

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

FORM 10-Q

- ☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 29, 2019
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File No. 001-37786



US FOODS HOLDING CORP.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

26-0347906
(I.R.S. Employer
Identification Number)

9399 W. Higgins Road , Suite 100
Rosemont , IL 60018
(847) 720-8000

(Address, including Zip Code, and telephone number, including area code, of registrant's principal executive offices)

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	USFD	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

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

219,170,948 shares of the registrant's common stock were outstanding as of August 1, 2019 .

Forward-Looking Statements

Statements in this Quarterly Report on Form 10-Q (this “Quarterly Report”) which are not historical in nature are “forward-looking statements” within the meaning of the federal securities laws. These statements often include words such as “believe,” “expect,” “project,” “anticipate,” “intend,” “plan,” “outlook,” “estimate,” “target,” “seek,” “will,” “may,” “would,” “should,” “could,” “forecast,” “mission,” “strive,” “more,” “goal,” or similar expressions and are based upon various assumptions and our experience in the industry, as well as historical trends, current conditions, and expected future developments. However, you should understand that these statements are not guarantees of performance or results, and there are a number of risks, uncertainties and other important factors that could cause our actual results to differ materially from those expressed in the forward-looking statements, including, among others:

- cost inflation/deflation and commodity volatility;
- competition;
- reliance on third-party suppliers and interruption of product supply or increases in product costs;
- changes in our relationships with customers and group purchasing organizations;
- ability to increase or maintain sales to independent restaurants;
- effective integration of acquired businesses;
- achievement of expected benefits from cost savings initiatives;
- increases in fuel costs;
- economic factors affecting consumer confidence and discretionary spending;
- changes in consumer eating habits;
- reputation in the industry;
- labor relations and costs and continued access to qualified and diverse labor;
- cost and pricing structures;
- changes in tax laws and regulations and resolution of tax disputes;
- environmental, health and safety and other government regulation;
- product liability claims;
- adverse judgments or settlements resulting from litigation;
- disruption of existing technologies and implementation of new technologies;
- cybersecurity incidents;
- management of retirement benefits and pension obligations;
- extreme weather conditions, natural disasters and other catastrophic events;
- risks associated with intellectual property, including potential infringement;
- indebtedness and restrictions under agreements governing indebtedness;
- interest rate increases; and
- factors relating to ownership of our common stock.

For a detailed discussion of these and other risks, uncertainties and factors, see Part I, Item 1A— “Risk Factors,” of our Annual Report on Form 10-K for the fiscal year ended December 29, 2018 (the “2018 Annual Report”).

All forward-looking statements contained in this Quarterly Report speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements.

Comparisons of results between current and prior periods are not intended to express any future trends, or indications of future performance, and should be viewed only as historical data.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

US FOODS HOLDING CORP.
CONSOLIDATED BALANCE SHEETS
(In millions, except par value)

	June 29, 2019	December 29, 2018
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 96	\$ 104
Accounts receivable, less allowances of \$28 and \$29	1,391	1,347
Vendor receivables, less allowances of \$3 and \$3	170	106
Inventories—net	1,277	1,279
Prepaid expenses	94	106
Assets held for sale	1	7
Other current assets	13	30
Total current assets	3,042	2,979
Property and equipment—net	1,836	1,842
Goodwill	3,967	3,967
Other intangibles—net	304	324
Deferred tax assets	6	7
Other assets	184	67
Total assets	\$ 9,339	\$ 9,186
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Cash overdraft liability	\$ 139	\$ 157
Accounts payable	1,535	1,359
Accrued expenses and other current liabilities	438	454
Current portion of long-term debt	104	106
Total current liabilities	2,216	2,076
Long-term debt	3,101	3,351
Deferred tax liabilities	286	298
Other long-term liabilities	301	232
Total liabilities	5,904	5,957
Commitments and contingencies (Note 17)		
Shareholders' equity:		
Common stock, \$0.01 par value—600 shares authorized; 219 and 217 issued and outstanding as of June 29, 2019 and December 29, 2018, respectively	2	2
Additional paid-in capital	2,811	2,780
Retained earnings	718	531
Accumulated other comprehensive loss	(96)	(84)
Total shareholders' equity	3,435	3,229
Total liabilities and shareholders' equity	\$ 9,339	\$ 9,186

See Notes to Consolidated Financial Statements (Unaudited).

US FOODS HOLDING CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(In millions, except per share data)*

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net sales	\$ 6,443	\$ 6,158	\$ 12,474	\$ 11,981
Cost of goods sold	5,301	5,044	10,280	9,875
Gross profit	1,142	1,114	2,194	2,106
Operating expenses:				
Distribution, selling and administrative costs	948	909	1,869	1,796
Restructuring (benefits) costs	—	(1)	—	1
Total operating expenses	948	908	1,869	1,797
Operating income	194	206	325	309
Other income—net	(2)	(3)	(4)	(6)
Interest expense—net	42	48	84	91
Income before income taxes	154	161	245	224
Income tax provision	38	35	58	31
Net income	116	126	187	193
Other comprehensive income—net of tax:				
Changes in retirement benefit obligations	1	25	2	26
Unrecognized (loss) gain on interest rate swaps	(8)	3	(14)	12
Comprehensive income	\$ 109	\$ 154	\$ 175	\$ 231
Net income per share				
Basic	\$ 0.53	\$ 0.58	\$ 0.86	\$ 0.90
Diluted	\$ 0.53	\$ 0.58	\$ 0.85	\$ 0.89
Weighted-average common shares outstanding				
Basic	218	216	218	215
Diluted	219	218	219	217

(*) Prior year amounts may have been rounded to conform with the current year presentation.

See Notes to Consolidated Financial Statements (Unaudited).

US FOODS HOLDING CORP.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)
(In millions)*

	Number of Common Shares	Common Shares at Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
BALANCE—December 29, 2018	217	\$ 2	\$ 2,780	\$ 531	\$ (84)	\$ 3,229
Share-based compensation expense	—	—	6	—	—	6
Proceeds from employee stock purchase plan	—	—	5	—	—	5
Exercise of stock options	1	—	6	—	—	6
Tax withholding payments for net share-settled equity awards	—	—	(2)	—	—	(2)
Changes in retirement benefit obligations, net of income tax	—	—	—	—	1	1
Unrecognized loss on interest rate swaps, net of income tax	—	—	—	—	(6)	(6)
Net income	—	—	—	71	—	71
BALANCE—March 30, 2019	218	2	2,795	602	(89)	3,310
Share-based compensation expense	—	—	9	—	—	9
Proceeds from employee stock purchase plan	—	—	5	—	—	5
Exercise of stock options	1	—	5	—	—	5
Tax withholding payments for net share-settled equity awards	—	—	(3)	—	—	(3)
Changes in retirement benefit obligations, net of income tax	—	—	—	—	1	1
Unrecognized loss on interest rate swaps, net of income tax	—	—	—	—	(8)	(8)
Net income	—	—	—	116	—	116
BALANCE—June 29, 2019	219	2	2,811	718	(96)	3,435

	Number of Common Shares	Common Shares at Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
BALANCE—December 30, 2017	215	\$ 2	\$ 2,720	\$ 124	\$ (95)	\$ 2,751
Share-based compensation expense	—	—	7	—	—	7
Proceeds from employee stock purchase plan	—	—	4	—	—	4
Exercise of stock options	1	—	7	—	—	7
Changes in retirement benefit obligations, net of income tax	—	—	—	—	1	1
Unrecognized gain on interest rate swaps, net of income tax	—	—	—	—	9	9
Net income	—	—	—	67	—	67
BALANCE—March 31, 2018	216	2	2,738	191	(85)	2,846
Share-based compensation expense	—	—	10	—	—	10
Proceeds from employee stock purchase plan	—	—	6	—	—	6
Exercise of stock options	1	—	9	—	—	9
Tax withholding payments for net share-settled equity awards	—	—	(5)	—	—	(5)
Changes in retirement benefit obligations, net of income tax	—	—	—	—	25	25
Unrecognized gain on interest rate swaps, net of income tax	—	—	—	—	3	3
Net income	—	—	—	126	—	126
BALANCE—June 30, 2018	217	2	2,758	317	(57)	3,020

(*) Prior year amounts may have been rounded to conform with the current year presentation.

See Notes to Consolidated Financial Statements (Unaudited).

US FOODS HOLDING CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In millions)*

	26 Weeks Ended	
	June 29, 2019	June 30, 2018
Cash flows from operating activities:		
Net income	\$ 187	\$ 193
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	173	165
Gain on disposal of property and equipment—net	(1)	(1)
Amortization of deferred financing costs	2	5
Deferred tax (benefit) provision	(7)	38
Share-based compensation expense	15	17
Provision for doubtful accounts	10	9
Changes in operating assets and liabilities:		
Increase in receivables	(118)	(98)
Decrease in inventories—net	2	—
Decrease (increase) in prepaid expenses and other assets	1	(19)
Increase in accounts payable and cash overdraft liability	164	175
Decrease in accrued expenses and other liabilities	(34)	(173)
Net cash provided by operating activities	394	311
Cash flows from investing activities:		
Acquisition of businesses—net of cash	—	(1)
Proceeds from sales of property and equipment	8	2
Purchases of property and equipment	(110)	(117)
Net cash used in investing activities	(102)	(116)
Cash flows from financing activities:		
Proceeds from debt borrowings	2,006	2,151
Principal payments on debt and financing leases	(2,318)	(2,383)
Contingent consideration paid for business acquisitions	—	(2)
Payment for debt financing costs and fees	(4)	(1)
Proceeds from employee stock purchase plan	10	10
Proceeds from exercise of stock options	11	16
Tax withholding payments for net share-settled equity awards	(5)	(5)
Net cash used in financing activities	(300)	(214)
Net decrease in cash, cash equivalents and restricted cash	(8)	(19)
Cash, cash equivalents and restricted cash—beginning of period	105	119
Cash, cash equivalents and restricted cash—end of period	\$ 97	\$ 100
Supplemental disclosures of cash flow information:		
Interest paid—net of amounts capitalized	\$ 90	\$ 88
Income taxes paid—net	73	42
Property and equipment purchases included in accounts payable	19	13
Leased assets obtained in exchange for financing lease liabilities	57	68
Leased assets obtained in exchange for operating lease liabilities	2	—
Cashless exercise of stock options	1	1

(*) Prior year amounts may have been rounded to conform with the current year presentation.

See Notes to Consolidated Financial Statements (Unaudited).

US FOODS HOLDING CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Amounts in tables in millions, except per share data, unless otherwise noted)

1. OVERVIEW AND BASIS OF PRESENTATION

US Foods Holding Corp., a Delaware corporation, and its consolidated subsidiaries are referred to in these consolidated financial statements and notes as “we,” “our,” “us,” the “Company,” or “US Foods.” US Foods Holding Corp. conducts all of its operations through its wholly owned subsidiary US Foods, Inc. (“USF”) and its subsidiaries. All of the Company’s indebtedness, as further described in Note 10, Debt, is a direct obligation of USF and its subsidiaries.

Business Description —The Company, through USF, operates in one business segment in which it markets and distributes fresh, frozen and dry food and non-food products to foodservice customers throughout the United States. These customers include independently owned single and multi-unit restaurants, regional concepts, national restaurant chains, hospitals, nursing homes, hotels and motels, country clubs, government and military organizations, colleges and universities, and retail locations.

Basis of Presentation —The Company operates on a 52 or 53-week fiscal year, with all periods ending on a Saturday. When a 53-week fiscal year occurs, the Company reports the additional week in the fiscal fourth quarter. Fiscal years 2019 and 2018 are both 52-week fiscal years.

The consolidated financial statements included in this Quarterly Report have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and disclosures normally included in financial statements and notes prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The Company believes that the disclosures included in this Quarterly Report are adequate to make the information presented not misleading. These interim consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes included in the 2018 Annual Report. Prior year amounts may have been rounded to conform with the current year presentation in millions.

The consolidated interim financial statements reflect all adjustments (consisting of normal recurring items, unless otherwise disclosed) necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for interim periods are not necessarily indicative of the results that might be achieved for the full fiscal year.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2018-02, *Income Statement, Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income*. This new guidance permits an entity to reclassify the income tax effects of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) on items within accumulated other comprehensive income to retained earnings. The Company adopted this guidance at the beginning of fiscal year 2019 and elected not to reclassify the income tax effects of the Tax Act from accumulated other comprehensive income to retained earnings.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which supersedes Accounting Standards Codification (“ASC”) 840, *Leases*, and has issued subsequent amendments to Topic 842. The Company adopted Topic 842 on December 30, 2018, the effective and initial application date, using the modified retrospective approach. The Company elected the package of practical expedients permitted under the transition guidance within Topic 842, which, among other things, allowed the Company to carry forward the historical lease classification. Adoption of Topic 842 resulted in the recording of additional net lease assets and lease liabilities of approximately \$100 million, as of December 30, 2018. The initial adoption of Topic 842 did not materially impact the Company’s Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flows. The Company has revised its relevant policies and procedures, as applicable, to meet the new accounting, reporting and disclosure requirements of Topic 842. See Note 12, Leases.

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which provides new guidance on the accounting for implementation, set-up, and other upfront costs incurred in a hosted cloud computing arrangement. Under the new guidance, entities will apply the same criteria for capitalizing implementation costs as they would for an internal-use software license arrangement. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. This ASU can be adopted prospectively to eligible costs

incurred on or after the date of adoption or retrospectively. The Company does not expect the adoption of the guidance under the new standard to materially affect its financial position or results of operations.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires entities to use a forward looking, expected loss model to estimate credit losses. It also requires additional disclosure related to credit quality of trade and other receivables, including information related to management's estimate of credit allowances. ASU 2016-13 was further amended in November 2018 by ASU 2018-19, *Codification Improvements to Topic 236, Financial Instrument-Credit Losses*. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company does not expect the adoption of the provisions of the new standard to materially affect its financial position or results of operations.

3. REVENUE RECOGNITION

The Company recognizes revenue when the performance obligation is satisfied, which occurs when a customer obtains control of the promised goods or services. The amount of revenue recognized reflects the consideration which the Company expects to be entitled to receive in exchange for these goods or services. The Company generates substantially all of its revenue from the distribution and sale of food and food-related products and recognizes revenue when title and risk of loss passes and the customer accepts the goods, which occurs at delivery. Customer sales incentives such as volume-based rebates or discounts are treated as a reduction of revenue at the time the revenue is recognized. Sales taxes invoiced to customers and remitted to governmental authorities are excluded from net sales. Shipping and handling costs are treated as fulfillment costs and included in distribution, selling and administrative costs.

At June 29, 2019, the Company did not have any material outstanding performance obligations, contract liabilities or capitalized contract acquisition costs. Customer receivables, which are included in accounts receivable, less allowances in the Company's Consolidated Balance Sheets, were \$1.4 billion and \$1.3 billion at June 29, 2019 and December 29, 2018, respectively.

The Company has certain customer contracts under which incentives are paid upfront to its customers. These payments have become industry practice and are not related to financing any customer's business, nor are they associated with any distinct good or service to be received from any customer. These incentive payments are capitalized in prepaid expenses and other assets and amortized as a reduction of revenue over the life of the contract or as goods or services are transferred to the customer. The Company's contract assets for these upfront payments were \$34 million and \$37 million included in prepaid expenses in the Company's Consolidated Balance Sheets at June 29, 2019 and December 29, 2018, respectively, and \$38 million and \$28 million included in other assets in the Company's Consolidated Balance Sheets at June 29, 2019 and December 29, 2018, respectively.

The following table presents the disaggregation of revenue for each of the Company's principal product categories:

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Meats and seafood	\$ 2,340	\$ 2,218	\$ 4,497	\$ 4,286
Dry grocery products	1,094	1,069	2,154	2,111
Refrigerated and frozen grocery products	1,034	973	2,022	1,917
Dairy	661	650	1,266	1,260
Equipment, disposables and supplies	618	588	1,194	1,128
Beverage products	348	335	677	654
Produce	348	325	664	625
Net sales	<u>\$ 6,443</u>	<u>\$ 6,158</u>	<u>\$ 12,474</u>	<u>\$ 11,981</u>

4. INVENTORIES

The Company's inventories, consisting mainly of food and food-related products, are primarily considered finished goods. Inventory costs include the purchase price of the product, freight costs to deliver it to the Company's distribution facilities, and depreciation and labor related to processing facilities and equipment, and are net of certain cash or non-cash consideration received from vendors. The Company assesses the need for valuation allowances for slow-moving, excess and obsolete inventories by estimating the net recoverable value of such goods based upon inventory category, inventory age, specifically identified items, and overall economic conditions.

The Company records inventories at the lower of cost or market, using the last-in, first-out (“LIFO”) method. The base year values of beginning and ending inventories are determined using the inventory price index computation method. This “links” current costs to original costs in the base year when the Company adopted LIFO. At June 29, 2019 and December 29, 2018, LIFO reserves in the Company’s Consolidated Balance Sheets were \$142 million and \$130 million, respectively. As a result of changes in LIFO reserves, cost of goods sold increased \$14 million and decreased \$11 million for the 13 weeks ended June 29, 2019 and June 30, 2018, respectively, and increased \$12 million and \$8 million for the 26 weeks ended June 29, 2019 and June 30, 2018, respectively.

5. ACCOUNTS RECEIVABLE FINANCING PROGRAM

Under its accounts receivable financing facility (the “ABS Facility”), USF sells, on a revolving basis, eligible receivables to a wholly owned, special purpose, bankruptcy remote subsidiary (the “Receivables Company”). The Receivables Company, in turn, grants a continuing security interest in all of its right, title and interest in the eligible receivables to the administrative agent, for the benefit of the lenders. The Company consolidates the Receivables Company and, consequently, the transfer of the eligible receivables is a transaction internal to the Company and the eligible receivables have not been derecognized from the Company’s Consolidated Balance Sheets. Included in the Company’s accounts receivable balance as of June 29, 2019 and December 29, 2018 was approximately \$1.0 billion of receivables held as collateral in support of the ABS Facility. See Note 10, Debt, for a further description of the ABS Facility.

6. ASSETS HELD FOR SALE

The Company classifies its closed facilities as assets held for sale at the time management commits to a plan to sell the facility, the facility is actively marketed and available for immediate sale, and the sale is expected to be completed within one year. Due to market conditions, certain facilities may be classified as assets held for sale for more than one year while the Company continues to actively market the facilities. The change in assets held for sale for the 26 weeks ended June 29, 2019 was as follows:

Balance at December 29, 2018	\$	7
Assets sold		(6)
Balance at June 29, 2019	\$	<u>1</u>

During the 26 weeks ended June 29, 2019, a closed distribution facility and an excess parcel of land were sold for aggregate proceeds of \$6 million, which approximated their aggregate carrying values.

7. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to 40 years. Property and equipment under financing leases and leasehold improvements are amortized on a straight-line basis over the remaining terms of the related leases or the estimated useful lives of the assets, if reasonably assured the Company will purchase the assets at the end of the lease terms. At June 29, 2019 and December 29, 2018, property and equipment-net included accumulated depreciation of \$2,236 million and \$2,117 million, respectively. Depreciation expense was \$81 million and \$74 million for the 13 weeks ended June 29, 2019 and June 30, 2018, respectively, and \$153 million and \$145 million for the 26 weeks ended June 29, 2019 and June 30, 2018, respectively.

8. GOODWILL AND OTHER INTANGIBLES

Goodwill includes the cost of acquired businesses in excess of the fair value of the tangible and other intangible net assets acquired. Other intangible assets include customer relationships, noncompete agreements, the brand names comprising the Company’s portfolio of exclusive brands, and trademarks. Brand names and trademarks are indefinite-lived intangible assets and, accordingly, are not subject to amortization.

Customer relationships and noncompete agreements are intangible assets with definite lives and are carried at the acquired fair value, less accumulated amortization. Customer relationships and noncompete agreements are amortized over the estimated useful lives (two to five years). Amortization expense was \$10 million for each of the 13 weeks ended June 29, 2019 and June 30, 2018, and \$20 million for each of the 26 weeks ended June 29, 2019 and June 30, 2018.

Goodwill and other intangibles—net consisted of the following:

	June 29, 2019	December 29, 2018
Goodwill	\$ 3,967	\$ 3,967
Other intangibles—net		
Customer relationships—amortizable:		
Gross carrying amount	\$ 154	\$ 154
Accumulated amortization	(104)	(85)
Net carrying value	50	69
Noncompete agreements—amortizable:		
Gross carrying amount	3	3
Accumulated amortization	(2)	(1)
Net carrying value	1	2
Brand names and trademarks—not amortizing	253	253
Total other intangibles—net	\$ 304	\$ 324

The Company assesses goodwill and other intangible assets with indefinite lives for impairment annually, or more frequently if events occur that indicate an asset may be impaired. For goodwill and indefinite-lived intangible assets, the Company's policy is to assess for impairment as of the beginning of each fiscal third quarter. For intangible assets with definite lives, the Company assesses impairment only if events occur that indicate that the carrying amount of an asset may not be recoverable. The Company completed its most recent annual impairment assessment for goodwill and indefinite-lived intangible assets as of July 1, 2018, the first day of the third quarter of fiscal year 2018, with no impairments noted.

9. FAIR VALUE MEASUREMENTS

The Company follows the accounting standards for fair value, under which fair value is a market-based measurement, not an entity-specific measurement. The Company's fair value measurements are based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1—observable inputs, such as quoted prices in active markets
- Level 2—observable inputs other than those included in Level 1, such as quoted prices for similar assets and liabilities in active or inactive markets that are observable either directly or indirectly, or other inputs that are observable or can be corroborated by observable market data
- Level 3—unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions

Any transfers of assets or liabilities between Level 1, Level 2, and Level 3 of the fair value hierarchy will be recognized at the end of the reporting period in which the transfer occurs. There were no transfers between fair value levels in any of the periods presented below.

The Company's assets and liabilities measured at fair value on a recurring basis as of June 29, 2019 and December 29, 2018, aggregated by the level in the fair value hierarchy within which those measurements fall, were as follows:

June 29, 2019				
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ 1	\$ —	\$ —	\$ 1
Interest rate swaps	—	1	—	1
	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 2</u>
Liabilities				
Interest rate swaps	\$ —	\$ 1	\$ —	\$ 1
December 29, 2018				
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ 1	\$ —	\$ —	\$ 1
Interest rate swaps	—	19	—	19
	<u>\$ 1</u>	<u>\$ 19</u>	<u>\$ —</u>	<u>\$ 20</u>

There were no significant assets or liabilities in the Company's Consolidated Balance Sheets measured at fair value on a nonrecurring basis.

Recurring Fair Value Measurements

Money Market Funds

Money market funds include highly liquid investments with a maturity of three or fewer months. They are valued using quoted market prices in active markets and are classified under Level 1 within the fair value hierarchy.

Derivative Financial Instruments

The Company uses interest rate swaps, designated as cash flow hedges, to manage its exposure to interest rate movements in connection with its variable-rate Term Loan Facility (as defined in Note 10, Debt).

On August 1, 2017, USF entered into four -year interest rate swap agreements with a notional amount of \$1.1 billion, reducing to \$825 million in the fourth year. These swaps effectively converted approximately half of the principal amount of the Term Loan Facility from a variable to a fixed rate loan.

On May 31, 2019, an interest rate swap agreement with a notional amount of \$367 million was terminated, and the Company received cash proceeds of \$1 million, the fair value of the interest rate swap on the termination date. The proceeds were recorded as cash provided by operating activities in the Company's Consolidated Statement of Cash Flows. The \$1 million gain from the termination of the interest rate swap agreement remains in accumulated other comprehensive loss and will be amortized to interest expense through July 31, 2021, the remaining term of the original interest rate swap agreement.

After giving effect to the termination of the interest rate swap agreement, the remaining interest rate swap agreements collectively have a notional value of \$733 million, reducing to \$550 million on July 31, 2020. The Company pays an aggregate effective rate of 3.70% on the notional amount of the Term Loan Facility covered by the interest rate swap agreements, comprised of 1.70% plus a spread of 2.00% (see Note 10, Debt).

The Company records its interest rate swaps in its Consolidated Balance Sheets at fair value, based on projections of cash flows and future interest rates. The determination of fair value includes the consideration of any credit valuation adjustments necessary, giving consideration to the creditworthiness of the respective counterparties or the Company. The following table presents the balance sheet location and fair value of the interest rate swaps at June 29, 2019 and December 29, 2018 :

	Balance Sheet Location	Fair Value	
		June 29, 2019	December 29, 2018
Derivatives designated as hedging instruments			
Interest rate swaps	Other current assets	\$ 1	\$ 8
Interest rate swaps	Other assets	—	11
	Total assets	1	19
Interest rate swaps	Other long-term liabilities	(1)	—
	Net position	\$ —	\$ 19

Gains and losses on the interest rate swaps are initially recorded in accumulated other comprehensive loss and reclassified to interest expense during the period in which the hedged transaction affects income. The following table presents the effect of the Company's interest rate swaps in its Consolidated Statements of Comprehensive Income for the 13 weeks and 26 weeks ended June 29, 2019 and June 30, 2018 :

Derivatives in Cash Flow Hedging Relationships	Amount of (Loss) Gain Recognized in Accumulated Other Comprehensive Loss, net of tax	Location of Amounts Reclassified from Accumulated Other Comprehensive Loss	Amount of Gain Reclassified from Accumulated Other Comprehensive Loss to Income, net of tax
For the 13 weeks ended June 29, 2019			
Interest rate swaps	\$ (7)	Interest expense—net	\$ (1)
For the 13 weeks ended June 30, 2018			
Interest rate swaps	\$ 3	Interest expense—net	\$ —
For the 26 weeks ended June 29, 2019			
Interest rate swaps	\$ (11)	Interest expense—net	\$ (3)
For the 26 weeks ended June 30, 2018			
Interest rate swaps	\$ 12	Interest expense—net	\$ —

During the next twelve months, the Company estimates that \$2 million will be reclassified from accumulated other comprehensive loss to income.

Credit Risk-Related Contingent Features —The interest swap agreements contain a provision whereby the Company could be declared in default on its hedging obligations if more than \$75 million of the Company's other indebtedness is accelerated. As of June 29, 2019 , none of our indebtedness was accelerated.

We review counterparty credit risk and currently are not aware of any facts that indicate our counterparties will not be able to comply with the contractual terms of their agreements.

Other Fair Value Measurements

The carrying value of cash, restricted cash, accounts receivable, cash overdraft liability, accounts payable and accrued expenses approximate their fair values due to their short-term maturities.

The fair value of the Company's total debt approximated its carrying value of \$3.2 billion and \$3.5 billion as of June 29, 2019 and December 29, 2018 , respectively. The fair value of the Company's 5.875% unsecured Senior Notes due June 15, 2024 (the "Senior Notes"), was \$0.6 billion as of both June 29, 2019 and December 29, 2018 , based upon the closing market prices of the Senior Notes on both dates, and is classified under Level 2 of the fair value hierarchy. The fair value of the balance of the Company's debt is primarily classified under Level 3 of the fair value hierarchy, with fair value estimated based upon a combination of the cash outflows expected under these debt facilities, interest rates that are currently available to the Company for debt with similar terms, and estimates of the Company's overall credit risk.

10. DEBT

Total debt consisted of the following:

Debt Description	Maturity	Interest Rate at June 29, 2019	June 29, 2019	December 29, 2018
ABL Facility	May 31, 2024	5.75%	\$ 9	\$ 81 ⁽¹⁾
ABS Facility	September 21, 2020	3.40%	100	275
Term Loan Facility (net of \$5 of unamortized deferred financing costs)	June 27, 2023	4.40%	2,129	2,145
Senior Notes (net of \$5 of unamortized deferred financing costs)	June 15, 2024	5.88%	595	595
Obligations under financing leases	2019–2026	2.00% - 6.17%	363	352
Other debt	2021–2031	5.75% - 9.00%	9	9
Total debt			3,205	3,457
Current portion of long-term debt			(104)	(106)
Long-term debt			\$ 3,101	\$ 3,351

(1) Consists of outstanding borrowings under our former asset based senior secured revolving credit facility.

At June 29, 2019, after considering interest rate swaps that fixed the interest rate on \$733 million of principal of the Term Loan Facility described below, approximately 47% of the Company's total debt was at a floating rate.

ABL Facility —On May 31, 2019, USF completed a refinancing of its asset based senior secured revolving credit facility with a new asset based senior secured revolving credit facility (the “ABL Facility”). The ABL Facility provides USF with loan commitments having a maximum aggregate principal amount of \$1,700 million, comprised of (1) \$1,400 million of commitments effective as of May 31, 2019 and (2) \$300 million of commitments that may become effective at any time on or prior to November 30, 2019, subject to, among other things, the consummation of the contemplated acquisition by USF of Services Group of America, Inc.'s (“SGA”) Food Group of Companies. The ABL Facility includes subfacilities for the issuance of up to \$800 million of letters of credit and up to \$170 million of swing line loans. Extensions of credit under the ABL Facility are subject to availability under a “borrowing base” comprised of various percentages of the value of certain eligible accounts receivable, inventory, transportation equipment and cash and cash equivalents, which also serve as collateral for borrowings under the ABL Facility.

Borrowings under the ABL Facility bear interest, at USF's periodic election, at a rate equal to the sum of an alternative base rate (“ABR”), as defined under the ABL Facility, plus a margin ranging from 0% to 0.50%, or the sum of a London Interbank Offered Rate (“LIBOR”) plus a margin ranging from 1.00% to 1.50%, in each case based on USF's excess availability under the ABL Facility. The margin under the ABL Facility at June 29, 2019 was 0.25% for ABR loans and 1.25% for LIBOR loans. The ABL Facility also carries a commitment fee of 0.25% per annum on the average unused amount of the commitments under the ABL Facility.

The ABL Facility is scheduled to mature on May 31, 2024, subject to a springing maturity date in the event that more than \$300 million of aggregate principal amount of indebtedness under either the Term Loan Facility or the Senior Notes remains outstanding on a date that is 60 days prior to the maturity date for the Term Loan Facility or the Senior Notes, respectively.

The ABL Facility is secured by certain designated receivables not pledged under the ABS Facility, as well as inventory and certain transportation equipment owned by USF. Additionally, lenders under the ABL Facility have a second priority interest in all of the capital stock of USF and its domestic subsidiaries, as defined under the ABL Facility, and substantially all other non-real estate assets of USF and its subsidiaries not pledged under the ABS Facility.

The ABL Facility contains customary covenants, including, among other things, covenants that restrict USF's ability to pay dividends or engage in certain mergers or consolidations. The ABL Facility also contains customary events of default, including, among other things, the failure to pay interest or principal when due, cross default provisions, the failure of representations and warranties contained in the ABL Facility agreements to be true in all material respects when made or deemed made, and certain insolvency events. If an event of default occurs and remains uncured, principal amounts then outstanding under the ABL Facility, together with all accrued unpaid interest and any other amounts owed, may be declared immediately due and payable and the commitments under the ABL Facility may be terminated.

The Company incurred \$4 million of lender fees and third party costs associated with the ABL Facility which were capitalized as deferred financing costs. These deferred financing costs, along with \$1 million of unamortized deferred financing costs related to the former asset based senior secured revolving credit facility, will be amortized through May 31, 2024, the ABL Facility maturity date.

As of June 29, 2019, USF had \$9 million of outstanding borrowings, and had issued letters of credit totaling \$370 million, under the ABL Facility. Outstanding letters of credit included: (1) \$299 million issued in favor of certain commercial insurers to secure USF's obligations with respect to its self-insurance program, (2) \$70 million issued to secure USF's obligations with respect to certain real estate leases, and (3) \$1 million issued for other obligations. There was available capacity under the ABL Facility of \$970 million at June 29, 2019.

ABS Facility —Under the ABS Facility, USF sells, on a revolving basis, its eligible receivables to the Receivables Company. See Note 5, Accounts Receivable Financing Program. The maximum capacity under the ABS Facility is \$800 million. Borrowings under the ABS Facility were \$100 million at June 29, 2019. The Company, at its option, can request additional borrowings up to the maximum commitment, provided sufficient eligible receivables are available as collateral. There was available capacity under the ABS Facility of \$665 million at June 29, 2019.

Term Loan Facility —USF's senior secured term loan facility (the "Term Loan Facility") had an outstanding balance of \$2.1 billion at June 29, 2019. The table above reflects the June 29, 2019 interest rate on the unhedged portion of the Term Loan Facility. With respect to the portion of the Term Loan Facility subject to interest rate hedging agreements, as of June 29, 2019 the effective interest rate was 3.70%.

Restrictive Covenants

USF's credit agreements and indentures contain customary covenants. These include, among other things, covenants that restrict USF's ability to incur certain additional indebtedness, create or permit liens on assets, pay dividends, or engage in mergers or consolidations. As of June 29, 2019, USF had \$1.1 billion of restricted payment capacity under these covenants, and approximately \$2.3 billion of its net assets were restricted considering the net deferred tax assets and intercompany balances that eliminate in consolidation.

11. RESTRUCTURING LIABILITIES

The Company periodically closes or consolidates distribution facilities and implements initiatives in its ongoing efforts to reduce costs and improve operating effectiveness. In connection with these activities, the Company may incur various costs including multiemployer pension withdrawal liabilities, severance and other employee separation costs. Net restructuring costs were de minimis during the 26 weeks ended June 29, 2019 and \$1 million during the 26 weeks ended June 30, 2018. Net restructuring liabilities were \$1 million and \$2 million at June 29, 2019 and December 29, 2018, respectively.

12. LEASES

The Company leases certain distribution and warehouse facilities, office facilities, fleet vehicles, and office and warehouse equipment. The Company determines if an arrangement is a lease at inception and recognizes a financing or operating lease liability and right-of-use ("ROU") asset in the Company's Consolidated Balance Sheets. ROU assets and lease liabilities are recognized based on the present value of future minimum lease payments over the lease term at commencement date. For the Company's leases that do not provide an implicit borrowing rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The lease terms may include options to extend, terminate or buy out the lease. When it is reasonably certain that the Company will exercise these options, they are included in ROU assets and the estimated lease liabilities. Leases with an initial term of 12 months or less are not recorded in the Company's Consolidated Balance Sheets. The Company recognizes lease expense for these leases on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components, which are accounted for separately. For office and warehouse equipment leases, the Company accounts for the lease and non-lease components as a single lease component. Variable lease payments that do not depend on an index or a rate, such as insurance and property taxes, are excluded from the measurement of the lease liability and are recognized as variable lease cost when the obligation for that payment is incurred.

The following table presents the location of the ROU assets and lease liabilities in the Company's Consolidated Balance Sheet at June 29, 2019 :

Leases	Consolidated Balance Sheet Location	June 29, 2019
Assets		
Operating	Other assets	\$ 106
Financing	Property and equipment-net ⁽¹⁾	348
Total leased assets		<u>\$ 454</u>
Liabilities		
Current:		
Operating	Accrued expenses and other current liabilities ⁽²⁾	\$ 27
Financing	Current portion of long-term debt	82
Noncurrent:		
Operating	Other long-term liabilities ⁽²⁾	105
Financing	Long-term debt	282
Total lease liabilities		<u>\$ 496</u>

(1) Financing lease assets are recorded net of accumulated amortization of \$238 million as of June 29, 2019 .

(2) Operating lease liabilities include current and noncurrent liabilities of \$3 million and \$15 million , respectively, related to an unfunded lease obligation on a distribution facility through 2023.

The following table presents the location of lease costs in the Company's Consolidated Statement of Comprehensive Income:

Lease Cost	Statement of Comprehensive Income Location	13 Weeks Ended June 29, 2019	26 Weeks Ended June 29, 2019
Operating lease cost	Distribution, selling and administrative costs	\$ 7	\$ 14
Financing lease cost:			
Amortization of leased assets	Distribution, selling and administrative costs	22	39
Interest on lease liabilities	Interest expense-net	3	6
Variable lease cost ⁽¹⁾	Distribution, selling and administrative costs	2	3
Net lease cost		<u>\$ 34</u>	<u>\$ 62</u>

(1) Includes short-term leases and sub-lease income, each of which are immaterial.

Future lease payments under lease agreements as of June 29, 2019 were as follows:

Maturity of Lease Liabilities	Operating Leases ⁽¹⁾	Financing Leases	Total
Remainder of 2019	\$ 19	\$ 41	\$ 60
2020	36	102	138
2021	29	80	109
2022	27	57	84
2023	24	54	78
2024	4	38	42
After 2024	13	23	36
Total lease payments	152	395	547
Less amount representing interest	(19)	(32)	(51)
Present value of lease liabilities	\$ 133	\$ 363	\$ 496

(1) Operating lease payments include \$21 million in payments, \$18 million net of interest, on an unfunded lease obligation on a distribution facility through 2023.

Future minimum lease payments in effect as of December 29, 2018 under noncancelable lease arrangements, as determined prior to the adoption of Topic 842, were as follows:

Future Minimum Lease Payments ⁽¹⁾	Operating Leases ⁽²⁾	Financing Leases	Total
2019	\$ 34	\$ 95	\$ 129
2020	34	84	118
2021	30	71	101
2022	27	54	81
2023	23	43	66
After 2023	7	38	45
Total lease payments	155	385	540
Less amount representing interest	(4)	(33)	(37)
Present value of minimum lease payments	\$ 151	\$ 352	\$ 503

(1) Information in this table has been conformed to the current year presentation under Topic 842.

(2) Operating lease payments include \$24 million in payments, \$20 million net of interest, on an unfunded lease obligation on a distribution facility through 2023.

Other information related to lease agreements for the 26 weeks ended June 29, 2019 was as follows:

Cash Paid For Amounts Included In Measurement of Liabilities	26 Weeks Ended June 29, 2019
Operating cash flows from operating leases	\$ 6
Operating cash flows from financing leases	3
Financing cash flows from financing leases	21

Lease Term and Discount Rate	June 29, 2019
Weighted-average remaining lease term (years):	
Operating leases	5.87
Financing leases	5.61
Weighted-average discount rate:	
Operating leases	4.6%
Financing leases	3.6%

13. RETIREMENT PLANS

The Company has defined benefit and defined contribution retirement plans for its employees and provides certain postretirement health and welfare benefits to eligible retirees and their dependents. Also, the Company contributes to various multiemployer plans under certain of its collective bargaining agreements.

The components of net periodic pension benefit (credits) costs for Company sponsored defined benefit plans were as follows:

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Components of net periodic pension benefit (credits) costs				
Service cost	\$ —	\$ —	\$ 1	\$ 1
Interest cost	9	9	18	18
Expected return on plan assets	(12)	(13)	(24)	(26)
Amortization of net loss	1	1	2	2
Net periodic pension benefit credits	<u>\$ (2)</u>	<u>\$ (3)</u>	<u>\$ (3)</u>	<u>\$ (5)</u>

Other postretirement net periodic benefit costs were de minimis for the 13 weeks and 26 weeks ended June 29, 2019 and June 30, 2018 .

The service cost component of net periodic pension benefit credits is included in distribution, selling and administrative costs, while the other components of net periodic pension benefit credits are included in other income—net, respectively, in the Company's Consolidated Statements of Comprehensive Income.

The Company does not expect to make a significant contribution to its Company sponsored defined benefit plans in fiscal year 2019 .

Certain employees are eligible to participate in the Company's 401(k) savings plan. This plan provides that, under certain circumstances and subject to applicable IRS limits, the Company may match participant contributions of up to 100% of the first 3% of a participant's eligible compensation and 50% of the next 2% of a participant's eligible compensation, for a maximum employer matching contribution of 4% . The Company made matching employer contributions to the 401(k) plan of \$12 million and \$11 million for the 13 weeks ended June 29, 2019 and June 30, 2018 , respectively, and \$25 million for both the 26 weeks ended June 29, 2019 and June 30, 2018 .

The Company also contributes to various multiemployer pension plans under certain of its collective bargaining agreements. The Company's contributions to these plans were \$9 million for both the 13 weeks ended June 29, 2019 and June 30, 2018 , and \$18 million for both the 26 weeks ended June 29, 2019 and June 30, 2018 .

14. EARNINGS PER SHARE

The Company computes earnings per share (“EPS”) in accordance with ASC 260, *Earnings per Share*. Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding.

Diluted EPS is computed using the weighted average number of shares of common stock, plus the effect of potentially dilutive securities. Stock options, non-vested restricted shares with forfeitable dividend rights, restricted stock units, and employee stock purchase plan deferrals are considered potentially dilutive securities.

The following table sets forth the computation of basic and diluted EPS:

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Numerator:				
Net income	\$ 116	\$ 126	\$ 187	\$ 193
Denominator:				
Weighted-average common shares outstanding	218	216	218	215
Dilutive effect of share-based awards	1	2	1	2
Weighted-average dilutive shares outstanding	219	218	219	217
Basic earnings per share	\$ 0.53	\$ 0.58	\$ 0.86	\$ 0.90
Diluted earnings per share	\$ 0.53	\$ 0.58	\$ 0.85	\$ 0.89

15. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents changes in accumulated other comprehensive loss by component for the periods presented:

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Accumulated other comprehensive loss components				
Retirement benefit obligations:				
Balance at beginning of period ⁽¹⁾	\$ (96)	\$ (102)	\$ (97)	\$ (103)
Reclassification adjustments:				
Amortization of net loss ^{(2) (3)}	1	1	2	2
Pension remeasurement ⁽⁴⁾	—	33	—	33
Total before income tax	1	34	2	35
Income tax provision	—	9	—	9
Current period comprehensive income, net of tax	1	25	2	26
Balance at end of period ⁽¹⁾	\$ (95)	\$ (77)	\$ (95)	\$ (77)
Interest rate swaps:				
Balance at beginning of period ⁽¹⁾	\$ 7	\$ 17	\$ 13	\$ 8
Change in fair value of interest rate swaps	(8)	5	(14)	17
Amounts reclassified to interest expense—net	(2)	—	(4)	—
Total before income tax	(10)	5	(18)	17
Income tax (benefit) provision	(2)	2	(4)	5
Current period comprehensive (loss) income, net of tax	(8)	3	(14)	12
Balance at end of period ⁽¹⁾	\$ (1)	\$ 20	\$ (1)	\$ 20
Accumulated other comprehensive loss at end of period ⁽¹⁾	\$ (96)	\$ (57)	\$ (96)	\$ (57)

(1) Amounts are presented net of tax.

(2) Included in the computation of net periodic benefit costs. See Note 13, Retirement Plans, for additional information.

- (3) Included in other income—net in the Consolidated Statements of Comprehensive Income.
- (4) Resulting from a \$35 million incremental contribution to the Company's defined benefit pension plan in fiscal year 2018.

16. INCOME TAXES

The determination of the Company's overall effective tax rate requires the use of estimates. The effective tax rate reflects the income earned and taxed in various United States federal and state jurisdictions based on enacted tax law, permanent differences between book and tax items, tax credits and the Company's change in relative income in each jurisdiction.

The Company estimated its annual effective tax rate for the full fiscal year and applied the annual effective tax rate to the results of the 26 weeks ended June 29, 2019 and June 30, 2018 for purposes of determining its year-to-date tax provision.

For the 13 weeks ended June 29, 2019, the Company's effective income tax rate of 25% differed from the 21% federal corporate income tax rate primarily as a result of state income taxes and the recognition of various discrete tax items. These discrete tax items included a tax benefit of \$2 million primarily related to excess tax benefits associated with share-based compensation. For the 13 weeks ended June 30, 2018, the Company's effective income tax rate of 22% differed from the 21% federal corporate income tax rate primarily as a result of state income taxes and the recognition of various discrete tax items. These discrete tax items included a tax benefit of \$4 million resulting from the change in a provisional estimate related to the reduction of the federal corporate income tax rate under the Tax Act and a tax benefit of \$3 million primarily related to excess tax benefits associated with share-based compensation.

For the 26 weeks ended June 29, 2019, the Company's effective income tax rate of 24% differed from the 21% federal corporate income tax rate primarily as a result of state income taxes and the recognition of various discrete tax items. These discrete tax items included a tax benefit of \$2 million primarily related to the reduction of an unrecognized tax benefit following a lapse of the statute of limitations and a tax benefit of \$3 million primarily related to excess tax benefits associated with share-based compensation. For the 26 weeks ended June 30, 2018, the Company's effective income tax rate of 14% differed from the 21% federal corporate income tax rate primarily as a result of state income taxes and the recognition of various discrete tax items. These discrete tax items included a tax benefit of \$17 million primarily related to the reduction of an unrecognized tax benefit due to the receipt of an affirmative written consent from the IRS to change a method of accounting, a tax benefit of \$5 million primarily related to excess tax benefits associated with share-based compensation and a tax benefit of \$4 million resulting from the change in a provisional estimate related to the reduction of the federal corporate income tax rate under the Tax Act.

17. COMMITMENTS AND CONTINGENCIES

Purchase Commitments —The Company enters into purchase orders with vendors and other parties in the ordinary course of business and has a limited number of purchase contracts with certain vendors that require it to buy a predetermined volume of products. As of June 29, 2019, the Company had \$783 million of purchase orders and purchase contract commitments to be purchased in the remainder of fiscal year 2019 and \$60 million of information technology commitments through May 2024 that are not recorded in the Company's Consolidated Balance Sheets.

To minimize fuel cost risk, the Company enters into forward purchase commitments for a portion of its projected diesel fuel requirements. At June 29, 2019, the Company had diesel fuel forward purchase commitments totaling \$112 million through December 2020. Additionally, as of June 29, 2019, the Company had electricity forward purchase commitments totaling \$5 million through December 2021. The Company does not measure its forward purchase commitments for fuel and electricity at fair value, as the amounts under contract meet the physical delivery criteria in the normal purchase exception.

SGA Food Group Acquisition —On July 28, 2018, USF entered into a Stock Purchase Agreement with SGA under which USF agreed to acquire SGA's Food Group of Companies, including Food Services of America, Inc., Systems Services of America, Inc., Amerifresh, Inc., Ameristar Meats, Inc. and Gampac Express, Inc., for \$1.8 billion in cash. The closing of the acquisition remains subject to customary conditions, including the receipt of required regulatory approvals. To fund a substantial portion of the consideration, USF also entered into a commitment letter with JPMorgan Chase Bank, N.A., Bank of America, N.A. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (collectively, the "Committed Parties") under which the Committed Parties committed to provide USF with a \$1.5 billion senior secured term loan facility.

Legal Proceedings —The Company is subject to a number of legal proceedings arising in the normal course of business. These legal proceedings, whether pending, threatened or unasserted, if decided adversely to or settled by the Company, may result in liabilities material to its financial position, results of operations, or cash flows. The Company has recognized provisions with respect to the proceedings, where appropriate, in its Consolidated Balance Sheets. It is possible that the Company could be required to make expenditures, in excess of the established provisions, in amounts that cannot be reasonably estimated. However, the Company believes that the ultimate resolution of these proceedings will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

18. BUSINESS INFORMATION

The Company's consolidated results represent the operating results of its one business segment based on how the Company's chief operating decision maker, the Chief Executive Officer, views the business for purposes of evaluating performance and making operating decisions.

The Company markets and distributes fresh, frozen and dry food and non-food products to foodservice customers throughout the United States. The Company uses a centralized management structure, and its strategies and initiatives are implemented and executed consistently across the organization to maximize value to the organization as a whole. The Company uses shared resources for sales, procurement, and general and administrative activities across each of its distribution facilities and operations. The Company's distribution facilities form a single network to reach its customers; it is common for a single customer to make purchases from several different distribution facilities. Capital projects, whether for cost savings or generating incremental revenue, are evaluated based on estimated economic returns to the organization as a whole.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations
(Dollar amounts presented in millions, unless otherwise noted)

The following discussion and analysis should be read together with the accompanying unaudited consolidated financial statements and the notes thereto included in this Quarterly Report and the audited consolidated financial statements and the notes thereto in our 2018 Annual Report. The following discussion and analysis contain certain financial measures that are not required by, or presented in accordance with, GAAP. We believe these non-GAAP measures provide meaningful supplemental information about our operating performance because they exclude amounts that our management does not consider part of our core operations when assessing our performance and underlying trends. Information regarding reconciliations of and the rationale for these measures is discussed under “Non-GAAP Reconciliations” below.

Overview

Our mission is to be *First In Food*. We strive to inspire and empower chefs and foodservice operators to bring great food experiences to consumers. This mission is supported by our strategy of *Great Food. Made Easy.*, which centers on providing our customers a broad and innovative offering of high-quality products, as well as a comprehensive suite of industry-leading e-commerce, technology, and business solutions. We operate as one business with standardized business processes, shared systems infrastructure, and an organizational model that optimizes national scale with local execution, allowing us to manage the business as a single operating segment. We have centralized activities where scale matters and our local field structure focuses on customer facing activities.

We supply approximately 250,000 customer locations nationwide. These customer locations include independently owned single and multi-unit restaurants, regional restaurant concepts, national restaurant chains, hospitals, nursing homes, hotels and motels, country clubs, government and military organizations, colleges and universities, and retail locations. We provide approximately 400,000 fresh, frozen, and dry food stock-keeping units, or SKUs, as well as non-food items, sourced from approximately 5,000 suppliers. Approximately 4,000 sales associates manage customer relationships at local, regional, and national levels. They are supported by sophisticated marketing and category management capabilities, as well as a sales support team that includes world-class chefs and restaurant operations consultants, new business development managers and others that help us provide more comprehensive service to our customers. Our extensive network of 63 distribution facilities and fleet of approximately 6,000 trucks allow us to operate efficiently and to provide high levels of customer service. This operating model allows us to leverage our nationwide scale and footprint while executing locally.

Operating Metrics

Case growth —Case growth, by customer type (e.g., independent restaurants) is reported as of a point in time. Customers periodically are reclassified, based on changes in size or other characteristics, and when those changes occur, the respective customer’s historical volume follows its new classification.

Highlights

Total case volume for the 13 weeks and 26 weeks ended June 29, 2019 increased 1.7% and 1.6% , respectively. Independent restaurant case growth was 4.8% and 5.2% for the 13 weeks and 26 weeks ended June 29, 2019 , respectively. Net sales increased 4.6% and 4.1% for the 13 weeks and 26 weeks ended June 29, 2019 , respectively, due to the increase in case volume and year-over-year inflation in multiple product categories, including grocery, poultry and produce.

Gross profit increased \$28 million , or 2.5% , to \$1,142 million for the 13 weeks ended June 29, 2019 , and increased \$88 million , or 4.2% , to \$2,194 million for the 26 weeks ended June 29, 2019 , primarily as a result of the impact of margin expansion initiatives and an increase in case volume, which were partially offset by unfavorable year-over-year LIFO adjustments. As a percentage of net sales, gross profit was 17.7% for the 13 weeks ended June 29, 2019 , as compared to 18.1% for the prior year period, and was 17.6% for the first 26 weeks in both 2019 and 2018 .

Total operating expenses increased \$40 million , or 4.4% , to \$948 million for the 13 weeks ended June 29, 2019 and increased \$72 million , or 4.0% , to \$1,869 million for the 26 weeks ended June 29, 2019 , primarily as a result of higher wage and acquisition-related costs and depreciation expense, which were partially offset by the positive impact of expense control initiatives.

Outlook

Our outlook for fiscal year 2019 is set forth in the 2018 Annual Report. Our strategy includes a continued focus on executing our growth strategies, adding value for and differentiating ourselves with our customers, and driving continued operational improvement in our business.

Results of Operations

The following table presents selected historical results of operations for the periods indicated*:

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Consolidated Statements of Operations Data:				
Net sales	\$ 6,443	\$ 6,158	\$ 12,474	\$ 11,981
Cost of goods sold	5,301	5,044	10,280	9,875
Gross profit	1,142	1,114	2,194	2,106
Operating expenses:				
Distribution, selling and administrative costs	948	909	1,869	1,796
Restructuring (benefits) costs	—	(1)	—	1
Total operating expenses	948	908	1,869	1,797
Operating income	194	206	325	309
Other income—net	(2)	(3)	(4)	(6)
Interest expense—net	42	48	84	91
Income before income taxes	154	161	245	224
Income tax provision	38	35	58	31
Net income	\$ 116	\$ 126	\$ 187	\$ 193
Percentage of Net Sales:				
Gross profit	17.7%	18.1%	17.6%	17.6%
Distribution, selling and administrative costs	14.7%	14.8%	15.0%	15.0%
Operating expenses	14.7%	14.8%	15.0%	15.0%
Operating income	3.0%	3.3%	2.6%	2.6%
Net income	1.8%	2.0%	1.5%	1.6%
Adjusted EBITDA ⁽¹⁾	5.0%	4.9%	4.4%	4.4%
Other Data:				
Cash flows—operating activities	\$ 240	\$ 119	\$ 394	\$ 311
Cash flows—investing activities	(41)	(59)	(102)	(116)
Cash flows—financing activities	(194)	(46)	(300)	(214)
Capital expenditures	49	60	110	117
EBITDA ⁽¹⁾	287	293	502	480
Adjusted EBITDA ⁽¹⁾	320	300	552	523
Adjusted net income ⁽¹⁾	140	124	220	199
Free cash flow ⁽²⁾	191	59	284	194

(*) Prior year amounts may have been rounded to conform with the current year presentation.

- (1) EBITDA is defined as net income, plus interest expense—net, income tax provision, and depreciation and amortization. Adjusted EBITDA is defined as EBITDA adjusted for: (1) restructuring costs (benefits) and tangible asset impairments; (2) share-based compensation expense; (3) the non-cash impact of LIFO reserve adjustments; (4) business transformation costs; and (5) other gains, losses, or charges as specified in the agreements governing our indebtedness. Adjusted net income is defined as net income excluding the items used to calculate Adjusted EBITDA listed above and further adjusted for the tax effect of the exclusions and discrete tax items. EBITDA, Adjusted EBITDA, and Adjusted net income as presented in this Quarterly Report are supplemental measures of our performance that are not required by, or presented in accordance with, GAAP. They are not measurements of our performance under GAAP and should not be considered as alternatives to net income or any other performance measures derived in accordance with GAAP. For additional information, see the discussion under the caption “Non-GAAP Reconciliations” below.
- (2) Free cash flow is defined as cash flows provided by operating activities less capital expenditures. Free cash flow as presented in this Quarterly Report is a supplemental measure of our liquidity that is not required by, or presented in accordance with, GAAP. It is not a measurement of our liquidity under GAAP and should not be considered as an alternative to cash flows provided by operating activities or any other liquidity measures derived in accordance with GAAP. For additional information, see the discussion under the caption “Non-GAAP Reconciliations” below.

Non-GAAP Reconciliations

We provide EBITDA, Adjusted EBITDA, Adjusted net income and Free cash flow as supplemental measures to GAAP measures regarding our operational performance and liquidity. These non-GAAP financial measures exclude the impact of certain items and, therefore, have not been calculated in accordance with GAAP.

We believe EBITDA and Adjusted EBITDA provide meaningful supplemental information about our operating performance because they exclude amounts that we do not consider part of our core operating results when assessing our performance.

We believe that Adjusted net income is a useful measure of operating performance for both management and investors because it excludes items that are not reflective of our core operating performance and provides an additional view of our operating performance including depreciation, amortization, interest expense, and income taxes on a consistent basis from period to period. We believe that Adjusted net income may be used by investors, analysts and other interested parties to facilitate period-over-period comparisons and provides additional clarity as to how factors and trends impact our operating performance.

Management uses these non-GAAP financial measures (1) to evaluate our historical and prospective financial performance as well as our performance relative to our competitors as they assist in highlighting trends, (2) to set internal sales targets and spending budgets, (3) to measure operational profitability and the accuracy of forecasting, (4) to assess financial discipline over operational expenditures, and (5) as an important factor in determining variable compensation for management and employees. EBITDA and Adjusted EBITDA are also used in connection with certain covenants and activity restrictions under the agreements governing our indebtedness. We also believe these and similar non-GAAP financial measures are frequently used by securities analysts, investors, and other interested parties to evaluate companies in our industry.

We use Free cash flow as a supplemental measure to GAAP measures regarding the liquidity of our operations. We measure Free cash flow as cash flows provided by operating activities less capital expenditures. We believe that Free cash flow is a useful financial metric to assess our ability to pursue business opportunities and investments. Free cash flow is not a measure of our liquidity under GAAP and should not be considered as an alternative to cash flows provided by operating activities.

We caution readers that amounts presented in accordance with our definitions of EBITDA, Adjusted EBITDA, Adjusted net income, and Free cash flow may not be the same as similar measures used by other companies. Not all companies and analysts calculate EBITDA, Adjusted EBITDA, Adjusted net income or Free cash flow in the same manner. We compensate for these limitations by using these non-GAAP financial measures as supplements to GAAP financial measures and by presenting the reconciliations of the non-GAAP financial measures to their most comparable GAAP financial measures.

The following table reconciles EBITDA, Adjusted EBITDA, Adjusted net income and Free cash flow to the most directly comparable GAAP financial performance and liquidity measures for the periods indicated*:

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net income	\$ 116	\$ 126	\$ 187	\$ 193
Interest expense—net	42	48	84	91
Income tax provision	38	35	58	31
Depreciation and amortization expense	91	84	173	165
EBITDA	287	293	502	480
Adjustments:				
Restructuring (benefits) costs ⁽¹⁾	—	(1)	—	1
Share-based compensation expense ⁽²⁾	9	10	15	17
LIFO reserve change ⁽³⁾	14	(11)	12	8
Business transformation costs ⁽⁴⁾	2	7	3	15
SGA acquisition related costs and other ⁽⁵⁾	8	2	20	2
Adjusted EBITDA	320	300	552	523
Depreciation and amortization expense	(91)	(84)	(173)	(165)
Interest expense—net	(42)	(48)	(84)	(91)
Income tax provision, as adjusted ⁽⁶⁾	(47)	(44)	(75)	(68)
Adjusted net income	\$ 140	\$ 124	\$ 220	\$ 199
Free cash flow				
Cash flows from operating activities	\$ 240	\$ 119	\$ 394	\$ 311
Capital expenditures	(49)	(60)	(110)	(117)
Free cash flow	\$ 191	\$ 59	\$ 284	\$ 194

- (*) Prior year amounts may have been rounded to conform with the current year presentation.
- (1) Consists primarily of severance and related costs and organizational realignment costs.
- (2) Share-based compensation expense for stock and option awards and discounts provided under employee stock purchase plan.
- (3) Represents the non-cash impact of LIFO reserve adjustments.
- (4) Consists primarily of costs related to significant process and systems redesign across multiple functions.
- (5) 2019 primarily consists of acquisition-related costs related to the contemplated acquisition of SGA's Food Group of Companies. Prior year amount includes gains, losses or charges as specified under the agreements governing our indebtedness.
- (6) Represents our income tax provision adjusted for the tax effect of pre-tax items excluded from Adjusted net income and the removal of applicable discrete tax items. Applicable discrete tax items include changes in tax laws or rates, changes related to prior year unrecognized tax benefits, discrete changes in valuation allowances, and excess tax benefits associated with share-based compensation. The tax effect of pre-tax items excluded from Adjusted net income is computed using a corporate income tax rate after considering the impact of permanent differences and valuation allowances.

A reconciliation between the GAAP income tax provision and the income tax provision, as adjusted, is as follows*:

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
GAAP income tax provision	\$ 38	\$ 35	\$ 58	\$ 31
Tax impact of pre-tax income adjustments	7	3	12	10
Discrete tax items	2	6	5	27
Income tax provision, as adjusted	\$ 47	\$ 44	\$ 75	\$ 68

- (*) Prior year amounts may have been rounded to conform with the current year presentation.

Comparison of Results

13 Weeks Ended June 29, 2019 and June 30, 2018

Highlights

- Total case volume increased 1.7% and independent restaurant case volume increased 4.8% in 2019 .
- Net sales increased \$285 million , or 4.6% , to \$6,443 million in 2019 .
- Operating income decreased \$12 million , or 5.8% , to \$194 million in 2019 . As a percentage of net sales, operating income was 3.0% in 2019 , compared to 3.3% in 2018 .
- Net income was \$116 million in 2019 , compared to \$126 million in 2018 .
- Adjusted EBITDA increased \$20 million , or 6.7% , to \$320 million in 2019 . As a percentage of net sales, Adjusted EBITDA was 5.0% in 2019 , compared to 4.9% in 2018 .

Net Sales

Total case volume increased 1.7% in 2019 . The increase reflects growth with independent restaurants of 4.8% .

Net sales increased \$285 million , or 4.6% , to \$6,443 million in 2019 , comprised of a \$107 million, or 1.7% , increase in case volume and a \$178 million, or 2.9%, increase in the overall net sales rate per case. Sales of private brands represented approximately 35% and 34% of net sales in 2019 and 2018 , respectively.

The increase in net sales rate per case of 2.9% primarily reflects year-over-year inflation in multiple product categories, including grocery, poultry and produce, which benefited net sales since a significant portion of our sales is based on markups over product cost.

Gross Profit

Gross profit increased \$28 million , or 2.5% , to \$1,142 million in 2019 , primarily as a result of the impact of margin expansion initiatives and an increase in case volume, which were partially offset by unfavorable year-over-year LIFO adjustments. Our LIFO method of inventory costing resulted in expense of \$14 million in 2019 compared to a benefit of \$11 million in 2018 , primarily as a result of higher inflation in multiple product categories in 2019 compared to 2018 . Gross profit as a percentage of net sales was 17.7% in 2019 , as compared to 18.1% in 2018 .

Operating Expenses

Operating expenses, comprised of distribution, selling and administrative and restructuring costs, increased \$40 million , or 4.4% , to \$948 million in 2019. Operating expenses as a percentage of net sales were 14.7% in 2019 , as compared to 14.8% in 2018 . The increase in operating expenses included \$27 million of higher wage and related costs, \$8 million of acquisition-related costs and \$7 million in additional depreciation expense related to recent property and equipment additions, which were partially offset by the positive impact of expense control initiatives.

Operating Income

Operating income decreased \$12 million , or 5.8% , to \$194 million in 2019 . Operating income as a percentage of net sales was 3.0% in 2019 , down from 3.3% in 2018 . The change was due to the factors discussed in the relevant sections above.

Other Income—Net

Other income—net includes components of net periodic pension benefit credits, exclusive of the service cost component associated with our defined benefit and other postretirement plans. We recognized other income—net of \$2 million and \$3 million in 2019 and 2018 , respectively.

Interest Expense—Net

Interest expense—net decreased \$6 million to \$42 million in 2019, primarily due to lower debt levels in 2019 , which were partially offset by an increase in benchmark interest rates in 2019 compared to 2018 .

Income Tax Provision

For the 13 weeks ended June 29, 2019 , our effective income tax rate of 25% differed from the 21% federal corporate income tax rate primarily as a result of state income taxes and the recognition of various discrete tax items. These discrete tax items included a tax benefit of \$2 million primarily related to excess tax benefits associated with share-based compensation. For the 13 weeks ended June 30, 2018 , our effective income tax rate of 22% differed from the 21% federal corporate income tax rate primarily as a result of state income taxes and the recognition of various discrete tax items. These discrete tax items included a tax benefit of \$4 million resulting from the change in a provisional estimate related to the reduction of the federal corporate income tax rate under the Tax Act and a tax benefit of \$3 million primarily related to excess tax benefits associated with share-based compensation.

Net Income

Our net income was \$116 million in 2019 as compared to \$126 million in 2018 . The decrease in net income was due to the relevant factors discussed above.

26 Weeks Ended June 29, 2019 and June 30, 2018

Highlights

- Total case volume increased 1.6% and independent restaurant case volume increased 5.2% in 2019 .
- Net sales increased \$493 million , or 4.1% , to \$12,474 million in 2019 .
- Operating income increased \$16 million , or 5.2% , to \$325 million in 2019 . As a percentage of net sales, operating income was 2.6% in both 2019 and 2018 .
- Net income was \$187 million in 2019 , compared to \$193 million in 2018 .
- Adjusted EBITDA increased \$29 million , or 5.5% , to \$552 million in 2019 . As a percentage of net sales, Adjusted EBITDA was 4.4% in both 2019 and 2018 .

Net Sales

Total case volume increased 1.6% in 2019 . The increase reflects growth with independent restaurants of 5.2% .

Net sales increased \$493 million , or 4.1% , to \$12,474 million in 2019 , comprised of a \$188 million, or 1.6% , increase in case volume and a \$305 million, or 2.5%, increase in the overall net sales rate per case. Sales of private brands represented approximately 35% and 34% of net sales in 2019 and 2018 , respectively.

The increase in net sales rate per case of 2.5% primarily reflects year-over-year inflation. We experienced year-over-year inflation in multiple product categories, including grocery, poultry and produce, which benefited net sales since a significant portion of our sales is based on markups over product cost.

Gross Profit

Gross profit increased \$88 million , or 4.2% , to \$2,194 million in 2019 , primarily as a result of the impact of margin expansion initiatives and an increase in case volume. Our LIFO method of inventory costing resulted in expense of \$12 million in 2019 compared to expense of \$8 million in 2018 , primarily as a result of higher inflation in multiple product categories in 2019 compared to 2018 . Gross profit as a percentage of net sales was 17.6% in both 2019 and 2018 .

Operating Expenses

Operating expenses, comprised of distribution, selling and administrative and restructuring costs, increased \$72 million , or 4.0% , to \$1,869 million in 2019. Operating expenses as a percentage of net sales were 15.0% in both 2019 and 2018 . The increase included \$42 million of higher wage and related costs, \$18 million of acquisition-related costs and \$9 million of higher diesel fuel and other distribution related costs, which were partially offset by the positive impact of expense control initiatives.

Operating Income

Operating income increased \$16 million , or 5.2% , to \$325 million in 2019 . Operating income as a percentage of net sales was 2.6% in both 2019 and 2018 . The change was due to the factors discussed in the relevant sections above.

Other Income—Net

Other income—net includes components of net periodic pension benefit credits, exclusive of the service cost component associated with our defined benefit and other postretirement plans. We recognized other income—net of \$4 million and \$6 million in 2019 and 2018 , respectively.

Interest Expense—Net

Interest expense—net decreased \$7 million to \$84 million in 2019, primarily due to lower debt levels in 2019 , which were partially offset by an increase in benchmark interest rates in 2019 compared to 2018 .

Income Tax Provision

For the 26 weeks ended June 29, 2019 , our effective income tax rate of 24% differed from the 21% federal corporate income tax rate primarily as a result of state income taxes and the recognition of various discrete tax items. These discrete tax items included a tax benefit of \$2 million primarily related to the reduction of an unrecognized tax benefit following a lapse of the statute of limitations and a tax benefit of \$3 million primarily related to excess tax benefits associated with share-based compensation. For the 26 weeks ended June 30, 2018 , our effective income tax rate of 14% differed from the 21% federal corporate income tax rate primarily as a result of state income taxes and the recognition of various discrete tax items. These discrete tax items included a tax benefit of \$17 million primarily related to the reduction of an unrecognized tax benefit due to the receipt of an affirmative written consent from the IRS to change a method of accounting, a tax benefit of \$5 million primarily related to excess tax benefits associated with share-based compensation and a tax benefit of \$4 million resulting from the change in a provisional estimate related to the reduction of the federal corporate income tax rate under the Tax Act.

Net Income

Our net income was \$187 million in 2019 as compared to \$193 million in 2018 . The decrease in net income was due to the relevant factors discussed above.

Liquidity and Capital Resources

Our ongoing operations and strategic objectives require working capital and continuing capital investment. Our primary sources of liquidity include cash provided by operations, as well as access to capital from bank borrowings and other types of debt and financing arrangements.

Indebtedness

As of June 29, 2019 , the aggregate carrying value of our indebtedness was \$3,205 million , net of \$10 million of unamortized deferred financing costs.

As of June 29, 2019 , we had aggregate commitments for additional borrowings under the ABL Facility and the ABS Facility of \$1,721 million , of which \$1,635 million was available based on our borrowing base.

We completed a refinancing of our ABL Facility on May 31, 2019. The ABL Facility provides us with loan commitments having a maximum aggregate principal amount of \$1,400 million , plus an additional \$300 million of commitments that may become effective at any time on or prior to November 30, 2019, subject to, among other things, the consummation of the acquisition by USF of SGA's Food Group of Companies described below. The ABL Facility includes subfacilities for the issuance of up to \$800 million of letters of credit and up to \$170 million of swing line loans. As of June 29, 2019 , we had \$9 million of outstanding borrowings and had issued letters of credit totaling \$370 million under the ABL Facility. There was available capacity of \$970 million under the ABL Facility at June 29, 2019 based on our borrowing base.

The maximum capacity under the ABS Facility is \$800 million , with its capacity limited by our borrowing base. Outstanding borrowings under the ABS Facility were \$100 million at June 29, 2019 . There was available capacity of \$665 million under the ABS Facility at June 29, 2019 based on our borrowing base.

The Term Loan Facility had a carrying value of \$2,129 million as of June 29, 2019 , net of \$5 million of unamortized deferred financing costs.

As of June 29, 2019 , our Senior Notes had a carrying value of \$595 million , net of \$5 million of unamortized deferred financing costs. As of June 29, 2019 , we also had \$363 million of obligations under financing leases for transportation equipment and building leases.

We believe that the combination of cash generated from operations, together with borrowing capacity under the agreements governing our indebtedness and other financing arrangements, will be adequate to permit us to meet our debt service obligations, ongoing costs of operations, working capital needs, and capital expenditure requirements for the next 12 months.

As of June 29, 2019 , USF had \$1.1 billion of restricted payment capacity under its credit facilities and approximately \$2.3 billion of its net assets were restricted after considering the net deferred tax assets and intercompany balances that are eliminated in consolidation. As of June 29, 2019 , we were in compliance with all of our debt covenants.

Every quarter, we review rating agency changes for all of the lenders that have a continuing obligation to provide us with funding. We are not aware of any facts that indicate our lenders will not be able to comply with the contractual terms of their agreements with us. We continue to monitor the credit markets generally and the strength of our lender counterparties.

SGA Food Group Companies Acquisition

On July 28, 2018, we entered into a Stock Purchase Agreement with SGA under which we agreed to acquire SGA's Food Group of Companies for \$1.8 billion in cash. The closing of the contemplated transaction is subject to customary conditions, including the receipt of required regulatory approvals. To fund a substantial portion of the consideration, we entered into a commitment letter with the Committed Parties under which the Committed Parties committed to provide us with a \$1.5 billion senior secured term loan facility.

Cash Flows

The following table presents condensed highlights from our Consolidated Statements of Cash Flows for the periods presented*:

	26 Weeks Ended	
	June 29, 2019	June 30, 2018
Net income	\$ 187	\$ 193
Changes in operating assets and liabilities	15	(115)
Other adjustments	192	233
Net cash provided by operating activities	394	311
Net cash used in investing activities	(102)	(116)
Net cash used in financing activities	(300)	(214)
Net decrease in cash, cash equivalents and restricted cash	(8)	(19)
Cash, cash equivalents and restricted cash—beginning of period	105	119
Cash, cash equivalents and restricted cash—end of period	\$ 97	\$ 100

(*) Prior year amounts may have been rounded to conform with the current year presentation.

Operating Activities

Cash flows provided by operating activities increased \$83 million to \$394 million for the 26 weeks ended June 29, 2019 . The year-over-year increase was primarily driven by \$70 million of contributions to our defined benefit pension plan in 2018 which did not reoccur during the current year.

Investing Activities

Cash flows used in investing activities for the 26 weeks ended June 29, 2019 and June 30, 2018 included cash expenditures of \$110 million and \$117 million , respectively, on property and equipment for fleet replacement and investments in information technology, as well as new construction and/or expansion of distribution facilities. During the 26 weeks ended June 29, 2019 , we sold a closed distribution facility and an excess parcel of land for aggregate proceeds of \$6 million .

We expect total capital additions in fiscal year 2019 to be between \$335 million and \$345 million , inclusive of approximately \$75 million in fleet financing leases. We expect to fund our capital expenditures with available cash or cash generated from operations.

Financing Activities

Cash flows used in financing activities of \$300 million for the 26 weeks ended June 29, 2019 included \$247 million of net payments under our revolving credit facilities and \$65 million of scheduled payments under our non-revolving debt and financing leases. Financing activities for the 26 weeks ended June 29, 2019 also included \$11 million and \$10 million of proceeds received from the exercise of employee stock options and stock purchases under our employee stock purchase plan, respectively, partially offset by \$5 million of employee tax withholdings paid in connection with the vesting of equity awards.

Cash flows used in financing activities of \$214 million for the 26 weeks ended June 30, 2018 included \$164 million of net payments under our revolving credit facilities and \$67 million of scheduled payments under our non-revolving debt and financing leases. Financing activities for the 26 weeks ended June 30, 2018 also included \$16 million and \$10 million of proceeds received from the exercise of employee stock options and stock purchases under our employee stock purchase plan, respectively.

Retirement Plans

We sponsor defined benefit and defined contribution retirement plans that pay benefits to eligible employees at retirement. In addition, we provide certain postretirement health and welfare benefits to eligible retirees and their dependents. We do not expect to make a significant contribution to the Company sponsored defined benefit and other postretirement plans in fiscal year 2019. We contributed \$70 million to the Company sponsored defined benefit and other postretirement plans during the 26 weeks ended June 30, 2018 .

Certain employees are eligible to participate in our 401(k) savings plan. This plan provides that, under certain circumstances and subject to applicable IRS limits, we may match participant contributions of up to 100% of the first 3% of a participant's eligible compensation and 50% of the next 2% of a participant's eligible compensation, for a maximum employer matching contribution of 4%. We made employer matching contributions to the 401(k) plan of \$12 million and \$11 million for the 13 weeks ended June 29, 2019 and June 30, 2018 , respectively, and \$25 million for both the 26 weeks ended June 29, 2019 and June 30, 2018 .

We also contribute to various multiemployer pension plans under certain of the Company's collective bargaining agreements. Our contributions to these plans were \$9 million for both the 13 weeks ended June 29, 2019 and June 30, 2018 , and \$18 million for both the 26 weeks ended June 29, 2019 and June 30, 2018 .

Off-Balance Sheet Arrangements

As of June 29, 2019 , we entered into \$299 million of letters of credit in favor of certain commercial insurers to secure obligations with respect to our self-insurance programs. Additionally, we entered into \$70 million of letters of credit to secure obligations with respect to certain of our real estate leases, and \$1 million of letters of credit for other obligations.

Except as disclosed above, we have no off-balance sheet arrangements that currently have or are reasonably likely to have a material effect on our consolidated financial position, changes in financial condition, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations

See the "Contractual Obligations" section in Part II, Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations" of the 2018 Annual Report for our contractual obligations as of December 29, 2018 . There have been no material changes to our specified contractual obligations through June 29, 2019 , except for the change in the maturity date of the ABL Facility, which we refinanced on May 31, 2019 and is scheduled to mature on May 31, 2024. See Note 10, Debt, in our consolidated financial statements for additional information.

Critical Accounting Policies and Estimates

We have prepared the financial information in this Quarterly Report in accordance with GAAP. Preparing the Company's consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during these reporting periods. We base our estimates and judgments on historical experience and other factors we believe are reasonable under the circumstances. These assumptions form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Part II, Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations" of the 2018 Annual Report includes a summary of the critical accounting policies we believe are the most important to aid in understanding our financial results. There have been no changes to those critical accounting policies that have had a material impact on our reported amounts of assets, liabilities, revenue, or expenses during the 26 weeks ended June 29, 2019 .

Recent Accounting Pronouncements

See Note 2, Recent Accounting Pronouncements, in our consolidated financial statements for information related to new accounting standards.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to certain risks arising from both our business operations and overall economic conditions. We principally manage our exposures to a wide variety of business and operational risks through managing our core business activities. We manage economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of our debt funding. During 2017, we entered into interest rate swap agreements to limit our exposure to variable interest rate terms on certain borrowings under our Term Loan Facility. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

Market risk is the possibility of loss from adverse changes in market rates and prices, such as interest rates and commodity prices.

Interest Rate Risk

As of June 29, 2019 , after considering interest rate swaps that fixed the interest rate on \$733 million of the principal amounts of our Term Loan Facility , approximately 47% of the principal amount of our debt bore interest at floating rates based on LIBOR or ABR, as defined in the credit agreements. A 1 % change in the applicable rate would cause the interest expense on our floating rate debt to change by approximately \$15 million per year (see Note 10, Debt, in our consolidated financial statements). As was announced in July 2017, the use of LIBOR is expected to be phased out by the end of 2021. We are unable to predict the impact of using alternative reference rates and corresponding rate risk at this time.

Fuel Price Risk

We are also exposed to risk due to fluctuations in the price and availability of diesel fuel. Increases in the cost of diesel fuel can negatively affect consumer spending, raise the price we pay for products, and increase the costs we incur to deliver products to our customers. To minimize fuel cost risk, we enter into forward purchase commitments for a portion of our projected diesel fuel requirements. As of June 29, 2019 , we had diesel fuel forward purchase commitments totaling \$112 million through December 2020 . These locked in approximately 55% of our projected diesel fuel purchase needs for the contracted periods. Our remaining fuel purchase needs will occur at market rates. Using published market price projections for diesel and estimated fuel consumption needs, a 10% unfavorable change in diesel fuel prices from the projected market prices could result in approximately \$11 million in additional fuel cost on such uncommitted volumes through December 2020 .

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is processed, recorded, summarized, and reported within the time periods specified in the SEC's rules and forms, and that this information is accumulated and communicated to Company management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As required by Exchange Act Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure

controls and procedures as of the end of the period covered by this Quarterly Report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 29, 2019 .

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended June 29, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information relating to legal proceedings, see Note 17, Commitments and Contingencies, in our consolidated financial statements.

Item 1A. Risk Factors

There have been no material changes to the principal risks that we believe are material to our business, results of operations, and financial condition from those disclosed in Part I, Item 1A—“Risk Factors” of the 2018 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

**Exhibit
Number**

- | | |
|------|--|
| 10.1 | <u>ABL Credit Agreement, dated as of May 31, 2019, by and among US Foods, Inc., the other Borrowers party thereto, the Lenders and Issuing Lenders party thereto and Wells Fargo Bank, National Association (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on June 4, 2019).</u> |
| 31.1 | <u>Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| 31.2 | <u>Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| 32.1 | <u>Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 32.2 | <u>Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 101 | Interactive Data File. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

US FOODS HOLDING CORP.

(Registrant)

Date: August 6, 2019

By: /s/ **PIETRO SATRIANO**

Pietro Satriano

Chairman and Chief Executive Officer

Date: August 6, 2019

By: /s/ **DIRK J. LOCASCIO**

Dirk J. Locascio

Chief Financial Officer

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Pietro Satriano, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of US Foods Holding Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ PIETRO SATRIANO

Pietro Satriano

Chairman and Chief Executive Officer

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dirk J. Locascio, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of US Foods Holding Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ DIRK J. LOCASCIO

Dirk J. Locascio

Chief Financial Officer

**CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of US Foods Holding Corp. (the “Company”) on Form 10-Q for the quarterly period ended June 29, 2019 , as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Pietro Satriano, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6, 2019

/s/ PIETRO SATRIANO

Pietro Satriano

Chairman and Chief Executive Officer

**CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of US Foods Holding Corp. (the “Company”) on Form 10-Q for the quarterly period ended June 29, 2019 , as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Dirk J. Locascio, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6, 2019

/s/ DIRK J. LOCASCIO

Dirk J. Locascio

Chief Financial Officer