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Performance Food Group Co. (PFGC)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to PFG's Fiscal Year Q2 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' CFO. We issued a press release this morning regarding our 2026 fiscal second 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 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. Before jumping into our second quarter results, I would like to recognize George Holm. As we announced in December, after nearly 25 years with Performance Food Group, George has retired from his role as CEO. Over his career, George built an impeccable reputation as an industry leader, a visionary and an agent of growth. Since PFG's IPO in [audio gap] (00:02:11), sales have more than quadrupled to over $60 billion and the market cap of PFG has increased seven-fold. Much of which can be attributed to the vision and influence George has had on the company.

More importantly, because of George's stewardship, PFG is defined by more than just financial results. It is a place where people want to work, where customers and suppliers want to do business and a preferred partner for strategic M&A. There's a reason that PFG is often the first and sometimes only call from perspective acquisition opportunities. Many of you have had the opportunity to meet with George and experience his knowledge and insight first-hand. On behalf of our entire organization, I would like to share my heartfelt thanks to George for everything he's done for the many thousands of people who have crossed his path.

I'm also thrilled that George will continue to play an important role for PFG. As Executive Chair of our board, he will be heavily involved in the pursuit of strategic M&A opportunities, maintain his connection to key customers and be active in PFG's overarching strategy. Following an industry icon like George comes with great responsibility, and I'm excited to take the helm and lead PFG through our next chapter. George and I have worked together closely for the past four years, developed a powerful friendship and collaborated on the vision for PFG. As I look ahead, I'm excited to lead this organization and I'm extremely confident in our ability to continue to drive growth and EBITDA performance by executing on our strategic priorities.

In May, we outlined our three-year strategic vision, which the company and I are deeply committed to delivering. More specifically, this is a roadmap grounded by a balance of continued revenue growth and market share gains, gross margin enhancement initiatives and improving operating leverage. The organization is off to a solid start in achieving our three-year plan and have strategies in place that give us a high level of confidence we will deliver. Let's now turn to our results for the second quarter of our fiscal 2026.

Despite a difficult macro environment, I'm proud of our organization's ability to overcome the challenges in the final months of the calendar year. The quarter saw declining foot traffic, the impact of the government shutdown and softer sales per location across our segments. Despite the challenging backdrop, our company was able to post solid revenue and profit performance within our previously stated guidance range.

Breaking it down by segment, let's begin with Foodservice. Our organization delivered 5.3% organic independent case growth driven by 5.8% independent account growth. During the quarter, we gained share across independent, regional and national business, largely consistent with our gains in prior quarters. Share gains were broad based across a range of concepts with particular strength in chicken, burger, barbecue and seafood restaurants. To elaborate further, after a strong start to October, volume trends moderated soon after the government shutdown took effect. We did see some recovery once the shutdown was lifted and we finished the calendar year with case growth in December roughly in line with the November result.

According to Black Box data, industry-wide foot traffic decelerated through the quarter with December traffic down 3.5%. Our chain restaurant business followed a similar glide path, reflecting consistent industry pressures. Our total chain restaurant volume grew by low single digits year-over-year as new business we've on-boarded over the past several quarters offset the softer traffic environment. We attribute our consistent market share outperformance in part to our efforts behind growing, training and supporting the best sales force in the foodservice industry.

Our efforts in this area are proven out in the independent restaurant space. We continued to hire new associates during the period ending December with nearly 6% more salespeople than we had at the end of calendar 2024. As we have discussed on past calls, we do not have a corporate-wide hiring mandate nor do we require artificial hiring goals. Instead, we emphasize the importance of expanding our sales force as a key driver of volume and market share growth while empowering our local operating companies to hire according to their specific needs. We still believe a rate of hiring at or above 6% makes sense for the long-term support of our growth rate, but expect this number to fluctuate in any given period.

I want to take a moment to discuss the integration of Cheney Brothers. As we discussed last quarter, we are pleased with the work being done at Cheney and expect this company to be a significant contributor to PFG's revenue and profit growth long into the future. That said, we have been very consistent in our messaging around synergy, timing and when we expect the financial performance of Cheney to accelerate. When we made the acquisition, Cheney was making meaningful investments in its infrastructure to support growth. More specifically, the addition of a new 350,000 square foot facility in Florence, South Carolina and a new 42,000 square foot facility in St. Cloud, Florida to expand its manufacturing capabilities.

These investments along with other integration costs have had a short-term impact on Cheney's performance and our overall P&L. Despite this activity, Cheney continues to grow independent cases at a rate consistent with the rest of our foodservice operating companies, gain share in its distribution markets and provide its customer base with great service.

To close out my comments on Cheney, I want to remind you that we anticipate the majority of the synergies to start flowing through the income statement late in year two through year three after the close of the acquisition. Profit performance for Cheney should begin accelerating accordingly. All in, our Foodservice segment had a solid second quarter growing volume through market share gains, new business wins and expansion of our private brand portfolio.

We faced two meaningful EBITDA hurdles in the quarter that are likely to persist into Q3 with my earlier comments on Cheney and the impact of cheese and poultry deflation. Despite the challenges, we remain confident in our strategy and expect our results to accelerate as we move through our fourth quarter, setting us up for a strong fiscal 2027.

Turning to the Convenience segment, on our prior earnings calls, we disclosed the addition of sizable new business wins for Core-Mark. In the final weeks of September, we successfully on-boarded over 500 Love's stores, contributing nicely to our second quarter results. Also joining the Core-Mark fold in December were over 600 RaceTrac locations, which we successfully integrated into our network, setting the segment up for a strong finish to fiscal 2026.

Let's look at the Convenience segment's performance during the second quarter. Net sales increased 6.1%, benefiting from market share gains and the on-boarding of the new accounts just discussed. Our data shows a mid-single digit industry decline in the key convenience categories as persistent inflation continues to weigh on the channel. Core-Mark's positive volume results reflect the company's strong share gain outperformance and execution during the period.

Convenience segment sales were driven by low-single-digit dollar growth from food, foodservice and related products and mid-teen non-combustible nicotine product sales growth. Cigarette sales were flattish in the period. As a reminder, the mix shift away from cigarettes towards other nicotine categories and growth in food, foodservice and related products causes a revenue headwind but is nicely accretive to our gross margins. This dynamic is a consistent secular tailwind for our profit growth, which we expect to gain momentum over time.

Moving on to profit. In the second quarter, our Convenience segment adjusted EBITDA increased 13.4% as a result of strong cost discipline and operating efficiencies in addition to business from Love's and RaceTrac. Once again, our great team at Core-Mark showed remarkable resilience and the ability to drive profit growth despite a challenging backdrop.

Turning to Specialty, trends in the second quarter were broadly similar to the first quarter with a modest improvement in top-line trends coupled with nice productivity gains, which produced segment-adjusted EBITDA margin expansion. Sales growth was tempered by another difficult quarter in theater, which was down over 30%, representing an approximate $50 million drag on overall sales. Outside of theater, Specialty performed well, growing sales at a high-single to low-double-digit rate in the vending, office coffee, retail, campus and travel channels. Proactive management of operating expenses produced nearly 7% segment-adjusted EBITDA growth in the quarter, representing 40 basis points of margin expansion.

Closing out my remarks, it's certainly been a dynamic operating environment to take over as PFG's CEO. That said, I'm inspired by our organization's ability to consistently gain share across our business segments, operate safely while delivering exceptional customer service and enhance our operating leverage, driving sustained growth in EBITDA dollars and margins for our shareholders. Our diversification seeks to provide consistent performance in a range of economic scenarios, and our strong pipeline of new potential 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?

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 second quarter, provide color on our financial position and review our updated guidance for 2026. To echo Scott's comments, despite challenges in the quarter, we are very pleased with our progress through the first six months of 2026. Through December, we continue to make progress on our financial position as our strong cash flow was used to invest behind our business to drive growth and reduce leverage.

We believe that the investments we are making today will pay off nicely as we execute our strategy. In a moment, I will provide additional color on our financial position and capital allocation priorities. First, let's review our results for the second quarter.

PFG's total net sales grew 5.2% in the second quarter with growth in all three operating segments and particular strength in Foodservice and Convenience. Total company cases increased 3.4% during the quarter, highlighted by a 5.3% organic independent restaurant case growth and a 6.3% organic case gain in our Convenience segment. As a reminder, having fully lapped the Cheney Brothers acquisition as of the second week of the second quarter, Cheney was reported as part of our organic business for the vast majority of the period.

As Scott mentioned in our Convenience business, we are very pleased with the contribution from the addition of Love's and are looking forward to the benefit of the RaceTrac business, which started on-boarding late in the second quarter. These businesses are expected to deliver incremental sales and profit dollars over the next several quarters.

Total company cost inflation was approximately 4.5% for the quarter, just slightly higher than what we experienced in the prior quarter. With that said, there were some items moving around within our cost basket. Foodservice inflation of 1.8% was below recent trends with notable deflation in the cheese and poultry categories, somewhat offset by higher inflation in beef. Specialty segment cost inflation was 5.4% year-over-year, about 140 basis points higher than the prior quarter, mainly the result of candy and hot drink price inflation.

Convenience cost inflation increased 7.4%, again slightly higher than the prior quarter due to inflation in tobacco and candy. As Scott mentioned, the inflation impact on the Convenience segment sales growth is offset by the revenue mix shift away from cigarettes. The inflationary environment has been volatile over the past several years, but as a company, we have demonstrated our ability to handle a range of outcomes. We continue to model inflation rates remaining in the low single to mid-single digit range throughout 2026.

Moving down to P&L, total company gross profit increased 7.6% in the second quarter, representing a gross profit per case increase of $0.20 as compared to the prior year's period. We are very pleased with our gross profit results, which shows our organization's resilience and long-term growth opportunity. In the second quarter of 2026, PFG reported net income of $61.7 million, a 45.5% increase year-over-year. Adjusted EBITDA increased 6.7% to $451 million with all three operating segments contributing to our adjusted EBITDA growth.

Diluted earnings per share in the fiscal second quarter was $0.39 while adjusted diluted earnings per share was $0.98, flat year-over-year. Our EPS was impacted by several below-the-line items, including higher interest expense and effective tax rate in the period. Our interest expense increased due to higher finance lease costs, offsetting lower debt balances and more favorable interest rates.

Looking ahead, we anticipate a very modest sequential decline in the net interest expense. Our effective tax rate was 28.8% in the second quarter, an increase from 25.2% last year. The increase in our quarterly effective tax rate was due to a decrease in deductible items related to stock-based compensation and an increase in foreign taxes as a percentage of income, partially offset by an increase in tax credits. We continue to expect our 2026 tax rate to be close to our historical average.

Turning to our financial position and cash flow performance. In the first six months of 2026, PFG generated $456 million of operating cash flow, an increase of $77 million compared to the same period last year. We invested about $192 million in capital expenditures during the first six months. 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. In the first half of 2026, we generated about $264 million of free cash flow, up nearly $89 million compared to last year. We did not repurchase any shares under our share repurchase program in the quarter. We will be opportunistic around share repurchase, but our priority remains 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 third quarter of 2026 and updated our range for the full year. For the third quarter, we expect net sales to be in the range of $16 billion to $16.3 billion and adjusted EBITDA between $390 million and $410 million. These ranges include continued deflation in cheese and poultry, the investment in our business, including on-boarding of new capacity at Cheney and continuation of a difficult backdrop for our Specialty segment. We have also contemplated the impact of the recent winter storms in our outlook for the third quarter.

For the full fiscal year, our sales target is now a range of $67.25 billion to $68.25 billion. We now expect full year adjusted EBITDA in a range of $1.875 billion to $1.975 billion for 2026. The adjustments in our full-year projections are largely a flow-through of the more difficult second quarter period. 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, we are pleased with our progress despite a difficult operating environment in the second quarter. We are in a solid financial position, which supports our growth investments and capital return to our shareholders and expect strong execution in the second half of the year. Thank you for your time today. We appreciate your interest in Performance Food Group.

And with that, Scott and I will 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.

Mark Carden
Analyst, UBS Securities LLC

Q

Great. Good morning. Thanks so much for taking the questions. So, to start, on organic independent case growth, you started the quarter with some solid momentum, called out the shutdown. Any additional color you can add on performance by month? And then you also just called out some of the recent weather headwinds and impact to guidance. How is January lined up relative to your initial expectations? And do you still see a path to that 6% organic independent case growth for the full year?

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

A

Hi, Mark. This is Scott. Great questions. And as you talked about, in Q2, we started the quarter in October fairly strong. That was the strongest period of the quarter. And then obviously the shutdown certainly had an impact the longer it carried on. We saw in November and December months, relatively equivalent, definitely some choppiness week-to-week. And then as we moved into January, we saw really nice rebound, nice performance in January. And then, certainly, as you know, the start of February has been materially impacted by weather. Last week, really a good portion of the country was impacted. And this week, a little more isolated to the eastern half and the southeast, but certainly had an impact and something we factored into guidance.

When I look at the big picture, we're very optimistic about the full year. And I think – you called out the 6% target. That's always what we aspire to. That's kind of how our sales organization is geared as we want to be 6% or above. So, we're certainly fighting to get there.

Mark Carden
Analyst, UBS Securities LLC

Q

Great. And then on the sales force front, have you guys seen much of an impact on either new hiring, on retention on the back of some of the earlier uncertainty relating to US Foods discussions perhaps early in the quarter? And then just how did the pace of your sales force growth compared to the recent quarters?

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

A

That's a great question. Really what I look at when I think about sales force hiring and performance is really market share. And as I look at the sales force's market share performance, not just over the last couple of quarters, but over the last five or six quarters, we've been very consistent in our independent market share gains. As far as actual head count, we've been right at that 6% range for the first two quarters of this year. I'm totally comfortable with that level, to see them continue to grow share, to demonstrate through new account acquisition, we're at 5.8% net new account gains this quarter, same last quarter.

But at the end of the day and I talked about this in my comments, we are decentralized around that hiring. We certainly have OpCos that are hiring in the double-digit range and some that are probably below that 6% range.

And we really leave that up to them. But what I use as my gauge is really anchoring back to market share. So, I feel really good about where we're at right now and the availability of talent.

Mark Carden
Analyst, UBS Securities LLC

Q

Great. Thanks so much. Good luck.

Operator: We'll hear next from Alex Slagle with Jefferies. Please go ahead.

Alexander Slagle
Analyst, Jefferies LLC

Q

Thanks and good morning. Just wondering if you could dissect the dynamics at play for the Foodservice business in the second quarter. Seemed like really strong independent growth and the Independent mix, sales jumped a lot, but the OpEx was elevated. You called out the Cheney investments and the cheese, poultry deflation, but maybe you can kind of talk a little bit more about how impactful that was and kind of the cadence of the investments behind Cheney and how that maybe differed from expectations or if that was sort of similar to what you expected?

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

A

Yeah. Let me just start off with Cheney. And I want to take a step back and just – that acquisition is something that we pursued for a long time. It's been a great acquisition to date. It's a great cultural fit. It fills in a geography that is really strategic for us. So, we're really happy with the progress of the acquisition. As I called out in my remarks, we knew going in that we were going to make some material investments in their infrastructure. We have a brand new building that is just completed. We just started receiving product this week. It will start shipping probably over the next three to four weeks. So, certainly there are some costs related to that. We also opened a new manufacturing facility for them.

So, overall, I would say their costs are running a little bit higher than we anticipated. The other thing that we're taking them through right now is, they transitioning into being part of a public company is -- the integration cost to our benefits, to our payroll, to our financial mapping. So, again, really happy with the acquisition. Certainly, expenses are running a little bit higher than we anticipated.

And then just – you kind of asked about the overall cadence in Foodservice, as you pointed out, really happy with our market share growth both in independent and chain. From a margin standpoint, as we continue to grow that independent market share, that mix really helps our margin. So, that's performed really well.

And then, I think from an OpEx standpoint, in the core Foodservice, ex-Cheney, we had leverage, but I'd say definitely there's some opportunity in leveraging OpEx in that area as well. But really pretty happy with how the core Foodservice segment performed. And then we talked about the deflation in those two couple categories. Did have an impact on margins for sure. We over-indexed in those two categories. So, really, summing it all up, Cheney and the deflation were really, at the end of the day, the really the miss in the quarter that would have gotten us to the upper half of guidance.

Alexander Slagle
Analyst, Jefferies LLC

Q

Okay. And then, I guess, along same lines that we've been in terms of the improving mix with Convenience EBITDA margin opportunity, I wanted to ask about it. I mean, it's expanded nicely and some of that is the Foodservice growth and some other mix items. But I mean, the Foodservice penetration actually still seems to have a long way to go. I'm kind of curious what that could mean over time for the overall Convenience EBITDA margins as we look out to few years and we continue to grow that portion of your business there?

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

A

Yeah, it's a great callout, Alex. There's a lot of things going on in the Convenience segment that really, I think, help our margin profile over time. You certainly called out Foodservice. And I agree with you, there's a long runway ahead. We continue to grow Foodservice in the high-single-digit/low-double-digit range both in our Convenience segment and our Foodservice segment into Convenience. So, kind of hitting that from two ends. So, that's performing really well.

When you look at the macro of Convenience though, one of the things that's, I think, really encouraging is what's happening in the noncombustible space. So, noncombustible nicotine, oral nicotine and other forms of nicotine that aren't combustible are growing at a rapid pace. Those have a nicer margin profile than combustible cigarettes. So as we see that migration, there's a natural benefit to our margins and mix. So, that's been a great progression. And I think that's going to continue for a long time. So, we feel really good about how we're set up in Convenience from a margin standpoint.

Alexander Slagle
Analyst, Jefferies LLC

Q

Thanks.

Operator: We'll hear next from John Heinbockel with Guggenheim. Please go ahead.

John Heinbockel
Analyst, Guggenheim Securities LLC

Q

Hey, guys. Scott, maybe you can touch on some of the self-help that you referenced back at the Investor Day, particularly strategic procurement. Where are we in that journey? And then maybe as a related question for Patrick, just the impact of deflation on margin comes from where? I don't know if that's mix or inventory gains or how does that flow through?

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

A

Yeah. So, I'll take the first half of that and let Patrick tackle the second. So, John, we at Investor Day talked about procurement opportunities. And we've done a lot of work on that. And certainly in the clean room environment that we had over the last few months, that allowed us to really dig into our own side of the procurement ledger. And really, at the end of the day, it gave us that much more confidence that we're going to be able to get to that top-end of the $100 million to $125 million of procurement synergies over our three-year plan. The cadence of that, I'd say, is fairly linear. I think we're starting to capture some of that in the back half of this year. We'll definitely see capture in year two, in year three and get us to that end number. So, we feel really confident about that.

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

A

Yeah. And John, thanks for the question. I'll jump in here. Yeah, so where are we going to see the impact from the deflation? It's largely going to be in margin, but it could also be a little bit in inventory gains. I mean, you have to remember we have a very large basket of commodity goods that are constantly moving around. We called out cheese and poultry because our expectations for the quarter were higher than what we actually saw come through with the inflation. So, that's the reason we called it out. And because we also over-index in those two commodities versus the rest of the basket.

John Heinbockel
Analyst, Guggenheim Securities LLC

Q

All right. Maybe follow-up for Scott. I know as part of the [ph] US food (00:29:36) process right, there some chain business that had sort of gotten tabled. Does that come back? When does that come back and how material is that?

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

A

Yeah, I think as George mentioned on prior earnings call, we had two or three folks in the pipeline. I'd say fairly material pieces of business that we felt like we had a really good shot at picking up. And as we said, we felt like they were on the fence. Most of those, what they do in that situation is they will renew for the short term. And that's what happened with a couple of these. They signed one-year extensions on their agreements. So, we're certainly still in dialogue. But I would just step back and say, overall, in the foodservice space, we feel really good about our pipeline, both independent and chain in the Convenience space obviously. They're performing exceptionally well from a market share standpoint.

And I'd even step back and look at Specialty and say, we definitely called out the headwind in theater. That's been certainly a challenge. That challenge will really persist for us in the next quarter. That's when we lap at the end of this next or I guess, this third quarter that we're in, we lap a pretty material loss in theater. But the rest of the Specialty segments are really performing pretty well. When I look at vending and retail, our e-commerce platform, we're starting to see some momentum there. So, I feel really good as we get into Q4 that you're going to start to see some nice performance out of the Specialty from a growth standpoint.

John Heinbockel
Analyst, Guggenheim Securities LLC

Q

Thank you.

Operator: We'll move now to Jeffrey Bernstein with Barclays. Please go ahead.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Great. Thank you very much. My first question is just on the M&A topic. Scott, you mentioned the pipeline is robust. Just wondering whether there's any change in performances-specific interest? Seems like you're still working hard on the Cheney integration, maybe costs are coming in a little higher than you thought. So, I was wondering if there's a change to the approach to that M&A, maybe with George stepping back, how we kind of prioritize that process? And then I had one follow-up.

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

A

Yeah, I would say overall really no change to our approach to M&A. I mean, George and I have collaborated on M&A for the last four years. We'll continue to collaborate moving forward on that. We certainly are looking at things in our pipeline. To your point, Cheney, I think has progressed really well. We're really excited about what that's going to bring. And we called out early on that the synergies that we'll see in Cheney really come at the end of year two and year three. And that's really the way we approach M&A. We try not to make any drastic changes in those first couple of years to really let them acclimate to the organization. We try and learn what we can from them as well. And we think that just makes for a much better long-term approach to M&A. And that's paid off with Reinhart, that's paid off with Core-Mark and it's certainly going to pay off with Cheney.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Understood. And then just to follow up on the independent organic case growth, I know you've talked about always targeting kind of that 6%-type range, but [ph] I think the question is (00:33:00) going to be a little bit more of a fight to get there in the fiscal third quarter. So I'm wondering if you could share any kind of current run rate or your expectation for that third quarter?

And there was just a passing mention on the weather, I was expecting to hear something more material. I was wondering whether you could quantify how much potentially that weather impact has had on sales, which were modest, below street expectations for the third quarter, but EBITDA, which was well below. Just trying to gauge primary driver of that EBITDA shortfall, whether weather had a more outsized impact or whether it's primarily Cheney? Thank you.

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

A

Well, I'll talk to the cadence of the quarter and Patrick might want to fill in a couple things here. We actually started January off really nicely. I would say it was, call it, a rebound from where we were at in December, it picked up nicely in January. And then certainly, last week's weather was impactful. And I think going into this week certainly having an impact as well. And that's certainly something that we took into consideration when we talked about our guide for the third quarter and the full year. Patrick, anything you want to...

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

A

Yeah. Just a couple of comments on the guidance for Q3. Really what we have embedded in that guidance in the EBITDA is, we do expect to see some continuation of the OpEx challenges that we've had with Cheney that we saw in Q2, will continue in Q3. We also are seeing that deflation impact from cheese and poultry continue into Q3. Scott touched on Specialty, and then obviously, the weather, we contemplate that, we've had bad weather last year, two years ago, during this quarter. It is our smaller quarter. It's very hard to obviously nail down weather. But we have recently experienced two weeks of impact from weather. And as Scott mentioned, we did see a nice uptick in independent cases as we entered this quarter. And we have the Convenience with their new RaceTrac customer being for the full quarter. So, we have some tailwinds as well. And that's really kind of how we built out the guidance for the quarter.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Thank you.

Operator: We'll turn next to Edward Kelly with Wells Fargo. Please go ahead.

Edward Kelly
Analyst, Wells Fargo Securities LLC

Q

Yeah. Hi. Good morning, everyone. I'm sure George is listening. If he is, he will be missed. And Scott, I just want to say congratulations. I wanted to follow up on the cost side, for you – as it pertains to some of the higher-than-expected costs related to Cheney, I would think that the weather disruption probably adds some added costs too. I'm curious as we think about when the business normalizes and we look out into the next fiscal year, are there tailwinds associated with lapping this type of stuff? Just kind of curious as to how sort of like one-time in nature some of the stuff is?

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

A

It's a great question, Ed. And certainly as we talked about Cheney, the major investment in a facility, that's a 350,000-square foot facility that we're staffing and have been staffing over the last couple of months. And that won't be fully online until probably two months from now. So, you've definitely got some expense involved with that. And then, as you called out, certainly weather creates some expense challenges. As I look at the three-year guidance, I think that's really where we contemplated what those tailwinds look like. And certainly our synergies in Cheney, we expect to come in years two and really into year three. And that's going to be a nice contributor to our three-year guidance. And we feel really strong about delivering that.

Edward Kelly
Analyst, Wells Fargo Securities LLC

Q

All right. And then just a follow-up for you. And it pertains to the three-year guide that you referenced, Scott. There's been a concern about disinflation, you've mentioned it on the call today. I guess, first what's embedded in that three-year guide in terms of like an inflation outlook? If Foodservice is just sort of like plodding along at 1% to 2%, is there any issue with hitting the three-year guidance if it's a low level of inflation? Just kind of curious as to how you contemplated all that in that outlook?

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

A

Yeah, this is Patrick and it's a great question. And as we think about the three-year guidance and inflation, we embedded into our models what we thought would be a consistent number. And we've always said where we are right now is pretty good. We're calling out the deflation this quarter just because, as I've mentioned, our expectations were cheese and poultry specifically were going to not be as deflationary as they are. So, when we think about the three-year guidance, we have a lot of confidence in hitting that guidance. We're very much on track if you look at where we're projecting this full-year guidance to be. And then, as we enter next year, we have just a lot of confidence in executing our strategy, continuing to take market share, and then, everything else that we've talked about.

Edward Kelly
Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Operator: We'll move now to Kelly Bania with BMO Capital Markets. Please go ahead.

Benjamin Wood
Analyst, BMO Capital Markets Corp.

Q

Hi. Good morning. This is Ben Wood on behalf of Kelly Bania. Thank you for taking our questions. Could you provide any more detail on the monthly cadence of volume trends you saw in Convenience? Some of the industry data we look at suggests that sales trends really accelerated into December and through year-end. Is that consistent with what you guys saw, and if so, how are you thinking about the possibility of some of those key categories in Convenience inflecting positive going forward?

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

It's a great question. As I look back over the full second quarter, those results were, I would say, fairly consistent with what we've seen historically, which was kind of low- to mid-single digit declines in a number of categories. To your point though, as we exited the second quarter in December and maybe even into January, I think one of the things that we benefit from in the Convenience segment is when you get fuel pricing that drops down in some markets into the $2 range, that certainly helps car travel and people being out on the road. Obviously, we were really propelled by new account wins. But even taking that away, we continue to gain share in our Convenience segment both at the chain level, the regional level. So, our segment is performing well. And to your point, I think there are some signs of improved performance in traffic in Convenience.

Benjamin Wood
Analyst, BMO Capital Markets Corp.
Q

Great. Thank you. And then just kind of following up on that. In light of the announcement yesterday from Pepsi, they pretty majorly lowered price in some of their key snack brands. Do you expect others to follow suit? And is there a possibility that some of the snack in Convenience categories might become deflationary off of this? And how does that impact your different businesses?

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

I wouldn't want to make predictions on whether other snack categories would become deflationary. That would be – I've been in this space for 30 years. I've never seen those categories become deflationary. Yesterday's announcement was very interesting. What I've since heard is that, that's primarily just on the big bag. So, right now, we don't see that as being a big impact on our Convenience segment. Certainly that could change and pass along to some other SKUs. But I don't see that becoming an industry trend just based on my historical experience.

Benjamin Wood
Analyst, BMO Capital Markets Corp.
Q

Great. Thank you.

Operator: We'll move now to Lauren Silberman with Deutsche Bank. Please go ahead.

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.
Q

Thank you. So, I wanted to go back on the OpEx side. Can you help us understand how core underlying OpEx is growing ex Cheney? I guess I'm trying to understand how much of the growth is investments in the core business, sales force versus some of the noise with Cheney with the new facilities coming online?

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

It's a great question, Lauren. I would say and I think I said a little earlier in the call, I would say there's certainly always opportunity in getting more expense leverage across all of our segments. I would say in the core Foodservice segment, quarter-over-quarter, our expense performance was fairly consistent. We are certainly seeing leverage as a percent of gross profit dollars in our expenses. So, feel good about how the core is performing, certainly opportunities to improve. But the bulk of our miss in OpEx from what we anticipated was really just the overrun we saw in Cheney.

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. I guess, in the back half of the year, any way to frame how we should be thinking about that growth now that it's in the full segment year-over-year clean? And I guess, is the overrun more of a pull-forward of expenses or higher overall expenses?

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

A

No, I think it was really situational just to Cheney. And as I talked about with new buildings coming on, some of the things that we're doing to get them to be part of our overall public organization has certainly added some cost to them. So, we expect that to continue a little bit into the third quarter as we called out. But in the long run we're a company that's really focused on getting OpEx leverage across all our segments. And I feel very comfortable that in our full year, we'll get that in a position that we feel really comfortable with. And that was all obviously contemplated in our guidance for the full year.

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And then if I could just go on the promotional environment, can you talk about what you're seeing in – amongst competitors, any changes in the promotional environment, especially as one of your big competitors seems to be building some momentum and then there's just some moving pieces to product inflation and how different peers react?

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

A

Certainly. What I said earlier and what I consistently look at is market share gains. And I think we have performed exceptionally well this quarter, last quarter, and now, as I look back for a number of quarters, our market share gains have been very consistent across the independent space, across the chain space as well. So from that perspective, I feel good about how we're performing. That's really my focus. As far as the competitive environment, I would say it's always competitive. I wouldn't say that I saw anything different this quarter or last quarter than I've seen from prior quarters.

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you very much.

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

A

You bet. Thank you.

Operator: We'll move next to Brian Harbour with Morgan Stanley. Please go ahead.

Brian Harbour Q
Analyst, Morgan Stanley & Co. LLC

Thanks. Good morning. [indiscernible] (00:44:23).

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

Brian, we can't hear you.

Operator: Yeah. Your line is difficult. Are you able to pick up a handset?

Brian Harbour Q
Analyst, Morgan Stanley & Co. LLC

Can you hear me now?

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

Yes.

Operator: Perfect.

Brian Harbour Q
Analyst, Morgan Stanley & Co. LLC

Okay, great. On your deflation comments, can you remind us how those products get marked up? And I guess – for like cheese for example, I mean, how much is this sort of like category if you think about pizza over – in contrast to chicken, I would think that, that demand is still very good there, could you just elaborate on that?

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

Yeah. So, just – I'll try to keep this high level. But if we take our independent customers, we're going to have a markup on cost and our salespeople are the ones that determine that. In a deflationary environment, what's happening with these two commodities is there's just oversupply. There's a lot of supply, a lot of capacity came on with cheese. And so it's at a very low point. And same thing with poultry, they're able to increase their supply significantly. They do this from time-to-time and they go over-supply and then they go under-supply. So, again, it's really just over-indexing, because of our customer base in those two commodities that we called this out.

Brian Harbour Q
Analyst, Morgan Stanley & Co. LLC

Yeah, okay, understood. And then just in Convenience, I guess I would assume that there's sort of secular pressure on snack foods and that it's not just the inflation that's happened there, but sort of preferences. I think we're seeing that in grocery stores. So, how much -- do you think that – do you agree with that? And do you think that the convenience stores are sort of committed to replacing some of those products with perhaps healthier options or more on-trend options? Do you think that's happening fast enough such that it sort of improves sales in that segment versus what you've been seeing?

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

A

No, it's a great question. There's a lot to unpack there. The first thing I'd say is just looking at product inflation, if you look at snack and candy, I guess since pre-COVID until today, those are two of the categories that had the highest inflationary increases of any consumable product that's out there. So, certainly, I think that price elevation had an impact on demand. And so, Fritos' response, like I said, has surprised me a little bit because I do think the consumer is catching up. And so, as we talked about we've seen a little heightened demand over the last couple of periods in Convenience.

As far as the mix of products, I think the one real opportunity for us is really in Foodservice. I think the convenience store more and more is becoming a relevant option for high-quality food options. And so, as we think about consumer behavior changing, they want fresher, they want healthier. And convenience stores have an opportunity to fill that need. And we feel that we're somebody that can certainly fill that.

As far as consumer packaged goods and that mix changing, there's been a shift in general to more healthier options in Convenience. And to your point, I think could this kind of dynamic accelerate it? Certainly, it could. But I think as we all know, it takes consumer package companies a while to get products to market. So, I don't see anything dramatically happening quickly.

Operator: We'll move next to Peter Saleh with BTIG. Please go ahead.

Peter Saleh
Analyst, BTIG LLC

Q

Great. Thanks for taking the question. I did want to come back to maybe Jeff's question on the forward guide. Can you just talk a little bit about maybe what's embedded from a macro perspective going forward? I mean we do have some much higher tax refunds coming through that should benefit this quarter or maybe into the first calendar half of the year. Have you embedded any of that into your guide? Have you thought about that? I know you said January was a pretty good month. February, I guess, starting off pretty slow, but I think the quarter is really defined by how March performs. So, any thoughts on that would be helpful.

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

A

Yeah, Peter, it is a really good question. I spend a lot of time looking into the tax refunds, the no taxes on tips or overtime that are going to start coming through and other tailwinds, honestly, I mean, what's the World Cup going to do? All these things as we go through Q3 and Q4. We did not embed those in our guidance, mainly because it's very hard to know what that flow-through is going to be. But we do know that putting more money in the consumer's pocket, especially the folks that are maybe on the lower end, we'll see how much of that goes into the market and how much they use that for discretionary spend into restaurants. But we do know that's a very positive thing. And then we know that the World Cup should also be another tailwind, but we didn't put that in the guidance.

Peter Saleh
Analyst, BTIG LLC

Q

Great, I appreciate that. Can you also comment, I think, last quarter, George commented there could be some changes to the SNAP benefits and that could have an impact, have you seen any change on that front and any impact to date?

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

A

And there's some recently contemplated changes as well. But no, I can't say that we have seen any material impact on any of the changes or contemplated changes in SNAP at this point.

Peter Saleh
Analyst, BTIG LLC

Q

Thank you very much.

Operator: We'll move now to Karen Holthouse with Citi. Please go ahead.

Karen Holthouse
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Thanks for taking the question. I wanted to dig into Florida a little bit and just kind of excluding Cheney Brothers or noise from that, your sense of just the underlying health of that market. I think we're hearing some concerns around travel tourism, particularly international tourism around theme parks and whatnot, being down pretty materially. And then just as snowbird season has gotten underway, any risk that Canadians are avoiding the market this year?

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

A

No, I think it's a great question. And certainly, we have our finger on that pulse pretty closely. The one thing that I would say that I've been very pleased about with Cheney is their independent share gain. They continue to grow independent share at a rate consistent with the rest of our business. And definitely we've been following very closely the travel patterns. And I saw the recent theme park attendance. So, I do think there's been a little bit of a slowdown with international travel and the Canadian travel in the marketplace. But I'll tell you, we have a ton of confidence in Florida overall. I mean that's been a state that's been growing consistently for a number of years and feel like that they're poised for a big rebound in that state. But we're performing really pretty well in the state all things considered.

Karen Holthouse
Analyst, Citigroup Global Markets, Inc.

Q

And then one quick follow-up that just – prior to the bigger weather events that we saw in the last week or so, anything to comment in terms of geographic performance in the quarter to date?

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

A

Oh, it's a really good question. Yeah, we had called out on prior earnings calls that we saw some slowness in the Midwest and we'd also called out areas where we had friends travel from Canada. But as I think back to last quarter, the start of this quarter, particularly the start of this quarter, January which -- January isn't the bellwether month because it's a smaller month, but really saw pretty consistent performance across the map. Didn't see any markets that had any material lulls or surges.

Karen Holthouse
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you.

Operator: [Operator Instructions] We'll turn next to Danilo Gargiulo with Bernstein. Please go ahead.

Danilo Gargiulo
Analyst, Bernstein Institutional Services LLC

Q

Great. Scott, once again, congratulations on your new role. And I want to ask you a more strategic question to begin with. So, as you're embarking in this new role, how would you like your era to be remembered for? In other words, where do you see incremental opportunities for Performance going forward?

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

A

I really appreciate the question. I think it's a great question. One of the reasons that I'm at Performance Food Group is – one of the reasons is that, as I was running Core-Mark that we decided to merge with them as culturally, I truly foundationally believed in what George and Performance Food Group were doing as a company. So, as I've worked with George over the last four years, I would say that we very much align in how we look at the business, I think, fundamentally we're both believers in driving growth both organically and through M&A. I think we both pay particular attention to margin and how mix can help and drive margin.

Culture is very important to me. And then I'd say if there's anything that maybe is a little different is I probably have a little slant towards how are we going to leverage technology, how are we going to leverage that to be more efficient as a company? But outside of that, I'd say George and I, our approach to the business is very consistent. And my priority for this company is to continue to drive that top-line growth, but make sure that everything that we do allows us to flow to the bottom line and that we do with a great culture and make sure this is a great place for people to work.

Danilo Gargiulo
Analyst, Bernstein Institutional Services LLC

Q

Okay. Great. Thank you. And you mentioned margin in your answer. And earlier, you also talked about the discovery that you really had with the – during the process of a potential merger with US Foods on the procurement side. So, I'm wondering, over what timeframe do you expect performance to potentially, starting to close some of the margin gap versus peers? And obviously, the mix impact that is going to be favoring you over time? And what are some of the low-hanging fruit that you think you could capture without impacting the case growth?

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

A

Another great question. I would say that the work we did in the clean room was just a validation. We felt like when we sat down and put together a strategy for Investor Day, this is a company, as I called out in my prior remarks, it's grown dramatically over the last 10 years. And so, we felt like as we sit down with our vendors and partner with our vendors, that there's an opportunity to create cost of goods benefits, to create logistics benefits, just through our size and scale and creating efficiency with our vendor partners. So, I think the clean-room exercise was just a further validation that, that opportunity exists and that we have a clear line of sight to go capture it. And the second – I'm sorry, the second part of your question?

Danilo Gargiulo
Analyst, Bernstein Institutional Services LLC

Q

What is the right timeframe for the closure of the margin gap?

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

A

Yeah, I think, I've called that out a little bit. We really incorporated that procurement synergy into our three-year guide. And as I look at the cadence of that I would say that we're in the early innings. We're in the first couple of quarters of that. But we felt like and still feel like that's going to flow fairly consistently year-to-year. So, I think, my thinking there is unchanged.

Danilo Gargiulo
Analyst, Bernstein Institutional Services LLC

Q

Okay. Thank you.

Operator: As there are no further questions in queue at this time, I would like to turn the call back over to Bill Marshall for any additional or closing comments.

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 brings us to the end of today's meeting. We appreciate your time and participation and you may disconnect.