

US Foods Plans to Go Public Following Failed Merger

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On February 9, 2016, US Foods filed a ["Form S-1" registration statement](#) with the US Securities and Exchange Commission (SEC) for an initial public offering (IPO). US Foods's announcement marks only the third US IPO of 2016, a year marred by heightened volatility in global equity markets.

Founded in 1988, US Foods is the second largest food distributor in the United States, supplying over 250,000 customer locations nationwide. US Foods delivers national brand foods and its own food products to supermarkets, educational institutions, restaurants, and medical facilities throughout the nation. Two private equity firms, Clayton Dubilier & Rice (CD&R) and Kohlberg Kravis Roberts & Co. (KKR), own the food distributor.

The company's IPO announcement shortly follows a failed merger with the country's largest food distributor, Sysco. In December of 2013, Sysco agreed to buy US Foods for [\\$3.5 billion](#), which would have given Sysco control over 25% of US food distribution market. In June 2015, Judge Amit Mehta of the Federal District Court for the District of Columbia sided with the Federal Trade Commission (FTC) [blocking](#) the merger over antitrust concerns, finding the merger would lead to higher food prices and a decline in service for customers.

US Foods's IPO registration statement listed a preliminary fundraising target of [\\$100 million](#), although the figure is likely only a placeholder to calculate registration fees. Sources close to the company anticipate US Foods will seek to raise \$1 billion in an effort to repay long-term debt and raise working capital.

After stagnate returns during the first three quarters of 2015, US Foods finished the fiscal year with strong [fourth quarter profits](#). Yet investors have raised concerns over the company's \$4.68 billion long-term debt and stifled sales during merger negotiations. Erik Gordon, a professor at the University of Michigan's Ross School of Business [opined](#) that US Foods was "overconfident about this deal (with Sysco) closing, and now it's really hurt them."

Following the failed merger with Sysco, newly appointed CEO Pietro Satriano has led an aggressive [restructuring effort](#), cutting costs with layoffs and freezing employee benefit plans. Satriano's cost-cutting measures are intended to improve investor confidence prior to the IPO.

The proposed [IPO terms](#) allow KKR and CD&R to retain control over a majority of voting power of the company's common stock, with lockout provisions to prevent the private equity firms from rapidly selling off shares. Although the merger with Sysco provided a cleaner "exit" for the firms, KKR and CD&R are confident in a strong IPO for US Foods.

US Foods plans to trade on the New York Stock Exchange under the ticker USFD.