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# Performance Food Group Co. (PFGC)

Q1 2026 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day and welcome to PFG's Fiscal Year Q1 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.

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### William S. Marshall

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

Thank you and good morning. We're here with George Holm, PFG's CEO; Patrick Hatcher, PFG's CFO; and Scott McPherson PFG's COO. We issued a press release this morning regarding our 2026 fiscal first quarter results, which can be found in the Investor Relations section of our website at pfgc.com. During our call today, unless otherwise stated, we are comparing results to the results in the same period in fiscal 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 contain forward-looking statements and projections of future results. Please review the cautionary forward-looking statements section in today's earnings release and our SEC filings for various factors that could cause our actual results to differ materially from our forward-looking statements and projections.

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

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### George L. Holm

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

Thanks, Bill. Good morning, everyone, and thank you for joining our call today. Performance Food Group is off to a great start in fiscal 2026, building upon the momentum we saw exiting 2025. All three of our operating segments are contributing nicely to our profit performance. We're seeing a nice combination of revenue performance and margin expansion. This morning, Scott, Patrick and I will share an update on our company's progress and provide our thoughts on the industry and external environment.

We finished our first quarter with excellent results, including double digit top line growth, acceleration in our independent restaurant case volume and gross margin expansion. Our diversified approach to the food away from home market continues to pay off as we are seeing broad based market share gains. Our success is a direct result of our team's ability to execute in the current market environment. Within our Foodservice business, independent case growth exceeded 6%, propelled by market share wins and increases in customer penetration.

We have continued to see case performance in our independent business gain momentum since early in the calendar year. Also, during the final weeks of the quarter Core-Mark began shipping to Love's Travel Stops, the first of two large new account wins that we are onboarding in the convenience space during the fiscal year. Scott will share more details on our progress in the Convenience segment in a moment. Our Specialty segment continues to navigate the economic backdrop by driving efficiencies through the business, leading to double digit adjusted EBITDA growth in the quarter.

We are seeing pockets of strength in our Specialty business, including vending, office coffee, campus retail and e-commerce fulfillment channel. Our teams are capitalizing on our PFG ONE approach, which encourages collaboration across our business segments to drive revenue and profit growth. We believe we are in the early stages of this initiative but have already begun to see the benefits due to market share wins, sales growth and margin expansion. We are investing in our people and technology to support our growth profile.

In the first quarter, our Foodservice sales force head count increased about 6% compared to the prior year. We are committed to adding talented sales force head count. The slight deceleration from the fourth quarter to the first quarter was due to normal fluctuation in hiring across the organization. We continue to attract high caliber sales associates and believe this will be an important contributor to our growth in the years ahead.

Before turning it over to Scott, who will provide more detail on our results, I'd like to reinforce how pleased I am with our organization and the efforts from our 43,000 associates. Their hard work and dedication directly reflect our company's success. Our diversified structure across the entire food away from home market is well-designed to succeed and I am excited for the future with PFG.

With that, I'll turn it over to Scott. Scott?

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## Scott E. McPherson

*President & Chief Operating Officer, Performance Food Group Co.*

Thank you, George and good morning, everyone. Let's jump in and review some highlights of our first quarter results. As George mentioned, we are very pleased with our start to the fiscal year and are seeing contribution across the organization due to our team's solid execution. Starting with Foodservice, the segment built upon its momentum by accelerating independent case growth compared to Q4 and maintaining chain case growth in the low-single-digits. Total Foodservice cases were up 15.6% in the quarter, including incremental sales from Cheney Brothers, which we began lapping in early October.

On an organic basis, Foodservice cases grew 5.1%, fueled by 6.3% organic independent case growth. Our independent case growth was driven by a 5.8% increase in new customers year-over-year and an increase in customer penetration. We were encouraged to see our lines per drop increase in the quarter, which is a key driver of long-term profitability. Our chain business grew cases 4.4% in the quarter as we continue to benefit from new account wins that were onboarded last year.

Our pipeline of potential new chain business remains robust. In total, sales for our Foodservice segment increased 18.8% in the quarter, with organic top line growth increasing 7.7%. Shifting to margins positive mix shift, low-single-digit inflation and procurement efficiencies drove gross margin expansion. Cost inflation during the first quarter was 2.5%, roughly in line with the fourth quarter and a modest deceleration from what we experienced over the full year of fiscal 2025. Double-digit inflation in beef was largely offset by lower poultry and cheese prices in the period.

Taking a look back at the quarter, the balance of growth, margin expansion and operational execution led to very strong segment adjusted EBITDA growth of 18.1%. Excluding the contribution from Cheney Brothers our Foodservice segment adjusted EBITDA was up by low-double-digits. We could not be more pleased with the performance of our largest segment. We are optimistic that these results will continue through the fiscal year as we remain laser focused on capturing profitable market share wins and continuing to execute operationally.

Turning to Convenience. During the quarter, our Convenience segment saw 3.5% sales growth on a modest volume increase and the benefit of inflation. Once again, our Core-Mark business outperformed the industry, delivering strong relative volume performance in many key categories, including foodservice, snacks and health and beauty care. Core-Mark is also seeing sizable growth in the non-combustible nicotine space, led by the popularity of oral nicotine products. Core-Mark is just beginning to see the positive impact from the onboarding of one of two recent chain account wins, which George mentioned earlier.

In mid-September, Core-Mark began shipping to hundreds of additional Love's Travel centers, and in December will begin delivering to RaceTrac locations nationwide. I'd like to thank our convenience associates who manage this onboarding process, which has gone extremely well to-date, positioning us to build upon our partnership with these two industry-leading retailers. We believe these wins, coupled with a strong pipeline, will continue to fuel top and bottom line performance in the quarters ahead. The Core-Mark organization has been working diligently to win new business, increase efficiency and produce strong bottom line results.

In fiscal 2025 our Convenience segment saw these efforts translate into double-digit adjusted EBITDA growth with the new business wins that have just started to roll in, we believe fiscal 2026 will deliver another year of excellent sales and profit performance. We recently passed the four-year anniversary of PFG's acquisition of Core-Mark, which has provided PFG shareholders an impressive return with significant growth potential in the years ahead.

I'll finish our segment commentary with Specialty. Similar to our Convenience segment, Specialty has been impacted by a slower industry backdrop, partially due to persistently high price points in the candy and snack categories. While this continues to impact sales growth for Specialty, the segment's ability to improve operating leverage resulted in an outstanding profit performance in the quarter.

During the first quarter, Specialty's net sales declined 0.7% due to a challenging quarter for theater and value. However, as George mentioned, there were some bright spots, including vending, office coffee, campus, retail and our growing e-commerce channel. We are also very encouraged by the pipeline of new business opportunities for Specialty and expect to onboard several new accounts in the back half of the fiscal year.

Specialty is unique in the food distribution industry, which positions us to efficiently deliver to a broad range of channels and customers, which, in aggregate, provide the company with a very strong return. This, along with our focus on operating efficiencies, led to 13% adjusted EBITDA growth for the segment in the quarter. We expect to see improvements in volume performance over the next several quarters, blazing the path for continued contributions to PFG's EBITDA growth.

To summarize, we're extremely pleased with all three of our operating segments, each of which contributed to our strong first quarter results. Our diversification provides consistent performance in a range of economic scenarios, and our strong pipeline of potential new business should result in consistent long term revenue and profit growth for PFG.

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

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## Patrick Hatcher

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

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

To echo both George and Scott, we are very pleased with our start to fiscal 2026, which helped us maintain our solid financial position. In the quarter, we achieved net sales above the top end of our guidance range we announced in August, and adjusted EBITDA at the upper end of the guidance range. As a result of the strong performance, we are raising our sales guidance for the full year and reiterating our adjusted EBITDA targets, which we have a high degree of confidence in. We also remain on track to achieve the three-year sales and adjusted EBITDA targets announced at our Investor Day in May.

Before I give more details on our outlook, let me highlight our financial results for the quarter. PFG's total net sales grew 10.8% in the first quarter due to strong underlying trends in our three operating segments and the addition of Cheney Brothers. As a reminder, we started lapping the José Santiago acquisition at the beginning of the first quarter and closed on the Cheney Brothers acquisition in the second week of October last year. This means that Cheney will be organic for 12 weeks of the 13 weeks of the second quarter.

Total company cost inflation was about 4.4% for the quarter, just slightly higher than what we experienced in the prior quarter. Foodservice inflation of 2.5% was in line with the prior quarter and roughly in line with our model. While certain commodities have been volatile, headline inflation in the foodservice space remains in the low-single digits, which we view as a normal level for our business. Specialty segment cost inflation was up 3.8% year-over-year, about 50 basis points higher than the fourth quarter, mainly the result of candy price inflation. Convenience cost inflation increased 6.8%, again slightly higher than the prior quarter.

As we have demonstrated over the past few years, our company is well equipped to handle a range of inflationary scenarios. The current inflationary environment has been consistent with our modeling, which has rates remaining in the low to mid-single digit range throughout 2026. As a reminder, we source the majority of our inventory from domestic suppliers and, therefore, do not expect a material impact from tariff increases.

Moving down the P&L. Total company gross profit increased 14.3% in the first quarter, representing a gross profit per case increase of \$0.32 as compared to the prior year's period.

In the first quarter of 2026, PFG reported net income of \$93.6 million and adjusted EBITDA increased 16.6% to \$480.1 million, with all three operating segments contributing to our strong performance.

Diluted earnings per share for the fiscal first quarter was \$0.60, while adjusted diluted earnings per share was \$1.18, representing a 1.7% increase year-over-year. Our effective tax rate was 23% in the first quarter. At this time, we continue to expect our 2026 tax rate to be closer to our historical range.

Turning to our financial position and cash flow performance. In the first quarter of 2026, PFG used \$145.2 million of operating cash flow to invest in working capital to take advantage of favorable inventory buys. We invested about \$79 million in capital expenditures during the quarter. We continue to anticipate full-year 2026 CapEx to be approximately 70 basis points of net revenue, in line with our long term target. Our investments in CapEx are primarily focused on maintaining and supporting growth within our infrastructure and high return projects that we believe will support our long term growth goals. We did not repurchase any shares in the quarter. Looking ahead, we will continue to prioritize debt reduction.

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 announced guidance for the second quarter of 2026 and updated our range for the full-year. For the second quarter, we expect net sales to be in the range of \$16.4 billion to \$16.7 billion and adjusted EBITDA between \$450 million and \$470 million. For the full fiscal year, we are increasing our sales target and now project net sales of between \$67.5 billion and \$68.5 billion. This new range represents a \$500 million increase to the top and bottom end of the previously announced range. We are reiterating our full-year adjusted EBITDA range and continue to expect results between \$1.9 billion and \$2 billion in 2026. We have a high degree of confidence in our adjusted EBITDA range. Our results keep us on track to achieve the three year projections we announced at Investor Day with sales in the range of \$73 billion to \$75 billion and adjusted EBITDA between \$2.3 billion and \$2.5 billion in fiscal 2028.

To summarize, PFG began fiscal 2026 with strong results. All three of our operating segments are performing well, contributing to our overall results. We are in a solid financial position, which supports our growth investments and capital return to our shareholders. We are excited about the future and believe we are well-positioned to continue to win business within the food away from home market.

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] We'll take our first question from 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 question. So, to start, you guys posted another quarter of solid top line results against what's been a pretty uneven backdrop in the restaurant channel. Just curious, how did your independent case growth progressed by month? How is it trending quarter to date? And then related, is it simply the strength that you've seen to date that led you to bring up the top of your guidance or are you any more optimistic about the go forward as well? Thanks.

**George L. Holm**

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

A

Well, we saw consistent growth through Q1. We had a very strong October. The last few weeks kind of since the shutdown we've seen a little softening. And as far as our confidence to raise it, we have some additional new business coming in, primarily in the convenience area. We've got some business in the national account within our foodservice area that we thought we had kind of over the hump to come with us and they want to sit on the fence until it's determined you know what happens in our clean room. But you add all that together and we have real good confidence in bringing up that annual sales growth number.

**Mark Carden**

*Analyst, UBS Securities LLC*

Q

Got it. That's helpful. And then you talked about the slight deceleration on sales force hiring, but it seems to be in line with normalized fluctuations. Just curious, does the heavy commission focus that you guys have ever make it any more difficult to attract talent if the environment remains challenging over an extended period of time? Any

impacts from just any uncertainty related to US or what you're seeing with Sysco having a pass-through to their hiring challenges in the past?

**Scott E. McPherson**

*President & Chief Operating Officer, Performance Food Group Co.*

A

Well, first off, I'd say that I think our commission structure has been a great tool to attract great talent and people that want to grow their business. When I think about the hiring pace, we came out of last quarter at 8.8%. That's pretty rich. We feel really comfortable in that 6% to 8% range. This quarter, we were at 6%. So if you look at the two quarter stack being at 7.5%, we feel really good about that hiring pace. The other thing I'd say is if you just look at how we're structured from a decentralized state, we really rely on our OpCo Presidents to make those hiring decisions, and George and I don't go out there and say, you've got to hire at a pace of 6% or 7% or 8%. We really let those folks make those decisions. Clearly, they're finding great talent on the street, and we've been able to continue to hire at that pace in that 6% to 8% range.

**George L. Holm**

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

A

I would also add that we're very committed to having a commission sales force, but we also have a structure in place where we compensate them above the commission for a period of time to make sure that we keep good people. And once we realize that someone's talented, that they'll put in the effort that they're committed to getting on commission, then we become very patient people.

**Mark Carden**

*Analyst, UBS Securities LLC*

Q

Makes sense. Thanks so much. Good luck, guys.

**Operator:** Thank you. Our next question comes from Alex Slagle with Jefferies. Please go ahead.

**Alexander Slagle**

*Analyst, Jefferies LLC*

Q

Thanks. Good morning. You talked about some of the big chain business wins in Convenience. I imagine that remains a big needle mover there, but just kind of curious if you could fill us in on progress you're making with some of the smaller chains and independents in terms of sort of winning new accounts and finding ways to accelerate the penetration of the foodservice programs to those customers and how we should kind of think about that through the course of the year?

**Scott E. McPherson**

*President & Chief Operating Officer, Performance Food Group Co.*

A

Yeah, Alex. When I think about Convenience in particular, we're really happy with what they've done from a growth standpoint. And we're specifically talking about those two big accounts just because they're sizable. But our Convenience segment has done a great job picking up regional accounts as well. And I think foodservice, everything you hear in the convenience industry that today, we just returned from the big convenience show. And there's so much focus on foodservice, and if you look across the convenience landscape, the chains and the customers that are performing well are the ones that are deeply ingrained in foodservice. And so, we think that's a huge competitive advantage for us. We think that was a prevailing reason in us getting some of these big and regional chain wins. And we expect that to continue.

**Alexander Slagle***Analyst, Jefferies LLC*

Q

Got it. And then on the guidance, can you ballpark interest expense and depreciation at all just to help us calibrate our models? It seems like these were a bit higher than I expected in the quarter, but any help there would be appreciated.

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

A

Yeah, Alex. I'll take that. I mean, what I would do is take this quarter and use that as a strong run rate. I mean, again, we continue to invest in the business so we've added some new buildings that are increasing depreciation. We continue that fleet that continues to increase deflation. And obviously, as you saw in the quarter, we invested a lot in inventory, so maybe a little more borrowing than normal, but that should come down a slight bit. But I think if you take this quarter as a run rate, that will be a good indicator of the future quarters.

**Alexander Slagle***Analyst, Jefferies LLC*

Q

All right. Thanks.

**Operator:** Thank you. We will move next with Edward Kelly with Wells Fargo. Please go ahead.

**Edward Kelly***Analyst, Wells Fargo Securities LLC*

Q

Hi. Good morning, everyone, and thank you for taking my question. I wanted to dig in on the foodservice EBITDA growth for the quarter. If you look at EBITDA growth relative to revenue growth, they were a bit more similar, which is not typically the case for you. It seems like OpEx per case was a little high. I'm just kind of curious as to what's happened with the OpEx side of the business within foodservice that maybe prevented you from delivering a little bit better organic EBITDA growth in the quarter, and how we should think about that relationship moving forward the rest of this year?

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

A

Yeah. Ed, we've invested a good bit in brick and mortar for one. And in these new distribution centers, you tend not to be as efficient in the early going and obviously you got a little bit more expense. We've had higher expense in our acquisitions, particularly in Florida, because we are investing and we are investing heavily and we are doing that during their slow time of the year. We're just so satisfied with these acquisitions and with the talent that we received, we want to make sure they have the capacity available. We also are in the midst of a big freezer additions at our José Santiago building.

With that, I'll turn it to Patrick to see if he has some other comments.

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

A

Yeah, just to touch a little bit more on that Ed. One, again, if you look at all three segments, actually, we saw really nice OpEx leverage organically specifically to foodservice, as George already mentioned, if you take out Cheney, there was OpEx leverage changes. Again, this is their slowest quarter. It's similar to foodservices' Q3 so

they reduced some leverage there. And then as George mentioned, we're taking on some additional expenses. But those are really the reasons why you saw that this quarter.

**Edward Kelly***Analyst, Wells Fargo Securities LLC*

Q

Okay, great. And then I wanted to follow up on a response that you made on independent case volume momentum. October seemed good, especially at the start, but I think your compare was easier maybe with weather. Sounds like recently there's been a little bit of slowing there. Could you just talk a bit specifically about independent case momentum for the industry, what you are seeing there in terms of like real time, I guess? And then how are you feeling about sustaining a 6% or better rate in Q2?

**Scott E. McPherson***President & Chief Operating Officer, Performance Food Group Co.*

A

Hi, Ed, this is Scott. So, I think you hit it, as we came out of Q1 and started into Q2, it continued to be strong over the first few weeks. But then, we did have a little bit of choppiness over the last few weeks when we think about kind of lapping some of the weather from last year. So it's a little tough to get a read on it right now. I wouldn't set a target for this quarter as far as independent case growth. What I would say is we still feel good about the full-year targeting 6%. And what's really driving that for us is just our independent account wins. And as we mentioned, those are up 5.8%. And that's really what's driving our case growth.

**Edward Kelly***Analyst, Wells Fargo Securities LLC*

Q

All right. Thank you, guys.

**Operator:** Thank you. Our next question comes from John Heinbockel with Guggenheim. Please go ahead. Your line is open.

**John Heinbockel***Analyst, Guggenheim Partners*

Q

Hey. Can you guys parse out the 5.8%, that's a net growth in new accounts. When we think about sort of the gross wins, I don't think you've ever had real elevated losses. But the wins, the losses, how does that kind of shake out – or how has it shaking out here? And then, you talked about the lines per drop. You were waiting for a long time, right, for penetration to pick up. Is it possible we're at the early stages of that and what may be driving that?

**Scott E. McPherson***President & Chief Operating Officer, Performance Food Group Co.*

A

Hi, John. This is Scott. First off, I would say, we don't call out a gross number. So you're right. The 5.8% is net. I would say that our customer churn hasn't really changed materially. So we feel that our reps are out there doing a great job retaining customers, and really happy with the 5.8%. The penetration now, it's been a couple of quarters. So we're really optimistic about that. If the macro gets better, that really positions us exceptionally well. And so, that's something we're focused on. And for us, I think the differentiator out there has been our area managers, it's been our folks that are in front of our customers, working with them every day, growing those lines per drop, and that's been critical.

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

Yeah. What I'd like to add, John...

A

**John Heinbockel***Analyst, Guggenheim Partners*

Yeah.

Q

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

...this is George. We continue to see SKUs grow faster than our penetration number into independent customers. So that tells me that they're probably, in aggregate, running same store sales declines still.

A

**John Heinbockel***Analyst, Guggenheim Partners*

Yeah.

Q

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

And as far as lost business, we spent a lot of years working hard to get that number to single digit, and it's a rare amongst that we don't come in with single digit loss in accounts. And I think when you look at the percentage of accounts that don't make it in our difficult industry; I think we're doing a good job of making sure we don't lose accounts. So we always, and I mean always, have a nice spread between our lost business and our new business.

A

**John Heinbockel***Analyst, Guggenheim Partners*

And then, maybe as a follow up, I know you guys have targeted the \$100 million to \$125 million of COGS savings. Just remind us maybe the cadence of that. I don't think it was quite linear. And then, when you look longer term, right, is there still – because you guys have now been breaking out segment margins, and I know customized is a drag. But when you think about the opportunity beyond the next three years, would still seem fairly substantial. Correct?

Q

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

Well, John, on the COGS savings, yeah, at Investor Day, we laid it out. And I think the way to think about it is just we always are doing work here. So this wasn't something new. Giving you guys a target was maybe something we haven't done in the past. But we look at that as being pretty evenly spread over the three years, and each year pretty evenly spread over the quarters. We're actively working on those savings, and we're seeing some good opportunities out there.

A

**John Heinbockel***Analyst, Guggenheim Partners*

Okay. Thank you.

Q

**Operator:** Thank you. We will move next with Kelly Bania with BMO Capital. Please go ahead. Your line is open.

**Kelly Bania**

*Analyst, BMO Capital Markets Corp.*

Q

Hi. Thanks for taking our questions. I wanted to just follow up on the Specialty segment. The profitability was quite strong there, despite what seems like a pretty still, soft candy snack consumer backdrop. So just curious if you can add more color on what drove your ability to achieve that, how much more that could continue if that backdrop remains soft there?

**George L. Holm**

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

A

Yeah. I mean, we've made real good progress with most of the channels. If you look at the margin aspect, our theater business has been down fairly substantially; a couple of account losses, plus the theater industry's not very robust at this point. That is our lowest margin business that we have within our Specialty business. And then the value area has also been slow, and that is our lowest gross profit per case. So our improvement is somewhat expense control, but it's also really led by just a change in mix of business, which has been a real positive for us. And as Scott mentioned, we've got a real good sales funnel and we've got some nice business coming in the back half of the year. So we're feeling really good with Specialty.

Now, if you look at inflation and you look at pre-COVID and you look at today, candy and snacks are way up close the top as far as price increases. And it may appear that those are very discretionary purchases and not real price sensitive, but that's not the case. The big consumer of those products is very price sensitive, and they just got to get used to higher prices and I think we'll see some come back in that. When you look at the things that our Specialty area has been up against, we're doing exceptionally well.

**Kelly Bania**

*Analyst, BMO Capital Markets Corp.*

Q

Thank you, George. That's very helpful. Also, just wanted to ask, it seems like a growing number of complaints regarding the state of the consumer, particularly with younger consumers. And just curious if you could talk a little bit more about if you would agree with that as you look at your kind of diverse channels and customers that you serve, if you see that and if there's anything that you are doing to kind of help that either with private label or other promotional activity with vendors that you're working on to help those end customers?

**Scott E. McPherson**

*President & Chief Operating Officer, Performance Food Group Co.*

A

Hi, Kelly. This is Scott. Certainly, we've heard that same message around the younger generation consumer. I wouldn't say that we've seen that specifically in our business. If I look across our chain segments I mean, obviously, QSR remains highly pressured. I think that low income consumer continues to struggle. I think for the last year, you've seen some of these fast casual concepts. I call them the high flyers that we're seeing double digit, same store comps. They've kind of come back or normalized and we've also seen some others sprout up.

And I think really right now what we're seeing is that value proposition is what's really making the day for concepts. If they've got a really good value proposition that resonates they're seeing reasonable same store sales comps. For us, I think you hit it right on the head. We're focused on brands. We think that that's the best value we can bring to our customers. We've seen our brand share grow with independents and chains. And so that's been it's, I wouldn't say it's a positive for us. We'd like to see more store traffic and more robust consumer, but we feel like we're in a really good position.

**Kelly Bania***Analyst, BMO Capital Markets Corp.*

Q

Thank you.

**Operator:** Thank you. Our next question comes from Lauren Silberman with Deutsche Bank. Please go ahead.

**Lauren Silberman***Analyst, Deutsche Bank Securities, Inc.*

Q

Thank you very much. I wanted to start, if you could just clarify, are you guys seeing disruption in your sales force or the ability to attract new customers because of news of the deal? Just trying to understand and how much is seasonality versus like the influx of new hires and what's going on there?

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

A

Well, we've just – this is George. We just had a couple of large events which we have the same time of the year every year. One is what we call Circle of Excellence where we honor our top salespeople and sales management with most of our OpCo Presidents at that event. And then we do a food-centric where it's more customer focus and we have some large, particularly independent customers from around the country come and we have every OpCo President that's present at that. And what I would say is that morale is extremely high, particularly with the sales force going negative, being some national accounts, like I said, sitting on the fence. And we're real consistent with our people. We're as transparent as we possibly can be. And I don't really think that we're experiencing disruption. It doesn't seem to affect our hiring right now. It hasn't had any negative impact on our turnover.

And I'll turn it over to Scott. He's a little closer to it than I am, but that's the way I see it right now.

**Scott E. McPherson***President & Chief Operating Officer, Performance Food Group Co.*

A

No, I think I'm totally aligned with George's comments. We've seen great availability of reps on the street hiring at 6% versus last quarter at 8.8%. Like I said earlier, that doesn't concern me at all. We kind of bounced back and forth between that range of 6% and 8%. There may have been a handful of reps here and there that took a pause because they were waiting to see what happened. But I would say overall, I think I just look at our results, our independent case growth, our new account growth and that gives me great confidence that our OpCo Presidents and our area managers are focused on the right things and we continue to grow share and grow our independent business.

**Lauren Silberman***Analyst, Deutsche Bank Securities, Inc.*

Q

Great. On the OpEx side, what seems like some incremental investments in Cheney, should we assume some pressure on that line over the next few quarters or is this – the bigger investment in this quarter a bit more one timey? I know there are some seasonality, but just trying to understand the magnitude and how that is paced.

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

A

Yeah, well, do you want me?

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

A

Yeah. I'll take it real quick and then you can add to it. I think that the seasonality change will help a lot in Florida. We've also seen the international traveler and Canadian travelers just haven't shown up in Florida like they typically do. But I think a lot of this will alleviate itself as we get into season. And they are very, very focused company and a great morale there as well. And we just feel like it's just a company that can flourish.

Go ahead. I'll turn it to you.

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

A

Yeah. I'll just add a couple more things. One, as George mentioned, there's little reduction leverage in the first quarter. And again they're one year in and so we've been also doing a lot of integration. But the integration happens early on, as you say, around IT, HR so sometimes that can add some additional expenses. But when I look at how they performed in the first quarter, it was very much in line with our expectations and was very similar to prior year. So, we do expect that as we go a little further out, we'll start to see the synergies. As we've said, we'll really see the bulk of the synergies at the end of the year two. But we're doing a lot of integration work as we speak, so it should dissipate as we go through the year. Most importantly is what George said as we get out into the high season, it'll definitely help.

**Lauren Silberman***Analyst, Deutsche Bank Securities, Inc.*

Q

Great. Final follow up, the independent sales growth that you're seeing in October, I understand, started strong a little bit before the government shut down. We've heard a bit of a range in restaurant world, I guess are you guys still running in the mid-single digits? Is it hard to understand what's going on with the magnitude of the step down particularly for the independents?

**Scott E. McPherson***President & Chief Operating Officer, Performance Food Group Co.*

A

Yeah, we are – we're still running in that mid-single digit range. Like we said, we've seen some volatility as of late, but we're still running in that range.

**Lauren Silberman***Analyst, Deutsche Bank Securities, Inc.*

Q

Great. Thank you very much.

**Operator:** Thank you. Our next question comes from Jeff Bernstein with Barclays. Please go ahead.

Q

Thanks. Good morning. This is [ph] Braddock (00:39:26) on for Jeff. You've talked about taking share for a while now. And I believe you mentioned that some of the segments like QSR and Fast Casual have been a bit more challenged of late. So just wanted to unpack where you're seeing strength, what particular segments of the industry, and are your share gains coming from your larger peers or smaller operators or is it all of the above? Thanks.

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

A

Well, I'll start with the last comment. We don't have a good method of knowing where our share gains come from. We have a tool that report that we use that shows how we did and how the rest of the market does. So, we don't really know how anybody specifically does. So I don't know that we can really comment that on that. But just to give you an idea where it's slower and where it's done better, the shutdown, of course, has affected our Virginia and Maryland company the most, and both of those were on extremely good growth rates going into that, not much anywhere else.

The international tourism, it's been the Upper Midwest where we've seen I mean, I'm sorry, the Upper New England area where we've seen the total market slow, but actually our companies there have been gaining significant share. So it hasn't had much of an impact on us. And of course, Florida and then Vegas has been affected quite a bit. And we do very little business in Vegas. So that hasn't had much impact. Where we've seen market slowness the most has been the Midwest, the upper Midwest. And we have markets there, where we're negative to last year and gaining share, which is a really unusual situation for us. So that's how I would put it, but we don't want to overdo this. I mean, we're still running good independent growth and if the – I think if we didn't have the shutdown and the slower business in a couple of markets, we would be just as we were in the first quarter.

Q

Thanks. That's very helpful. And then, Patrick, on the inflation outlook, you reiterated your expectation for low to mid-single-digits. Anything that would cause you concern and would maybe push that to the upper end of the range? I know you mentioned some of the specialty and snacks items that are seeing high degrees of price increases, but anything else on the commodity side or other product lines that that may kind of push that to the upper end of the range? Thanks.

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

A

Yeah, great question. Honestly a lot of the candy price increases, we've already seen those and other suppliers taking price. On the commodity side, so I would again, just reiterate on Convenience. We expect them to be in that 6-plus range, mid-single-digits. Specialty a little bit lower, but staying very consistent for the rest of the year. And Foodservice, as we mentioned is in the low-single-digit and we do expect that to continue. There's lots of commodities. And as everyone knows, beef and pork has been pretty high lately and inflationary. But we also over-indexed in cheese and that's been deflationary. Poultry has been deflationary. So the way we look at it, that market basket of commodities should keep us in that low-single digit range.

Q

Thanks very much.

**Operator:** Thank you. We will move next with Danilo Gargiulo with Bernstein. Please go ahead.

**Danilo Gargiulo***Analyst, Bernstein Institutional Services LLC*

Q

Thank you. First off, I was wondering if we could just take a step back and we look at your very long-term strategy. How do you plan to strengthen your ROIC and what do you think is a realistic timeline for the ROIC to be increasing by mid-single digit? So what would be the key levers for that?

**Patrick Hatcher**

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

A

Yeah. Good question. We obviously look at ROIC very closely too. And as you know, we've recently made some larger acquisitions. We've also been, as George mentioned earlier, we're investing a lot into capital for buildings and fleet, and all those things are really surrounded by growth. So we've given you, obviously, our projections on EBITDA growth for the year, and we continue to work very closely on driving higher growth on income as well as managing our capital. So I would say over the balance of this year, we should see improvement in ROIC.

**Danilo Gargiulo**

*Analyst, Bernstein Institutional Services LLC*

Q

Okay. Thank you. And then, I want to follow-up on the comment that you made on the M&A pipeline remaining robust, and specifically the evaluation of strategic M&A. And in light of the potential synergies that you might be having with a business combination with US Foods, I was wondering if you can help us understand a little bit better what would you need to see in the data or in the strategic evaluation for the decision to have a positive or maybe a negative outcome? So what are the puts and takes on that? Thank you.

**George L. Holm**

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

A

On that, the process is ongoing. We've disclosed what we're doing in terms of the clean room. We really don't have an update to share at this time and just would ask that we keep our questions focused on our Q1 results and guidance.

**Danilo Gargiulo**

*Analyst, Bernstein Institutional Services LLC*

Q

Great. Thank you. And then, maybe...

**Scott E. McPherson**

*President & Chief Operating Officer, Performance Food Group Co.*

A

And I would just add on – just adding on to the M&A pipeline, we talked about that. We're very active in the market. We talked about a small acquisition in our Convenience segment. And George and I continue to talk to a number of different people about opportunities, primarily in the foodservice space, but also across our other segments, we're always looking at opportunities. So still feel like that pipeline is robust.

**Danilo Gargiulo**

*Analyst, Bernstein Institutional Services LLC*

Q

Thank you. And then, focusing on the more near-term, you mentioned the kind of market fluctuations that you're witnessing as we are in the overall restaurant segment. So I'm wondering if there are any actions that you might be exploring in the near term to increase the capture rate of independent cases there in the very near term without necessarily compromising the quality [indiscernible] (00:46:02) has been extremely strong over the past few years? Thank you.

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

A

Well, I would say, first off, philosophically on the street, we're decentralized. We let our OpCo presidents really drive their market area, and we're really happy with how we prepared our area managers from a training standpoint. I mentioned earlier, I think brands has been our calling card and is a big driver for us, especially in an environment where cost of goods is critical and menu pricing is critical. But I don't see anything philosophically that we're going to change materially in our approach. We believe in the partnership with our customer, and we believe in the strength of our managers on the street.

**Danilo Gargiulo***Analyst, Bernstein Institutional Services LLC*

Q

Thank you.

**Operator:** Thank you. [Operator Instructions] We will move next with Karen Holthouse with Citi. Please go ahead.

**Karen Holthouse***Analyst, Citigroup Global Markets, Inc.*

Q

Hey. Thanks for taking the question. A couple kind of more on the C-Store side of things. Thanks for the guidance for mid-single digit inflation. And I can appreciate that your suppliers are domestic. Have your conversations with them that are getting you to mid-single digit number contemplated how tariff-related inflation and more of like the packaging side of things might, ultimately, impact that number?

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

A

Yeah. I think if I understand the question right. I mean, we talked about cost of goods being domestically sourced and not having a big impact there. But to your point, I think there are other inputs that could cause inflation, whether it's packaging. And for us, when we look at the broader picture of inflation, it's not as much cost of goods, it's probably share of wallet. And as we see, consumers be pressured, whether it's SNAP benefits going away or other things that are happening in the market that affect discretionary income, that definitely could have impacts. But to this point, we haven't seen anything material.

**Karen Holthouse***Analyst, Citigroup Global Markets, Inc.*

Q

Okay. And then, is there anything to consider as you're starting to onboard Love's and Raceway (sic) [RaceTrac] in terms of margin profile of those businesses versus the existing business?

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

A

So first off, I would say the Love's piece, I do want to just take this opportunity to shout out to our Convenience segment. They onboarded over 600 Love's locations in September, in the last couple of weeks and did just an incredible job, including opening a new facility to help accommodate that. And it's actually RaceTrac.

**Karen Holthouse***Analyst, Citigroup Global Markets, Inc.*

Q

I am sorry.

**George L. Holm**

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

A

They the owner of the franchise RaceWay. So you're right there. RaceTrac, we roll out in December. So again preparing for that, I feel like we're in a great position. And when I think about the margin profile, I would say, it's consistent with the rest of our convenience business.

**Karen Holthouse**

*Analyst, Citigroup Global Markets, Inc.*

Q

And then one final one on Convenience margins. I think there was a comment in the prepared remarks about stronger performance in tobacco with growth of oral nicotine. Is that getting you to a point where like tobacco is a share of total convenience sales is stable or even increasing?

**Scott E. McPherson**

*President & Chief Operating Officer, Performance Food Group Co.*

A

No. I mean, I would say cigarettes because of taxation are always the revenue driver.

**Karen Holthouse**

*Analyst, Citigroup Global Markets, Inc.*

Q

Okay.

**Scott E. McPherson**

*President & Chief Operating Officer, Performance Food Group Co.*

A

When you think about from a margin standpoint, oral nicotine and the other alternative nicotines are really accretive to margin. But because of taxation cigarettes are definitely a revenue driver.

**Karen Holthouse**

*Analyst, Citigroup Global Markets, Inc.*

Q

Okay, great. That's it for me.

**Operator:** Thank you. We will take our last question from Peter Saleh with BTIG. Please go ahead.

**Peter Saleh**

*Analyst, BTIG LLC*

Q

Great. Thanks for taking the question. I apologize if you guys covered this already, but just curious if you can comment. I know we've been seeing across the restaurant space that really casual dining has really been outperforming QSR and fast casual. And it seems like fast casual has really taken us a leg down in the most recent quarter or two. Just curious if you guys can comment on if you're seeing the same thing within your customer base and any thoughts on why the – maybe why the customer shifted so much in the past couple of months?

**George L. Holm**

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

A

Well casual dining has been a big part of our business for many years. And we supply a lot of the large casual dining chains and they're doing better versus the previous year in many instances, but they're doing much worse than they were doing in 2019. So there's a little bit of the kind of bouncing off the bottom. I think there's some that have done some great marketing. They have their pricing to where they're at least a similar value to fast casual with a higher touch with the customer. So I think that's helping them. I don't know that there's a long-term change with what seeing today. You just got to watch it and see what happens, but I don't think there's a long-term change.

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**Peter Saleh**

*Analyst, BTIG LLC*



Great. Thank you very much.

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**Operator:** Thank you. And this concludes our Q&A session. I will now turn the call back to Bill Marshall for closing remarks.

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**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.

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**Operator:** Thank you. And this does conclude today's program. Thank you for your participation. You may disconnect at any time.

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