)	(38.5)	(10.7)	(597.3)
Extra week in fiscal 2016	(4.0)	(108.2)	1.93	108.8
Other	1.2	63.0	4.3	239.4
Total sales increase	95.2 %	$5,176.8	(2.8)%	$(155.9)

[1] The impact of the Brakes Acquisition is included within this line only.

Sales were 95.2% higher in fiscal 2017 than in fiscal 2016. The increase for fiscal 2017 was primarily due to the acquisition of the Brakes Group, which added $5.2 billion during the year. The increase was partially offset by the impact of the extra week in fiscal 2016, a small decline in case volume, primarily in Canada, and unfavorable changes in exchange rates used to translate our foreign sales into U.S. dollars. We had a modest decrease in sales in Canada due to softer market conditions.

	Increase (Decrease) 2016		Increase (Decrease) 2015	
	(in millions)			
Cause of change	Percentage	Dollars	Percentage	Dollars
Case volume	(2.0)%	$(111.0)	7.5 %	$423.3
Acquisitions	3.7	204.2	2.3	130.5
Foreign currency	(10.7)	(597.3)	(8.3)	(469.7)
Extra week in fiscal 2016	1.93	108.8	—	—
Other	4.3	239.4	(2.2)	(126.0)
Total sales increase	(2.8)%	$(155.9)	(0.7)%	$(41.9)

Sales were 2.8% lower in fiscal 2016 than in fiscal 2015. The decrease for fiscal 2016 was primarily due to unfavorable changes in exchange rates used to translate our foreign sales into U.S. dollars, partially offset by the extra week within fiscal 2016. The consolidation of our joint venture in Mexico in the last half of fiscal 2016 also partially offset lower sales.

Operating Income

Operating income increased by 37.2% in fiscal 2017 from fiscal 2016, primarily attributable to the Brakes Acquisition. The Brakes Group is progressing in its supply chain transformational efforts as it moves to multi-temperature capability across the U.K. Growth in France remains steady. Excluding the Brakes Group, non-GAAP operating income, adjusted for the impact of the extra week in fiscal 2016, increased 11.7% in fiscal 2017 as compared to fiscal 2016, primarily from managing costs effectively in Canada within a deflationary and somewhat softer market environment. Our joint venture in Costa Rica also experienced improved operating income performance.

Gross profit dollars increased $1.3 billion in fiscal 2017 as compared to fiscal 2016, primarily due to the Brakes Acquisition. Adjusted gross profit dollars, excluding the impact of Brakes and on a comparable 52 week basis, increased 2.4%. Adjusted gross profit dollar growth was higher due to improved sales execution and implementation of our customer focused initiatives, such as category management and revenue management in our Canadian operations.

Operating expenses increased $1.3 billion in fiscal 2017 as compared to fiscal 2016, largely due to the Brakes Acquisition. Adjusted operating expenses excluding Brakes were flat in fiscal 2017, as compared to fiscal 2016, as a result of our effectively managing costs by streamlining administrative expenses to improve productivity in the Canadian business.

Operating income increased by 3.7% in fiscal 2016 from fiscal 2015, primarily driven by improved operating performance, in addition to the impact of the extra week in fiscal 2016.

Gross profit dollars decreased 3.1%, while operating expenses decreased 4.6% in fiscal 2016 as compared to fiscal 2015. Gross profit dollar growth was higher due to stronger relative mix of sales for our locally managed customers and case growth primarily in our Canadian operations; however, these improvements were more than offset by unfavorable changes in exchange rates used to translate our gross profit into U.S. dollars.

Operating expenses decreased in fiscal 2016 largely due to reduced general and administrative costs in our Canadian operations, in addition to the favorable impact of changes in exchange rates used to translate our operating expenses into U.S. dollars.

Results of SYGMA and Other Segment

SYGMA operating companies distribute a full line of food products and a wide variety of non-food products to certain chain restaurant customer locations.

Sales

Sales were 1.3% higher in fiscal 2017 than in fiscal 2016. The increase for fiscal 2017 was primarily attributable to case growth. Case growth was primarily the result of increased volume from existing customers, with additional new business also contributing to such growth.

Sales were 0.4% higher in fiscal 2016 than in fiscal 2015. The increase for fiscal 2016 was primarily due to the extra week within fiscal 2016, organic customer growth and the addition of new customers. Partially offsetting these increases were lost and strategically resigned business, product cost deflation and lower fuel surcharges.

Operating Income

Operating income decreased by 15.2% in fiscal 2017 as compared to fiscal 2016, primarily driven by operating expense growth exceeding gross profit dollar growth. Gross profit dollars increased 3.3%, while operating expenses increased 4.5% in fiscal 2017 as compared to fiscal 2016. Gross profit dollar growth was lower due to higher product margins. Operating expenses increased in fiscal 2017 largely due to higher pay-related expenses.

Operating income increased by 34.8% in fiscal 2016 from fiscal 2015, primarily driven by improved operating performance in addition to the impact of the extra week in fiscal 2016. Gross profit dollars decreased 3.2%, while operating expenses decreased 4.9% in fiscal 2016 as compared to fiscal 2015. Gross profit dollar growth was lower due to lower product margins and reduced fuel surcharges. Operating expenses decreased in fiscal 2016 largely due to reduced transportation costs reflecting improved retention of drivers and lower fuel costs. Both transportation and warehouse costs, including pay-related expenses, improved from improved expense management and improved productivity.

"Other" segment information is attributable to the company's other operating segments that do not meet the quantitative disclosure thresholds, primarily including our hotel supply operations and Sysco Labs, which includes our suite of technology solutions that help support the business needs of our customers and provides support for some of our business technology needs.

Operating income decreased 37.8%, or $12.3 million, in fiscal 2017 as compared to fiscal 2016. The decrease was primarily attributable to the extra week applicable to fiscal 2016, partially offset by favorable results from our hotel supply operations.

Operating income increased 22.5%, or $6.0 million, in fiscal 2016 as compared to fiscal 2015. The increase was primarily attributable to the extra week applicable to fiscal 2016 and favorable results from our hotel supply operations.

Corporate Expenses

Corporate expenses in fiscal 2017 decreased $33.5 million, or 2.9%, as compared to fiscal 2016, due primarily to lower pay-related expenses, partially offset by an increase in our estimates for our reserves for our self-insurance program (which covers portions of workers' compensation, general and vehicle liability), resulting from wage increases and unfavorable claims developments.

Included in corporate expenses are Certain Items that totaled $159.2 million in fiscal 2017, as compared to $146.2 million in fiscal 2016. Certain Items impacting fiscal 2017 were primarily expenses associated with our revised business technology strategy announced in fiscal 2016, as a result of which we recorded accelerated depreciation on our existing system and incurred expenses of $111.3 million in fiscal 2017 to convert to a modernized version of our established platform. We incurred $48.0 million in expenses in fiscal 2017 related to Brakes Acquisition transaction costs, project costs to convert to a modernized version of our established platform in conjunction with our revised business technology strategy, professional fees on 3-year financial objectives, and severance charges.

Corporate expenses in fiscal 2016 decreased $323.1 million or 21.8%, as compared to fiscal 2015, due primarily to the decrease in Certain Items. Certain Items for fiscal 2016 primarily related to costs associated with our revised business technology strategy, Brakes Acquisition transaction costs, professional fees on our three-year financial objectives and severance charges. Certain Items for fiscal 2015 consisted of $554.7 million related to integration planning and transaction costs incurred in conjunction with the merger that had been proposed with US Foods, including termination costs.

Interest Expense

Interest expense decreased $3.3 million for fiscal 2017, as compared to fiscal 2016 due to Certain Item interest costs specific to fiscal 2016, partially offset by higher relative debt levels in fiscal 2017. Fiscal 2016 included a loss of $86.5 million in connection with the redemption of the notes issued in fiscal 2015 to fund the merger that was proposed with US Foods. These items, along with interest expense incurred in fiscal 2016 through the date the senior notes were redeemed and interest cost incurred from financing the Brakes Acquisition, are included in our Certain Items. Excluding Certain Items, our interest expense increased $120.7 million for fiscal 2017 from fiscal 2016 due to higher debt balances from senior notes that were issued in fiscal 2016 and commercial paper borrowings issued in fiscal 2017.

Interest expense increased $51.3 million for fiscal 2016, as compared to fiscal 2015, primarily due to the redemption of the senior notes issued in fiscal 2015 to fund the merger that had been proposed with US Foods. These senior notes were redeemed in the first quarter of fiscal 2016 and triggered a redemption loss of $86.5 million. This increase was partially offset by lower average debt levels in fiscal 2016 as compared to fiscal 2015. We incurred interest costs from financing the Brakes Acquisition in the last half of fiscal 2016. In fiscal 2015, we incurred interest costs related to the proposed merger with US Foods. Interest costs related to these proposed acquisitions, as well as the redemption costs noted above are considered Certain Items. Our interest expense, excluding Certain Items, increased $61.8 million as compared to fiscal 2015, due to higher borrowing levels from senior notes that were issued in fiscal 2016 primarily for our accelerated share repurchase program.

Net Earnings

Net earnings increased 20.3% in fiscal 2017 as compared to the prior year due primarily to the items noted above, as well as items impacting our income taxes that are discussed in Note 19, "Income Taxes." Adjusted net earnings increased 11.9% in fiscal 2017, primarily due to strong local case growth, gross profit growth with margin expansion, strong expense management and the results of the Brakes Group, partially offset by increased interest expense, which resulted in earnings growth that was lower than our operating income growth. Adjusted net earnings, on a comparable 52-week basis and excluding Brakes, increased 8.0% in fiscal 2017 as compared to fiscal 2016.

Net earnings increased 38.3% in fiscal 2016 from fiscal 2015 due primarily to the items noted above and the beneficial impact from the favorable resolution of tax contingencies. Items impacting our income taxes from effective tax rates are discussed in Note 19, "Income Taxes." Adjusted net earnings increased 8.0% in fiscal 2016 primarily from gross profit growth, strong expense management and the favorable resolutions of tax contingencies. An additional unfavorable impact on our net earnings and adjusted net earnings resulted from the strengthening U.S. dollar, which reduced both amounts by $11.5 million for fiscal 2016 as we converted foreign earnings to U.S. dollars.

Earnings Per Share

Basic earnings per share in fiscal 2017 were $2.10, a 26.5% increase from the comparable prior year amount of $1.66 per share. Diluted earnings per share in fiscal 2017 were $2.08, a 26.8% increase from the fiscal 2016 amount of $1.64 per share. Adjusted diluted earnings per share in fiscal 2017 were $2.48, an 18.1% increase from the fiscal 2016 amount of $2.10 per share. Adjusted diluted earnings per share, on a comparable 52-week basis and excluding Brakes, were $2.34, a 13.6% increase from the fiscal 2016 amount of $2.06 per share. These results were primarily attributable to the factors discussed above related to net earnings and a decrease in outstanding shares that resulted from our share repurchases in fiscal 2017 and fiscal 2016.

Basic earnings per share in fiscal 2016 were $1.66, a 43.1% increase from the fiscal 2015 amount of $1.16 per share. Diluted earnings per share in fiscal 2016 were $1.64, a 42.6% increase from the fiscal 2015 amount of $1.15. Adjusted diluted earnings per share in fiscal 2016 were $2.06, a 12.0% increase from the fiscal 2015 amount of $1.84. These results were primarily due to the factors discussed above related to net earnings and a decrease in outstanding shares that resulted from our accelerated share repurchase program.

Non-GAAP Reconciliations

Sysco's consolidated results of operations are impacted by restructuring costs consisting of (1) expenses associated with our revised business technology strategy announced in fiscal 2016, as a result of which we recorded accelerated depreciation on our prior ERP system and incurred costs to convert to a modernized version of our established platform, (2) professional fees related to our three-year strategic plan, (3) restructuring expenses within our Brakes Group operations, and (4) severance charges related to restructuring. Our results of operations are also impacted by the following acquisition-related items: (1) intangible amortization expense, (2) transaction costs, and (3) integration costs. All acquisition-related costs in fiscal 2017 that have been excluded relate to the Brakes Acquisition. Additionally, our results of operations were impacted by multiemployer pension plan withdrawal costs in fiscal 2017. Fiscal 2016 acquisition-related costs, however, include (i) Brakes Acquisition related costs, (ii) termination costs in connection with the merger that had been proposed with US Foods, Inc. (US Foods) and (iii) financing costs related to the senior notes that were issued in fiscal 2015 to fund the proposed US Foods merger. These senior notes were redeemed in the first quarter of fiscal 2016, triggering a redemption loss of $86.5 million, and we incurred interest on these notes through the redemption date. The Brakes Acquisition also resulted in non-recurring tax expense in fiscal 2017, primarily from non-deductible transaction costs. These fiscal 2017 and fiscal 2016 items are collectively referred to as "Certain Items."

Management believes that adjusting its operating expenses, operating income, operating margin as a percentage of sales, interest expense, net earnings and diluted earnings per share to remove these Certain Items provides an important perspective with respect to our underlying business trends and results and provides meaningful supplemental information to both management and investors that (1) is indicative of the performance of the company's underlying operations and facilitates comparisons on a year-over-year basis and (2) removes those items that are difficult to predict and are often unanticipated, and which as a result, are difficult to include in analysts' financial models and our investors' expectations with any degree of specificity. Sysco's fiscal year ends on the Saturday nearest to June 30th. This resulted in a 52-week year ending June 27, 2017 for fiscal 2017 and a 53-week year ending July 2, 2016 for fiscal 2016. Because the fourth quarter of fiscal 2016 contained an additional week as compared to fiscal 2017, our Consolidated Results of Operations for fiscal 2017, and any related case growth metrics, are not directly comparable to the prior year. Management believes that adjusting the fiscal 2016 results for the estimated impact of the additional week provides more comparable financial results on a year-over-year basis. As a result, the case growth and operating metrics for fiscal 2017 presented in the tables below reflect a comparison to fiscal 2016 as adjusted by one-fourteenth of the total metric for the fourth quarter. Failure to make these adjustments causes the year-over-year changes in these metrics to be understated.

Although Sysco has a history of growth through acquisitions, the Brakes Group is significantly larger than the companies historically acquired by Sysco, with a proportionately greater impact on Sysco's consolidated financial statements. Accordingly, Sysco is also excluding from certain of its non-GAAP financial measures for the relevant periods, solely those acquisition costs specific to the Brakes Acquisition. We believe this approach significantly enhances the comparability of Sysco's adjusted results for fiscal 2017, 2016 and 2015. As the Brakes Acquisition took place at the beginning of fiscal 2017, and given the significance of the Brakes Acquisition, management believes that presenting Sysco's adjusted financial measures, excluding the Brakes Group operating results (including, for this purpose, Brakes Group financing costs, which are not included in the Brakes Group GAAP operating results and are also not Certain Items), enhances comparability of the period over period financial performance of Sysco's legacy business and allows investors to more effectively measure Sysco's progress against the financial goals under Sysco's three-year strategic plan.

Sysco's fiscal year ends on the Saturday nearest to June 30th. This resulted in a 52-week year ending July 1, 2017 for fiscal 2017 and a 53-week year ending July 2, 2016 for fiscal 2016. Because the fourth quarter of fiscal 2016 contained an additional week as compared to fiscal 2017, our consolidated results of operations for fiscal 2017 are not directly comparable to the prior year. Management believes that adjusting the fiscal 2016 consolidated results of operations for the estimated impact of the additional week provides more comparable financial results on a year-over-year basis. As a result, the metrics from the consolidated results of operations for fiscal 2016 presented in the table below are adjusted by one-fourteenth of the total metric for the fourth quarter. Failure to make these adjustments causes the year-over-year changes in certain metrics such as sales, operating expenses, operating income, net earnings and diluted earnings per share to be understated, whereas in certain cases, a metric may actually have increased on a more comparable year-over-year basis.

The company uses these non-GAAP measures when evaluating its financial results, as well as for internal planning and forecasting purposes. These financial measures should not be used as a substitute for GAAP measures in assessing the company's results of operations for periods presented. An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP. As a result, in the table below, each period presented is adjusted for the impact described above. In the table below, individual components of diluted earnings per share may not add to the total presented due to rounding. Adjusted diluted earnings per share is calculated using adjusted net earnings divided by diluted shares outstanding.

	2017	2016	Change in Dollars	% Change
	(In thousands, except for share and per share data)			
Sales (GAAP)	$55,371,139	$50,366,919	$5,004,220	9.9 %
Impact of Brakes	(5,170,787)	—	(5,170,787)	NM
Less 1 week fourth quarter sales	—	(974,849)	974,849	NM
Comparable sales using a 52 weeks basis and excluding the impact of Brakes (Non-GAAP)	$50,200,352	$49,392,070	$808,282	1.6 %
Gross profit (GAAP)	$10,557,507	$9,040,472	$1,517,035	16.8 %
Impact of Brakes	(1,333,852)	—	(1,333,852)	NM
Less 1 week fourth quarter gross profit	—	(178,774)	178,774	NM
Comparable gross profit using a 52 week basis and excluding the impact of Brakes (Non-GAAP)	$9,223,655	$8,861,698	$361,957	4.1 %
Gross margin (GAAP)	19.1 %	17.9 %		112 bps
Impact of Brakes	0.7	—		69 bps
Less 1 week fourth quarter sales	—	—		-1 bps
Gross margin using a 52 week basis and excluding the impact of Brakes (Non-GAAP)	18.4 %	17.9 %		43 bps
Operating expenses (GAAP)	$8,504,336	$7,189,972	$1,314,364	18.3 %
Impact of MEPP charge	(35,600)	—	(35,600)	NM
Impact of restructuring costs (1)	(161,011)	(123,134)	(37,877)	30.8

Impact of acquisition-related costs (2)	(102,049)	(35,614)	(66,435)	NM	
Operating expenses adjusted for Certain Items (Non-GAAP)	$8,205,676	$7,031,224	$1,174,452	16.7	%
Impact of Brakes	$(1,282,800)	$—	$(1,282,800)	NM	
Impact of Brakes restructuring costs (3)	13,732	—	13,732	NM	
Impact of Brakes acquisition-related costs (2)	78,273	—	78,273	NM	
Less 1 week fourth quarter operating expenses	—	(133,899)	133,899	NM	
Operating expenses adjusted for Certain Items, extra week and excluding the impact of Brakes (Non-GAAP)	$7,014,881	$6,897,325	$117,556	1.7	%

	2017	2016	Change in Dollars	% Change
	(In thousands, except for share and per share data)			
Operating income (GAAP)	$2,053,171	$1,850,500	$202,671	11.0 %
Impact of MEPP charge	35,600	—	35,600	NM
Impact of restructuring costs (1)	161,011	123,134	37,877	30.8
Impact of acquisition-related costs (2)	102,049	35,614	66,435	NM
Operating income adjusted for Certain Items (Non-GAAP)	$2,351,831	$2,009,248	$342,583	17.1 %
Impact of Brakes	$(51,053)	$—	$(51,053)	NM
Impact of Brakes restructuring costs (3)	(13,732)	—	(13,732)	NM
Impact of Brakes acquisition-related costs (2)	(78,273)	—	(78,273)	NM
Less 1 week fourth quarter operating income	—	(44,876)	44,876	NM
Operating income adjusted for certain items, extra week and excluding the impact of Brakes (Non-GAAP)	$2,208,773	$1,964,372	$244,401	12.4 %
Operating margin (GAAP)	3.71 %	3.67 %		4 bps
Operating margin excluding Certain Items (Non-GAAP)	4.25 %	3.99 %		26 bps
Operating margin excluding Certain Items, extra week and Brakes (Non-GAAP)	4.40 %	3.98 %		42 bps
Interest expense (GAAP)	$302,878	$306,146	$(3,268)	(1.1)%
Impact of acquisition financing costs	—	(123,990)	123,990	NM
Interest expense adjusted for certain items (Non-GAAP)	$302,878	$182,156	$120,722	66.3 %
Less 1 week fourth quarter other (income) expenses	—	(3,975)	3,975	NM
Interest expenses adjusted for certain items and extra week Non-GAAP)	$302,878	$178,181	$124,697	70.0 %
Other (income) expense (GAAP)	$(15,937)	$111,347	$(127,284)	NM
Impact of foreign currency re-measurement and hedging	—	(146,950)	146,950	NM
Other (income) expense adjusted for certain items (Non-GAAP)	$(15,937)	$(35,603)	$19,666	(55.2)%
Less 1 week fourth quarter other (income) expense	—	403	(403)	NM
Other (income) expense adjusted for certain items, extra week and Brakes (Non-GAAP)	$(15,937)	$(35,200)	$19,263	(54.7)%
Net earnings (GAAP)	$1,142,503	$949,622	$192,881	20.3 %
Impact of MEPP charge	35,600	—	35,600	NM
Impact of restructuring costs (1)	161,011	123,134	37,877	30.8
Impact of acquisition-related costs (2)	102,049	35,614	66,435	NM
Impact of acquisition financing costs	—	123,990	(123,990)	NM
Impact of foreign currency re-measurement and hedging	—	146,950	(146,950)	NM
Tax impact of MEPP charge	(11,903)	—	(11,903)	NM
Tax impact of restructuring costs (5)	(51,184)	(47,333)	(3,851)	8.1
Tax impact of acquisition-related costs (5)	(19,003)	(13,690)	(5,313)	38.8
Tax impact of acquisition financing costs (5)	—	(47,662)	47,662	NM
Tax impact of foreign currency re-measurement and hedging	—	(56,488)	56,488	NM
Net earnings adjusted for certain items (Non-GAAP)	$1,359,073	$1,214,137	$144,936	11.9 %
Impact of Brakes	$(46,988)	$—	$(46,988)	NM

Impact of Brakes restructuring costs [3]	(11,794)	—	(11,794)	NM
Impact of Brakes acquisition-related costs [2]	(67,221)	—	(67,221)	NM

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	2017	2016	Change in Dollars	% Change
	(In thousands, except for share and per share data)			
Impact of interest expense on debt issued for the Brakes acquisition (6)	83,633	—	83,633	NM
Tax impact of interest expense on debt issued for the Brakes acquisition (5)	(33,880)	—	(33,880)	NM
Less 1 week fourth quarter net earnings	—	(26,119)	26,119	NM
Net earnings adjusted for certain items, extra week and Brakes (Non-GAAP)	$1,282,823	$1,188,018	$94,805	8.0 %
Diluted earnings per share (GAAP)	$2.08	$1.64	$0.44	26.8 %
Impact of MEPP charge	0.06	—	0.06	NM
Impact of restructuring costs (1)	0.29	0.21	0.08	38.1
Impact of acquisition-related costs (2)	0.19	0.06	0.13	NM
Impact of acquisition financing costs	—	0.21	(0.21)	NM
Impact of foreign currency re-measurement and hedging	—	0.25	(0.25)	NM
Tax impact of MEPP charge	(0.02)	—	(0.02)	NM
Tax impact of restructuring costs (5)	(0.09)	(0.08)	(0.01)	12.5
Tax impact of acquisition-related costs (5)	(0.03)	(0.02)	(0.01)	50.0
Tax impact of acquisition financing costs (5)	—	(0.08)	0.08	NM
Tax impact of foreign currency re-measurement and hedging	—	(0.10)	0.10	NM
Diluted EPS adjusted for Certain Items (Non-GAAP) (4)	$2.48	$2.10	$0.38	18.1 %
Impact of Brakes	$(0.09)	$—	$(0.09)	NM
Impact of Brakes restructuring costs (3)	(0.02)	—	(0.02)	NM
Impact of Brakes acquisition-related costs (2)	(0.12)	—	(0.12)	NM
Impact of interest expense on debt issued for the Brakes acquisition (6)	0.15	—	0.15	NM
Tax impact of interest expense on debt issued for the Brakes acquisition (5)	(0.06)	—	(0.06)	NM
Total impact of Brakes Certain Items	$(0.05)	$—	$(0.05)	NM
Total Brakes accretion (Non-GAAP)	$(0.14)	$—	$0.14	NM
Less 1 week impact of fourth quarter diluted earnings per share	—	(0.05)	0.05	NM
Diluted EPS adjusted for Certain Items, extra week and Brakes (Non-GAAP) (4)	$2.34	$2.06	$0.37	13.6 %
Diluted EPS adjusted for Certain Items (Non-GAAP) (4)	$2.48	$2.10	$0.38	18.1 %
Less 1 week impact of fourth quarter diluted earnings per share	—	(0.05)	0.05	NM
Diluted EPS adjusted for Certain Items and extra week (Non-GAAP) (4)	$2.48	$2.06	$0.42	20.4 %

(1) Fiscal 2017 includes $111 million in accelerated depreciation associated with our revised business technology strategy and $46 million related to professional fees on 3-year financial objectives, restructuring expenses within our Brakes operations, costs to convert to legacy systems in conjunction with our revised business technology strategy and severance charges related to restructuring.

(2) Fiscal 2017 includes $76 million related to intangible amortization expense from the Brakes Acquisition, which is included in the results of Brakes and $24 million in transaction costs. Fiscal 2016 includes US Foods merger termination costs.

(3) Includes Brakes Acquisition restructuring charges.

(4) Individual components of diluted earnings per share may not add to the total presented due to rounding. Total diluted earnings per share is calculated using adjusted net earnings divided by diluted shares outstanding.

(5) The tax impact of adjustments for Certain Items are calculated by multiplying the pretax impact of each Certain Item by the statutory rates in effect for each jurisdiction where the Certain Item was incurred. The adjustments also include $7 million in non-deductible transaction costs and $4 million in other one-time costs related to the Brakes Acquisition.

(6) Sysco Corporation issued debt to fund the Acquisition. The interest expense arising from the debt issued is attributed to the incremental impact of Brakes operating results, even though it is not a direct obligation of the Brakes Group and is not considered a Certain Item.

NM represents that the percentage change is not meaningful.

	2016	2015	Change in Dollars	% Change
	(In thousands, except for share and per share data)			
Sales (GAAP)	$50,366,919	$48,680,752	$1,686,167	3.5 %
Less 1 week fourth quarter sales	(974,849)	—	(974,849)	NM
Comparable sales using a 52 week basis (Non-GAAP)	$49,392,070	$48,680,752	$711,318	1.5 %
Gross Profit (GAAP)	$9,040,472	$8,551,516	$488,956	5.7 %
Less 1 week fourth quarter gross profit	(178,774)	—	(178,774)	NM
Comparable gross profit using a 52 week basis (Non-GAAP)	$8,861,698	$8,551,516	$310,182	3.6 %
Gross margin using a 52 week basis	17.9 %	17.6 %	$—	2.1 %
Operating expenses (GAAP)	$7,189,972	$7,322,154	$(132,182)	(1.8)%
Impact of restructuring costs (1)	(123,134)	(7,801)	(115,333)	1,478.4
Impact of acquisition-related costs (2)	(35,614)	(554,667)	519,053	(93.6)
Operating expenses adjusted for Certain Items (Non-GAAP)	$7,031,224	$6,759,686	$271,538	4.0 %
Less 1 week fourth quarter operating income	$(133,899)	$—	$(133,899)	NM
Operating expenses adjusted for Certain Items and extra week (Non-GAAP)	$6,897,325	$6,759,686	$137,639	2.0 %
Operating income (GAAP)	$1,850,500	$1,229,362	$621,138	50.5 %
Impact of restructuring costs (1)	123,134	7,801	115,333	NM
Impact of acquisition-related costs (2)	35,614	554,667	(519,053)	(93.6)
Operating income adjusted for Certain Items (Non-GAAP)	$2,009,248	$1,791,830	$217,418	12.1 %
Less 1 week fourth quarter operating income	$(44,876)	$—	$(44,876)	NM
Operating income adjusted for Certain Items and extra week (Non-GAAP)	$1,964,372	$1,791,830	$172,542	9.6 %
Operating margin (GAAP)	3.67 %	2.53 %	1.15 %	45.5 %
Operating margin (non-GAAP)	3.99 %	3.68 %	0.31 %	8.4 %
Operating margin adjusted for 52 weeks (Non-GAAP)	3.98 %	3.68 %	0.30 %	8.1 %