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Performance Food Group Co. (PFGC)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day. Welcome to PFG's Fiscal Year Q3 2026 Earnings Conference Call. [Operator Instructions] I would now like to turn the call over to Bill Marshall, Senior Vice President, Investor Relations for PFG. Please go ahead, sir.

William S. Marshall

Senior Vice President-Investor Relations, Performance Food Group Co.

Thank you, and good morning. We're here with Scott McPherson, PFG's CEO, and Patrick Hatcher, PFG's CFO. We issued a press release this morning regarding our 2026 fiscal third quarter results, which can be found in the Investor Relations section of our website at pfgc.com. During our call today, unless otherwise stated, we are comparing results to the results in the same period in fiscal 2025. Any reference to 2025, 2026 or specific quarters refers to our fiscal calendar unless otherwise stated.

The results discussed on this call will include GAAP and non-GAAP results adjusted for certain items. The reconciliation of these non-GAAP measures to the corresponding GAAP measures can be found at the back of the earnings release.

Our remarks on this call and in the earnings release contains forward-looking statements and projections of future results. Please review the cautionary forward-looking statements section in today's earnings release and our SEC filings for various factors that could cause our actual results to differ materially from our forward-looking statements and projections.

With that, I'd now like to turn the call over to Scott.

Scott E. McPherson

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

Thanks, Bill. Good morning, everyone, and thank you for joining our call today. I'm excited to share our results from the third quarter, which demonstrates the strength of our strategy, solid execution in the field and building momentum that we expect to continue through the fourth quarter and into fiscal 2027.

At our Investor Day last May, we laid out the long-term vision for the company. Central to this plan is leveraging the diversification of our business across the entire food away from home market. We believe that our broad position across the US is a unique strength for PFG, and will result in many years of sustained growth. The most recent quarter demonstrates the benefits of this strategy. There's been much discussion about the challenges facing our industry, including soft foot traffic into restaurants, price inflation, major weather events and political disruption.

Despite these items, we were able to achieve the high-end of our guidance outlined in February, exceeding expectations in several of the metrics that underpin our projections. All three of our operating segments displayed positive signs of resilience and a strong foundation to grow upon in future quarters.

Let's discuss some of the business highlights from the quarter in each of our businesses. I'll then turn the call over to Patrick, who will review our financial performance and updated outlook for the fiscal year.

Starting with our Foodservice segment, strong sales execution combined with disciplined margin management, translated into high-single-digit EBITDA growth in our Foodservice business, excluding Cheney. This performance underscores the durability of our Foodservice model and our ability to grow profitably, even in a choppy macro environment. Our ability to gain market share and grow independent cases has been a strength of PFG's business throughout our history. Consistent with that theme, we are incredibly proud of our sales organization and their independent performance in the third quarter.

For the period, independent cases accelerated from the second quarter, growing 6.5%, exceeding our stated benchmark of 6%. Our performance was the result of consistent market share gains through the quarter, and wallet share gains from existing customers.

Net new account growth was approximately 5.4%, as account wins continue to drive the majority of our case growth. At the same time, we were pleased to see a 100 basis point differential between new account growth and total case growth, which indicates positive trends and account penetration within existing accounts. This performance occurred within a backdrop of consistent low-single-digit foot traffic declines, according to Black Box, demonstrating the strong execution of our sales force.

Our focus on recruiting, training, and incentivizing our sales force is a key factor in our multiyear outperformance within the independent restaurant space. We continued to strengthen our talented sales team by providing them with industry-leading brands, technology that enables great customer engagement, and once again, we increased our head count by mid-single digits compared to the prior year.

Double-clicking on technology, we continue to see excellent traction from our online ordering platform CustomerFirst. Since highlighting this technology at our Investor Day, we have deployed multiple AI agents that provide our customers and salespeople a digital partner when researching items, recipes, and products to place the optimal order. CustomerFirst is not only a powerful tool for our restaurant business, but will become our digital solution for all three operating segments, demonstrating the cross-company collaboration that defines our PFG One initiative.

Turning to our chain business, we saw case volume increase in the third quarter. This was particularly impressive given the difficult backdrop that chains have experienced and reflect our efforts to partner with growth concepts. Also encouraging was our pipeline of new chain business, which is robust and should provide a lift to our Foodservice volume performance in fiscal 2027.

Before turning from the Foodservice segment, a few comments on Cheney Brothers. In the third quarter, we continued to see strong sales growth from Cheney, particularly with independents where cases grew north of 6%, as did the sales head count. Their growth culture remains vibrant and their brand portfolio is growing, providing additional sales and margin opportunities ahead. Critical to continuing this growth are the investments we have made and their physical infrastructure discussed last quarter.

The headline investment is our recently opened state-of-the art broadline distribution facility in Florence, South Carolina, which started shipping to existing and new customers towards the end of the second quarter. This new facility will not only provide room to grow in the Carolinas, but will also free up capacity in other facilities in the Southeast. We are making investments today that will pay dividends in future periods. These activities did cause higher-than-anticipated expenses in the fiscal second and third quarters, and we have embedded a continuation of some cost items in our fourth quarter outlook. As we move through the fourth quarter and into fiscal 2027, we are confident Cheney will become a significant contributor to our revenue and profit growth moving forward.

Turning to our Convenience segment results, I'm extremely proud of how our Core-Mark associates have risen to the occasion and let our company and revenue and EBITDA grow. For the past two quarters, we have discussed adding two meaningful pieces of business with Love's and RaceTrac. While exciting, these types of large customer wins also bring potential execution risk. I'm proud to say that Core-Mark has done a great job onboarding these customers and continues to work tirelessly to execute while building strong and lasting partnerships with these iconic Convenience retailers.

The results speak for themselves. Convenience delivered 8.3% organic case growth and 8.7% total revenue growth in the quarter, and an outstanding 34.1% adjusted EBITDA performance. While the top line performance is certainly impressive, Core-Mark's ability to deliver on volume increases of this magnitude exemplifies the commitment this organization has to its customers. As I said at the onset of the call, PFG aspires to be the leader in the food away from home space, and this diversification has played a significant role in the success we are seeing with Core-Mark.

Core-Mark has leveraged the broader enterprise to develop food expertise, expanding its food and brand portfolio, providing customers with a differentiated offer. That, coupled with great customer-facing technology, strong supply chain execution and a focus on building lasting partnerships, has resulted in significant market share wins for the segment.

Looking ahead, the addition of Love's and RaceTrac will continue to be an incremental benefit to our Convenience performance through mid-fiscal 2027. We have visibility into additional customer wins and some offsetting losses, though not nearly the size of either of these two pieces of business. We believe the outlook for our Convenience segment is bright, and we continue to resonate with customers looking for a partner to help them drive their business performance.

Finishing with our Specialty segment, this is a unique asset within the PFG portfolio, as there is no pure-play competitor that has the reach of Vistar in the candy, snack and beverage market. As a result, we are able to pursue a range of business opportunities for long-term growth. An example of this is the continued expansion into the ecommerce fulfillment space. While still a relatively small channel for us, our ability to ship direct to businesses and consumers across the US makes Vistar an attractive partner for a wide array of businesses and manufacturers trying to reach their end consumer. Vistar also continues to benefit from growth and other emerging channels, including Specialty grocery and campus retail, and is currently pursuing additional avenues that we are confident will fuel future growth.

During the quarter, growth across most of Specialty channels drove solid top line performance. Case growth of 1.1%, produced a 5.3% revenue increase year-over-year. During the quarter, Specialty saw difficult margin comparisons, including lapping higher prior-year inventory gains. Expenses in the third quarter were also elevated due to shipping and fuel costs, resulting in negative EBITDA performance in the quarter compared to the prior-year period. Despite a challenging quarter of the Specialty segment's attractive overall margins and prospects for continued revenue performance, give us a high degree of confidence in their long-term profit opportunities.

To summarize, all three of our operating segments contributed nicely to our top line growth, allowing us to achieve sales results at the top end of the guidance we laid out in February. Our adjusted EBITDA came in above the high-end of our guidance range, even as we invest in our business to support future growth. This performance was possible because of our diversification efforts and share gains across the US food away from home market. I'm excited for the final months of fiscal 2026 and expect a nice acceleration in fiscal 2027, putting us well on track to achieve our three-year targets laid out last May.

I'll now turn the call over to Patrick who will review our financial performance and outlook. Patrick?

Patrick Hatcher

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

Thank you, Scott, and good morning. Today, I will review our third quarter financial results, provide color on our financial position, and review our tightened guidance for 2026.

PFG's total net sales grew 6.4% in the third quarter, with growth in all three operating segments and particular strength in Convenience. Total company cases increased 4.4% during the quarter, highlighted by 6.5% organic independent restaurant case growth and an 8.3% organic case gain for our Convenience segment. We are very pleased with the contribution from the addition of the Love's and RaceTrac business, which accounted for the majority of the growth in Convenience.

Total company cost inflation was approximately 4.5% for the quarter, in line with what we experienced in the prior quarter. Foodservice inflation of 1.5% was slightly below recent trends, with continued deflation in the cheese, poultry and egg categories, somewhat offset by higher inflation in beef. At the same time, while cheese and poultry remained deflationary on a year-over-year basis, we did not see the dramatic declines we experienced during the fiscal second quarter, and as a result, these items were less impactful to our overall financial results.

Specialty segment cost inflation was up 5.1% year-over-year, about 25 basis points lower than the prior quarter, mainly the result of candy and hot drink price inflation. Convenience cost inflation increased 7.9%, slightly higher than the prior quarter due to inflation of tobacco and candy. The inflationary environment has been active over the past several years, but as a company, we have demonstrated our ability to handle a range of outcomes. We expect the inflation rate to remain in the low-to-mid single-digit range for the remainder of fiscal 2026.

Moving down the P&L. Total company gross profit increased 6.4% in third quarter, representing a gross profit per case increase of $0.20 as compared to the prior year's period. This improvement was driven by a strong mix, execution of our procurement initiatives outlined at our Investor Day, and continued execution of our brand strategy. We are very pleased with our gross profit results, which demonstrate our ability to execute on our priorities outlined in our three-year plan.

In the third quarter of 2026, PFG reported net income of $41.7 million, a 28.5% decrease year-over-year due to an increase in operating expenses. Adjusted EBITDA increased 6.6% to $410.6 million. Diluted earnings per share in the fiscal third quarter was $0.27, while adjusted diluted earnings per share was $0.80, an increase of 1.3% year-over-year. Our EPS was impacted by below-the-line items including higher interest and depreciation expense. Our effective tax rate was 25.4% in the third quarter, a slight decrease from 25.8% last year. We expect our full year 2026 tax rate to be close to our historical range of around 27%.

Turning to our financial position and cash flow performance. In the first nine months of 2026, PFG generated over $1 billion of operating cash flow, an increase of approximately $245 million compared to the same period last year. We invested approximately $266 million in capital expenditures during the first nine months of 2026. We have been diligent around new capital projects and expect full year 2026 CapEx to be below our long-term target of 70 basis points of net revenue. The organization is striking a good balance of investing in infrastructure and high return projects to support our long-term growth while maintaining excellent free cash flow performance.

In the first nine months of 2026, we generated $806 million of free cash flow, up $312 million compared to last year. We are extremely pleased with our cash flow performance. We are fully committed to investing back into our business to support our growth. And as you can see from our nine months results, we are generating significant cash flow to fund this investment.

During the quarter, we repurchased a total of $1.2 million of our stock at average cost of $83.11 per share. We will continue to be opportunistic around share repurchase, but our priority remains debt reduction and investing in our growth. The M&A pipeline remains robust and we continue to evaluate strategic M&A. PFG has a history of successful acquisitions to drive growth and shareholder value, and we expect that to continue. At the same time, we will apply our typical high standards and robust due diligence to evaluate high-quality acquisition opportunities.

Turning to our guidance. Today, we tighten the guidance range for fiscal 2026. For the full fiscal year, our sales target is now a range of $67.7 billion to $68 billion compared to the previously stated $67.25 billion to $68.25 billion range. We now expect full-year adjusted EBITDA in a range of $1.9 billion to $1.93 billion compared to the previously stated $1.875 billion and $1.975 billion in 2026. Our results keep us on track to achieve the three-year projections we announced at Investor Day, with sales in the range of $73 million to $75 billion and adjusted EBITDA between $2.3 billion and $2.5 billion in fiscal 2028.

To summarize, we are very pleased with our progress despite a challenging business environment in the third quarter. We are in a solid financial position which supports our growth investments and capital return to our shareholders, and expect strong execution to finish the year, setting the stage for a strong fiscal 2027.

Thank you for your time today. We appreciate your interest in Performance Food Group. And with that, Scott and I would be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Edward Kelly with Wells Fargo. Please go ahead, your line is now open.

Edward Kelly
Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning everyone. And nice quarter. It's good to see such strong top line momentum in the business. What I wanted to ask about that though is that, you did trim the Q4 guidance at the midpoint. I think you had an acquisition that come into quarter, so presumably, maybe there's some help there. But can you just talk about the offsets that you're seeing in Q4 to drive a slightly more conservative view?

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

A

Yeah. Hi, this is Patrick. I'll take that and maybe Scott will add something on the acquisition if he wants to. But really, we gave the full year guidance. You're talking about the implied Q4 and how we're looking at it, as we exit Q3 with really strong top line momentum and a nice EBITDA increase of 6.6% at the top end of our guidance. So we're feeling really confident about the things there are. We've line of sight of controllables. As we mentioned in our comments, really strong momentum. We are seeing positive improvement in Cheney, although there will be some pressure there during the quarter, and we're already seeing improvement in Specialty. Outside of our control, things like the macro environment, obviously, there's some pressure from fuel that we experienced a little in Q3. We expect some of that pressure in Q4 as well.

So, really very confident about Q4. There are some pressures on the numbers that I mentioned and then we're looking really towards 2027, where we see a really nice setup, and we'll obviously give you guys much more color on that in August.

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.

A

Hi, Ed. This is Scott. Yeah. Just real quick on the acquisition. We did have an acquisition that came in late in the third quarter, some that we've been really excited about. Cash-Wa is a broadline food service distributor in Kearney, Nebraska. Three facilities that really cover Nebraska and the Dakotas. So, again, kind of giving us a little more presence facing West. And great family company, great culture. I think, they're really excited to be a part of PFG and we're excited to have them in the fold.

Edward Kelly
Analyst, Wells Fargo Securities LLC

Q

Great. And then, maybe just to follow-up. And Patrick, you kind of hinted at this a little bit, but Cheney had some drags as we think about fiscal 2026. I was hoping maybe you could talk about what that drag was, again, in Q3. And then, I don't know if you can sort of summarize like what the drag has been for the year. I mean, I think the math would say it could be $30 million, something like that. Can you get all of that back next year, because I think you have talked about, you expect Cheney to be a pretty strong contributor in 2027?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.

A

Yeah, a really good question, Ed. So, from a Cheney standpoint, the first thing I'd say that we're really happy about is, is we mentioned their top line, and Cheney's done a great job continuing to grow independent cases, continuing to grow share across Florida and the Carolinas. I think their sales culture is fantastic. And like I said, I think they're setup for the balance of this year and 2027 from that perspective is great.

Over the last couple of quarters, with the opening of the new facility, we certainly saw some expense drag. And we mentioned that that will carry on into the fourth quarter. But really, we have great line of sight to get those things under control. The rollout of that facility has gone very well. We've transitioned three of our four phases of customers into there. And so, again, we feel like their setup for 2027 is great. And really looking forward to their contributions, both top and bottom line going forward.

Edward Kelly
Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Operator: Thank you. And we'll move next to Lauren Silberman with Deutsche Bank. Please go ahead, your line is now open.

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.

Q

Thanks a lot, and congrats on the quarter. A couple of follow-ups, and then one question. But just on Q4, are you able to quantify the net impact of fuel costs that you're embedding for the quarter? I know there's some offsets in surcharges, but not fully. I'm just trying to figure out if it basically accounts for the $20 million to $30 million cut down in the implied Q4?

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

Yeah, Lauren, good question. Obviously, as we exited Q3, we saw the impact of fuel come in. You're going to get much more detail in the Q on this, but that gross impact for Q3 for that month was 7.3, and that's not just because of higher fuel prices, that's also because of new customers, miles driven.

Now because of the timing of surcharges, we weren't able to adjust the surcharge in March, but that was adjusted in April, and again adjusted in May. We do have some headwind in Q4, but it's not material. It's something we're working through, obviously. Just we called it out as a headwind, because it is one, but it's one of a few things that we embedded into our guidance and that's why we gave the range we did.

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.
Q

And then, on the Cheney expense drag, what exactly is driving these higher expenses? I guess, I'm just trying to understand whether these expenses roll forward into fiscal 2027 just within the base or some of them come off?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.
A

Yeah. So, there's a couple of things that I would outline there. One of them is the primary one, Lauren, is the new facility in Florence. So, if you think about, right now, we have customers that we are shifting from other buildings into that facility. So, we had to hire and staff that facility for all of that inbound volume. And at the same time, before we transition those customers, we're still servicing them in our existing facilities. So, it's kind of double head count to service that volume. And that's, obviously, continued over the course of four or five periods. So, certainly been impactful from an expense standpoint. The other thing that drops off in expense and we've talked about our synergy kind of flow, and at the end of Q3 of this year or really at the end of the second year of the anniversary of Cheney, we have a nice pickup in synergy, and that will continue on through years three and beyond. So, definitely have a couple of things that'll be good momentum from the Cheney expense standpoint.

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.
Q

Great. And then, on the independent caseload side, there's obviously a lot of different dynamics and noise throughout the quarter. Any color you could provide on the cadence you saw as you moved through the quarter, and anything you can share on what you've seen into April, thoughts on the fourth quarter? Thank you.

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.
A

Sure. So, as I think about Q3, really January was a great month. And towards the end of January, 1st of February, you saw pretty material weather impacts. So, if I look at the average of January/February, that's kind of what we saw in March and saw that continue into April. So, we've been pretty consistent over the last couple of months. And like I said, if you took the January/February average, that kind of equals what we saw in March and April.

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.
Q

Thank you so much. Appreciate it.

Operator: Thank you. And we'll now move next to Kelly Bania with BMO Capital. Please go ahead.

Kelly Bania
Analyst, BMO Capital Markets Corp.

Q

Thanks. Scott, just wanted to clarify one point on the Cheney expenses. Did your view of the impact of those to the fourth quarter change since you reported last quarter, or is that just coming in line as you expected it to still, as an impact into the fourth quarter?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.

A

Thanks for the question, Kelly. There was a little more spillover into the fourth quarter than we probably anticipated a few months ago, and really that's because we had kind of four waves of customer transition that were shifting business from existing buildings into that new facility. We've completed three of those waves, and that fourth wave will take place here in the next couple of weeks. And that's really what shifted, is we thought we were going to have all four of those waves completed in the third quarter, but really just we had a little weather impact when we started opening that building that pushed it back a couple weeks. And then, we've just taken our time to make sure we do a great job servicing those customers we shift over. And really happy to say that we've seen sales growth in that new building on a same-store basis since day one. So, all those customers that we shifted in there have continued to grow, so really positive results that we've seen out of the transition.

Kelly Bania
Analyst, BMO Capital Markets Corp.

Q

Okay. That's very helpful. And Scott, you made the comment about fiscal 2027 and looking for an acceleration in sales and profit growth there. You mentioned, I guess we covered kind of cycling some of these expense headwinds and also the synergies, but you also mentioned some new chain business, I believe at Foodservice, so I was wondering if you could kind of help maybe bucket some dollars around how we should think about what that might look like in the coming quarters? And then, also I believe the procurement savings target should maybe start to build, is that a factor we should think about being impactful in fiscal 2027 as well?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.

A

No. Appreciate the question, Kelly. You touched on a lot of the key drivers that we think about in the setup for 2027, right there in your question. When I think about Foodservice, I would just say that the continued momentum and independent case growth. We did say in our prepared remarks that we have a really nice chain pipeline that we think is going to help us keep that chain growth positive for next year. Convenience has always, obviously, had a great year from a market share gain standpoint and obviously, has some carryover into next year. And then Specialty, if you look at Specialty over the last three quarters, they've improved their growth three quarters in a row, and we feel like they have a really nice pipeline as well. So, that kind of hits the top half of the income statement.

I'd say the margin setup is really good too. And you talked about procurement synergy, I'd say really how we feel about mix and how we feel about those procurement synergies, that really helps the margin profile as well. And then clearly we'll have, some spring back on Cheney expenses, and then just overall efficiency of adding that volume. I think this setup is really nice for next year.

Kelly Bania
Analyst, BMO Capital Markets Corp.

Q

Great. Thank you.

Operator: Thank you. And we'll move next to Mark Carden with UBS. Please go ahead, your line is open.

Mark Carden
Analyst, UBS Securities LLC Q

Good morning. Thanks so much for taking the questions. So, to start, I know it's pretty much impossible to predict the duration of the Middle East conflict, but if we see higher oil prices continue at their current level for an extended period of time, how much of an impact would you expect for it to have on your product inflation outlook over, call it, the next few quarters?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co. A

Let me, I'll take a stab at this, Mark, and I'll let Patrick fill in the blanks. But I would say, we've talked about how we handle fuel surcharges and fuel inflation, and I think we've got a really good plan around that. Our fuel surcharges mitigate a lot of that impact, but certainly there is going to be a little bit of headwind in Q4. Obviously, can't anticipate whether fuel prices go up significantly or down, over that period of time and beyond. But we think, we've got a good setup around fuel surcharges.

As far as other product inflation, we haven't seen any material impacts to date other than there's been a little noise around, we'll call it, petroleum-based products. So, we certainly sell some products that are petroleum-based and containers and packaging that we sell. And then, obviously, I think the longer duration, I think everybody would anticipate that at some point you're going to see inflation tick up. What we've seen in recent months is, across the third quarter we saw inflation tick up a little bit period by period, and we've seen inflation tick up a little bit as we started this quarter. So, we feel like we're really well-positioned to navigate that right now.

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

Yeah, Mark, just a little more color. Just as Scott was getting to, we manage a very large basket of commodities. As he mentioned, maybe some of the petroleum-based might see a little bit of impact here, really hard to say. And as you opened up with your question, very hard to predict this. But as you know, over, if you've followed us for any period of time, which I know you have, we're able to manage through a variety of markets and right now, we're seeing, as Scott mentioned, a slight tick up on inflation, but I just want to add a little more color there.

We started January very low, below 1% and we finished in March at 2%. I'm just talking about Foodservice inflation. So, while we've seen a slight uptick, it's still well within that, low single-digit area of that and we manage very well, so.

Mark Carden
Analyst, UBS Securities LLC Q

Makes sense. Thanks for the color there. And then, a follow-up on Cash Wa. Just how does its mix of business compare to the base foodservice business? Does it lean any more or less heavily towards independence? And then just more broadly, how's your traction going on building out some of your independent business organically out West in select markets?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co. A

No, really good question. So, Cash Wa, I would say, their food service business is very much in line with what we see across broadlines. They have a really nice independent mix. They also have some broadline national customers. And then the one thing that's a little unique about them is they have a segment of their business that does have some convenient sales. So, they sell some snacks, some candy, a little bit of cigarette and tobacco as well. So, a very diversified mix that fits really well into our overall portfolio.

And then, as far as out West we've talked a lot about, we've continued to add capacity, California and Oregon and Arizona and Colorado, and actually the West is our fastest growing region by a fair amount, doing exceptionally well in the west. Really proud of that region and their ability to gain share in that market.

Mark Carden
Analyst, UBS Securities LLC

Q

Great. Thanks so much, and good luck, guys.

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.

A

Thank you.

Operator: Thank you. And we'll move next to John Heinbockel with Guggenheim. Please go ahead. Your line is open.

John Heinbockel
Analyst, Guggenheim Securities LLC

Q

Hey, Scott. Two quick questions on local – independent case growth. One, is there still an opportunity to reduce the loss rate, the account loss rate from where it is today? And then, if you look at the pickup in lines per account, where is that concentrated? Are you gaining some traction with COP versus where you might have been?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.

A

No, really good questions, John. As far as loss rate, I would say, we've been fairly consistent over a number of quarters. Is there an opportunity to improve that? Absolutely. We're always focused on improving that. And it's something that we spend a lot of time focused on. I mean, turning customers is obviously not the goal here. But actually, overall, that's been fairly balanced and we haven't seen any big shift there.

As far as the Lines per Drop, certainly that's was kind of the headliner of our penetration in this quarter. Really nice to see Lines per Drop, Cases per Drop increase in a nice fashion. As far as what that's being driven by, one of the things that has been really positive, it continues to be driven by our brands. And I would say that if you asked all of our sales reps out in the field what their biggest lever is, brands is going to be one of those top one or two things.

And then, to your point, we actually have had really nice performance in center of the plate. Our protein strategy continued to work to drive that as well as seafood. And so, seeing some really nice performance in center of the plate. But brands is probably where I'd say the focus and the real growth has been.

John Heinbockel
Analyst, Guggenheim Securities LLC

Q

And on Cheney, where are they now, with – now that they've got South Carolina open in terms of capacity, meaning, I don't think they'll need to open another facility for a while. Where are they with that? And then, if you took synergy out and just looked at Cheney kind of apples to apples, does it outgrow the rest of Foodservice because of the economic growth in its markets?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.

A

Yeah, it's a good question. So, capacity-wise, I'll hit that one first. So, we're essentially taking volume out of a facility that I would say, was 90% full. That's now going to be more like 50% or 60%. So, we're going to have three facilities that have 40% or 50% available capacity. Maybe one of them is not quite that high, but three facilities that have a lot of capacity, really which creates a whole network that has capacity across the network. So, really well-positioned to continue to grow.

And to your point, absent synergies, which are going to be a nice tailwind for Cheney, they're certainly in one of the fastest growing markets in the country. And I think as a broadliner with a great reputation of really good presence in that market, with capacity available, are they going to outgrow the rest of the country? I'm not sure. I hope they do. But I think they're going to have a really nice growth future ahead of them.

John Heinbockel
Analyst, Guggenheim Securities LLC

Q

Thank you.

Operator: Thank you. And we'll move next to Alex Slagle with Jefferies. Please go ahead. Your line is now open.

Alexander Slagle
Analyst, Jefferies LLC

Q

Thanks. Good morning. A follow-up on Cheney. I know the synergy is not really expected until a year or two or three, but as you've had some more time to evaluate the business, see how it pairs up against PFG, I mean, do you see any incremental opportunities there? And also curious on the private label at Cheney and your latest thoughts?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.

A

Yeah, I would say that the one thing that is I think, clearly an opportunity has been around brands. Cheney has actually established some of their own really solid brands. Their brand performance has been, obviously, brand percentage sales is a lot less than what we see across the rest of broadline. But they do have some really strong brands and one of those brands we've actually taken in to the rest of broadline. So, I do think there's a great opportunity in brands. I think that procurement piece around brands is going to be a really nice part of the synergy.

But we've also found some other, I'd say, core competencies that Cheney has that we think will help the broader business. And that's really, one of the big reasons when we approach acquisitions that we take our time in that first year and we try not to jump in and make big changes. And that's the way we've approached this. And maybe we don't generate as much either down in the first year, but in the long run, I think it positions us really well. And we feel like the future of Cheney and the setup for 2027 and beyond is really strong.

Alexander Slagle
Analyst, Jefferies LLC

Q

Great. Also wanted to ask on inbound logistics opportunities and just sort of how that come together and maybe potential offsets for some of the higher freight and inbound costs that you've had?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.

A

Really good question. We talked to the Investor Day about redistribution and that we continue to grow our redistribution network, and that network has performed really well this year. That allows us and I would highlight the West. We've opened up a facility in the West to help us get our brands to all of those centers in the West. And now that I see how those distribution centers that are aided by [ph] Reedy (00:38:41) are growing. It just makes me very bullish on what we can do around redistribution.

And then, I would say just the broader inbound landscape. We certainly think that's an opportunity. It's one that we are really starting to focus on more and more every day, as just being more efficient in getting goods to our building. So, it's a great call-out, it's something that we are paying a lot of attention to. It's something that really helps us with, but certainly more opportunity ahead.

Alexander Slagle
Analyst, Jefferies LLC

Q

Thank you.

Operator: Thank you. And we'll move next to Jeffrey Bernstein with Barclays. Please go ahead. Your line is now open.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Great. Thank you very much. My first question is on the underlying consumer ex the weather noise, which you talked about in January/February, but you noted the ongoing negative foot traffic for the rest of industry. Can you just talk specifically about maybe the impact from what a spike in gas could have on your business? And it doesn't seem like it's had much, but maybe how have your segments been impacted in the past? It would seem like the Convenience store segment might be the most vulnerable as it ties in with gas stations and whatnot. So, any color you could provide in terms of that underlying consumer behavior ex the weather that you've seen in recent months and what you might expect as we close out the fiscal year?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.

A

Yeah. Thanks for the question, Jeff. So, when I think about the restaurant consumer in particular, we've seen our independence, obviously, with our share gain, it's been really nice. But we've seen that independent restaurant hold up exceptionally well through that foot traffic pressure. We've certainly seen a little downdraft on the chains. And so, we've seen the chains feel a little more of that, that headwind with foot traffic. So, when it comes to those two classes, I'd say right now, independents tend to be outperforming the chains. When I think about just overall fuel impact, I think it really comes down to discretionary income. In the restaurant space, certainly, if fuel prices continue to climb higher, that can impact discretionary income.

When I get to the Convenience store space, my history would tell me that as price goes up, there's actually an environment where trips actually go up. So, your Convenience store consumer that's getting gas, they may even not be filling the tank every time they go in. And so, we've actually seen trips tick up over the last few months in Convenience stores. There is an inflection point there, though. I think, at some point when fuel price would get pretty high, then then you see it really be a discretionary income issue. Right now, I think the consumer has been very resilient across Convenience, across Foodservice. And so, we anticipate they'll continue to perform that way. And we're looking forward to the fourth quarter.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.
Q

Got it. My follow-up just on the comment you made about the independent. I mean, your case growth is very strong at a 7% range, and you seem confident sustaining that in the fiscal fourth quarter. I think you said April was similar to recent months and I assume therefore in that range. But just wondering, who do you think you're taking share from, whether it's the large national peers or perhaps the big three are taking from the rest of the industry, which has kind of been the investment thesis behind the Foodservice distribution segment more broadly? Thank you.

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.
A

Yeah. I think from, who we're taking it from, pretty hard for us to tell. I think from my perspective that's we're really focused on gaining share in each and every customer that we service, and we saw that in the penetration numbers. So, some of that certainly coming from Specialty players. Some of that might be coming from bigger competitors or even smaller. So, really hard for me to tell there. And I think, for us, it's really focusing in on our brands, focusing in on the core competency that we have.

And I call out one other thing that I think is really helped us gain share and that's our tech stack around customer-facing ordering. I called that out in the prepared remarks. And I think our relationship with our customer, both the physical relationship with our rep and the digital relationship we have with them at CustomerFirst has really helped our penetration. It's helped us gain share and we see that as being a big lever to pull in the future.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.
Q

Thank you.

Operator: Thank you. And we'll move next to Brian Harbour with Morgan Stanley. Please go ahead, your line is now open.

Brian Harbour
Analyst, Morgan Stanley & Co. LLC
Q

Yeah, thanks. Good morning. Scott, I guess just following up on that kind of the prior comments on Convenience stores, what does penetration there look like lately? I guess, if you sort of separate out the new customer wins, which have certainly helped, how would you describe that in the Convenience segment?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.
A

It's a really good question. Convenience is a little different than I would say, traditional Foodservice, because in Convenience you really have kind of a primary supplier. So, you don't really share between, like in Foodservice you might have two or three broadliners in an account. In Convenience, you normally have a primary supplier that is doing the broad, vast majority of the goods. Now, where you might have penetration as in Foodservice, you might have an external vendor there. And that's really where we've done a great job of penetrating in our Convenience segment.

But if I go back, really for the last couple of years, our Convenience segment on a same-store basis has greatly outperformed the industry. And I think a lot of that is the tools that we bring to our customers around product mix, how to set your store, how to grow Foodservice. I think our customer-facing technology in Convenience has really helped us outperform the market.

Brian Harbour

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Got it. Thanks. What would you – you said you've actually, it seems like done a little bit better with chains, notwithstanding the fact that they have had a bit tougher traffic quarter as an industry. I mean, what, anything you call out that's helping there and some of the specific segments you cover? I think some of the segments where you're big actually have been a little bit tougher recently. But what would you attribute kind of the chain success to?

Scott E. McPherson

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

A

I think, it's really two things. One of those is we've partnered, what I would say, with a couple of the more progressive Foodservice players in the space. So, those are people that are continuing to grow, and that's really helped us on a, call it same-store basis. And the other one has just been share gain. We've done a really nice job, had a really nice pipeline in the chain space. We see that continuing into 2027. So, I think, our ability to resonate with those chain customers and be a great partner has really helped us.

Operator: Thank you. We'll move next to Peter Saleh with BTIG. Please go ahead. Your line is now open.

Peter Saleh

Analyst, BTIG LLC

Q

Great. Thanks for taking the question. I'm curious if you guys give us a little bit more color on strength and weakness made by cuisine? More specifically on that Italian segment, if you're seeing any sort of major changes at all? And then, I have a follow-up. Thanks.

Scott E. McPherson

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

A

Sure. We're talking about the Italian segment. Obviously, if you look at some of the publicly reporting chains, pizza and Italian has been, the growth has been a little muted as of late. When I look internally at the company, we continue to grow share in pizza and Italian. And I think everybody knows that's a really big, strong part of our business. It's interesting, one of the places we're growing is really outside of traditional pizza and Italian locations. We're growing pizza and Italian and bar and grill. We have – that's been pretty prevalent as of late. We're growing that in our Convenience segment, both coming from Foodservice and from our Convenience from Core-Mark. So, we're holding our own in pizza and Italian, although it's a segment that's been a little more challenged.

Where we're seeing really nice growth is, I'd say some of these other Specialty segments. We've seen really nice growth in our Asian segment, continue to see market share gains in our Hispanic segment. And then, I called it out, but one of the biggest share gain areas we have in Foodservice right now is sales into Convenience. And so, the share gains we have there have been very significant. And so that's also been a big driver for us as well.

Peter Saleh
Analyst, BTIG LLC

Q

Great And then, just curious, there's been a lot of discussion in the industry around GLP-1s and the impact. Curious if you guys have any thoughts on that? If you're seeing any sort of impact that there seem to be, or if you're seeing any sort of changes in behavior among the restaurants and what they're purchasing, that would indicate there is any sort of change in behavior?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.

A

Yeah. Really good question. With all the statistics, a lot on GLP-1 and eating behavior, and I think certainly in the first year that somebody is on those, there could be a tick-down in their consumption across just food in general. And that's not just restaurant convenience, that's across grocery in all channels. But what we're seeing really is, there's a little bit of compression on snack and candy in the first year, but then that consumer seems to bounce right back and go back into those snack and candy items.

In the restaurant space, there's certainly a focus on protein, a focus on fiber. We are seeing demand for smaller portions in some places. We see more to-go containers, so we're selling more containers. So really that, I think there's been some behavior shift. I think that's one of the reasons the independent restaurant has done so well, is they're able to react to those things, change menus, change pricing fairly rapidly. And I think, they've been able to react to that behavior really well.

Peter Saleh
Analyst, BTIG LLC

Q

Thank you very much.

Operator: Thank you. And we'll move next to Danilo Gargiulo with Bernstein. Please go ahead.

Danilo Gargiulo
Analyst, Bernstein Institutional Services LLC

Q

Thank you. I would like to ask a couple of strategic questions. So, the first one is on your M&A pipeline and potential future. So, in your framework, you're highlighting pursuing transformational opportunities. And recently, we've seen two major players acquire cash-and-carry business and provide a more vertical integration through the customer lifecycle. So, Scott, I'm wondering if this is a strategy that you will be entertaining, why or why not?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.

A

Well, I would say, first off, we spend a lot of time in our Investor Day outlining our M&A strategy. And certainly, our M&A strategy is really focused around broadline Foodservice. And I think Cash Wa is a great example of that. Cheney was a great example of that. And we see that we continue to have a pipeline of opportunity in that broadline Foodservice. There are some probably some tangential things around Foodservice that we continue to look at, whether that being in the protein space, the seafood space. So, we certainly see opportunity in that broadline Foodservice space.

In Convenience and in Specialty, we made a small acquisition last year in the Convenience space. Certainly, we'll continue to look at opportunities there. But at the end of the day, our core focus is broadline Foodservice, and we think that's the field that we want to play in.

Danilo Gargiulo
Analyst, Bernstein Institutional Services LLC

Q

Great. Thank you. And then, on the trends that you're seeing on the chain business, I was wondering if you can expand a little bit what is causing the incremental focus on the chain business and whether you think this is a strategic fit for you, given that it will be a potentially lower margin business? Thank you.

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.

A

No, I wouldn't say there's been any strategic shift. The chain business has been an important part of our portfolio for a long time. Our independent to chain mix, we're about 40% or so independent, about 60% chain. So, again, in a really balanced portfolio, we are consistently growing independence faster than we are growing chains in Foodservice. And that's obviously been a calling card of ours.

But certainly, when a big portion of your sales are chain, we are just as focused on growing that as well. So, I wouldn't say there's been any shift in focus. I would say that we are resonating with the customer base in both those segments and are able to gain share. So, really happy with how our sales force is performing in both those areas.

Danilo Gargiulo
Analyst, Bernstein Institutional Services LLC

Q

Thank you.

Operator: Thank you. And we'll move next to Karen Holthouse with Citi. Please go ahead, your line is now open.

Karen Holthouse
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you for taking the question. A couple on the Convenience side of things. Some of the packaged food companies have started to talk about understanding push back to inflation in the grocery aisle and proactively actually decreasing prices on some things. Are you seeing anything similar play out on more of the single-serve Convenience side of things?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.

A

No, we've not seen any deflationary noise at all as far as the Convenience segment. And I would say, historically, we don't see actual price deflation. What we see happen in the Convenience segment is we would actually see manufacturers discount, so they would discount it at point of sale. It really has no impact on us or our margins, but they would go out and run promotional activity in the field that would lower the end cost of goods to the consumer. And so, we have seen that activity probably tick up a little bit. Wouldn't surprise me if that continues to go on, but really doesn't have any impact to us from a revenue or profit standpoint.

Karen Holthouse
Analyst, Citigroup Global Markets, Inc.

Q

And then, just looking out over, call it the next 6 to 12 months, is there anything that should be on our radar for incremental new customers that might be onboarded specific to Convenience side?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.

A

Specific to Convenience. We called out in the prepared remarks, I mean, obviously, we will lap the Love's and RaceTrac next year. We have a really nice pipeline. We've picked up, or haven't picked up, but we have a couple other customers that we will onboard. And we do have a couple of customers that we will offboard in the course of the next, call it 6 to 12 months.

We have had some competitive reaction and our competitors have put a little pressure on the competitive market. But I would say, overall, the setup for Convenience for 2027 is really strong. Their pipeline is really strong. And these customer shifts that I'm talking about are much smaller in magnitude than our Love's or RaceTrac. So, their setup is really good.

Karen Holthouse
Analyst, Citigroup Global Markets, Inc.

Q

All right. Great. Thank you.

Operator: Thank you. [Operator Instructions] And we'll take our next question from Jacob Aiken-Phillips with Melius Research. Please go ahead, your line is now open.

Jacob Aiken-Phillips
Analyst, Melius Research LLC

Q

Hey, good morning. I was just curious if you could talk about the pipeline or just conversations you're having on the Convenience segment with potential customers? And then, how much of your Foodservice capabilities or your broader PFG One capabilities impact those conversations?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.

A

Yeah, that's a really good question, Jacob. And I said in the prepared remarks, I think the Foodservice, I mean the Convenience segment, I guess core competency around Foodservice over the past three years has increased dramatically. The product mix that we offer in our OpCos, the turnkey solutions we offer in our OpCos, and then, I would say the knowledge of that organization just around food has certainly been a big feather in our cap as far as customer interaction.

At the end of the day, I mean, we've got to be a great partner, we've got to be a really efficient distributor, and we've got to be able to supply the full basket of goods. But I, think having that core competency around Foodservice has certainly helped in their negotiations on new chains and account wins.

Jacob Aiken-Phillips
Analyst, Melius Research LLC

Q

And then, a question on Cheney, and don't worry, top line question, just thoughts on putting PFG private label into Cheney or taking some of Cheney's private label, where you think the opportunities are there, and how we should think about that going forward?

Scott E. McPherson
President, Chief Executive Officer & Director, Performance Food Group Co.

A

Well, I see it going both ways. We have already taken a couple of Cheney's private labels and started to roll those out across the broader PFG organization. And we are just really – we've been evaluating the labels that we would put into the Cheney organization as well. So, I think we're really well-positioned to do that.

I would just take a step back and say, I think we talked about during the acquisition, Cheney's brand penetration was in that 15% to 20% range. We just had a record brand penetration in the, we'll call it, legacy Foodservice segment at 54%. So, combined, we're now, if we were going to reset a target, we'd be right at 50% in brand cases to independents. And that's a number that I think we can grow. And I think Cheney will be a big portion of that growth.

Jacob Aiken-Phillips
Analyst, Melius Research LLC

Q

Got it. Thank you.

Operator: Thank you. At this time, this concludes our question-and-answer session. I will now turn the meeting back to Bill Marshall.

William S. Marshall
Senior Vice President-Investor Relations, Performance Food Group Co.

Thank you for joining our call today. If you have any follow-up questions, please reach out to Investor Relations.

Operator: Thank you. This concludes today's meeting. We appreciate your time and participation. You may now disconnect.